Southern Paper Inc – ERP in Spain

Company profile

Southern Paper Inc is a global packaging company headquartered in the United States. The company was founded in the 1880s and has three principal business sectors – forest products, packaging and papers. The forest products division supplies lumber to the construction sector; packaging provides cardboard and similar packaging for consumer products; papers produces TetraPak, office and similar paper products. The global turnover of the firm is in excess of $50 billion per annum with more than 70,000 employees in five continents. Net profits after taxes are in the region of $4 billion per annum. The company is the largest private land owner in the United States with more than 2 million acres of forest land in private ownership.

The need for ERP

During the late 1980s and early 1990s, Southern Paper Inc dramatically increased in size following a number of high profile mergers and acquisitions. The company also sold off non-core activities such as chemical and mining activities. The underlying strategy was to develop the three core business sectors: forest, packaging and papers.

By 1994, the company realised that it had accumulated a vast number of businesses across the globe that had disparate, unconnected and outdated accounting systems. In March 1994, John Balboni, the CIO reported to the board of directors that in excess of 100 accounting or ERP systems existed within the company. He projected that to maintain these systems to 2010 would cost in excess of $1 billion and this would not include the cost of interfacing these systems to share data. The board gave John a remit to seek out a suitable enterprise resource planning (ERP) system to replace these systems. The remit was limited to financial, materials management and plant maintenance modules. In February 1995, John reported back to the board with a plan to install the mySAP ERP system on a global scale. The project cost was $350 million with an estimated completion date of 2009.

In June 1995, the CEO and the board signed a capital project for the purchase and implementation of mySAP ERP. The cost had increased to $380 million. It was decided to begin implementation as soon as possible, with all facilities on the American continents to be implemented by 2001 at the latest. The next phase, from 2002 to 2006 would address Europe and the final phase from 2006 to 2009 would address Asia/Australia/New Zealand.

MYSAP ERP arrives in Europe

The implementations of mySAP ERP on the American continents went very slow initially. The company employed consultants from IBM Consulting to acquire the necessary knowledge and skills in terms of implementing the software. The consultants were retained for a period of 18 months. Certain board members were not so happy that the consultants were not retained for longer. New employees with SAP programming skills were recruited and many staff from within the business sectors
were seconded to the SAP implementation teams. All American facilities had the financial modules – GL, AP, AR – together with materials management (MM) (and in certain large facilities plant maintenance (PM)) implemented and live by June 2000. This was achieved under the target cost figure to date. Implementations generally followed SAP’s recommended implementation process – ASAP – which aims to deliver a full working implementation within six months.

The next phase was to move to Europe, where Southern Paper has in excess of 50 operations in 12 countries. The first implementation was in the United Kingdom, with three facilities. The UK was chosen initially as no language barrier existed for what was a largely English-speaking US led implementation team. The UK implementation was completed in February 2001. The result was a working system, but the implementation team learned very quickly that business in Europe is not conducted as they had experienced in the US, Canada and South America. Many UK managers and finance users were not at all happy about the reporting capability of mySAP ERP.

The next install was planned for Ireland, with two facilities. The Irish facilities had a reasonably new accounting system, having changed in 1999 to avoid Y2K issues. It had also converted the system to the Euro currency in March 2001. The French operations, consisting of seven facilities were not in such good shape however regarding the Euro conversion. Their common accounting system presented problems for the Euro, so it was decided to implement in France next. The French implementation was completed in December 2001. Once again criticisms were levelled at mySAP ERP, in particular by the finance managers of each facility and by the regional financial director. Complaints were made regarding the reporting outputs, languages issues and responsibility issues during implementations. During the implementation each facility’s financial controller was made responsible for project work in their own facility and reported directly to the project team. The regional financial director was not involved at all.

The next implementation – in Ireland – went very smoothly. Many lessons were learned regarding organisational responsibilities in particular. The regional financial director took overall responsibility for project success and the managing director whole-heartedly sponsored the project.

*mySAP ERP comes to Spain*

After Ireland, the next region to receive mySAP ERP was Spain. Discussions began in summer 2003 with a view to starting implementation in early 2004. Southern Paper has eight facilities in Spain. All eight facilities are within the packaging division. Plants in Madrid, Barcelona and Bilbao serve primarily the consumer goods packaging market, while plants in Gandia, Almeria, Valladolid, Las Palmas and Tenerife serve the fruit and wine sectors. The eight facilities were historically three different companies – Inducar, Cartisa and Cartones Union – these companies being acquired over time by Southern Paper.

As Southern Paper Spain consisted of three companies, the accounting systems were in fact three differing systems. All three systems had totally different charts of accounts. The regional finance director, Alberto Martorel, developed his own fourth
chart of accounts in the mid 1990s to allow him to merge the three disparate accounting systems into one common chart of accounts. Each month, all facilities provide Alberto with a text file which he automatically loads into his “common” accounting system to produce monthly management accounts for the region. Maintenance of four charts of accounts is a very difficult task for Alberto and each time a change is made he must communicate this to all eight plant financial controllers, who must in turn get programmers to change cross reference tables in the plant accounting system. None of the plant accounting systems are off-the-shelf packages, rather they are all in-house programmed. In recent times, some of the original programmers of these systems have retired or left the company, making system changes costly and difficult. With all these problems, Alberto is looking forward to the visit from the mySAP ERP implementation team. He does however have some concerns.

Alberto has concerns in a number of areas as follows:

- while the chart of accounts used by Alberto to produce accounts for the Spanish region is quite cumbersome and difficult to maintain, he does have total control over it. He can add or remove accounts as he wishes and classify any account to any expense category. He has heard from his colleagues in France that this will end with mySAP ERP, as the chart of accounts is controlled centrally in the US. While Spain does not have a statutory chart of accounts, Alberto is accustomed to having total control of the maintenance of his regions chart of accounts and thereby the regional financial statements. He has also heard of the need for cost centres in mySAP ERP to be created for each facility – a concept completely unfamiliar to him.
- he is a bit wary of the need to “re-engineer” any of his business processes. As far as he is concerned, the finance and related departments under his control work quite well, and while good staff are hard to retain, he has no issues with the organisation of any of the departments in any of the facilities under his control. Therefore Alberto has decided to argue that the software be changed to suit the finance organisation in Spain.
- he is concerned about the ability to customise reports to match his requirements. He has heard from his colleagues in France that the reporting in mySAP ERP is not very good at all. While standard reports such as income statements, balance sheets and trial balances are provided, these are somewhat generic and the French controllers were not so happy with their overall appearance and presentation. The reports do however comply with all local and international accounting rules in terms of layout and content.
- Alberto would like to ensure that materials, in particular the main raw material- kraft paper, are included in the scope of the system. The value of kraft paper inventory is in excess of €20m in Spain. Currently, no one system can provide any financial controller or plant manager with accurate kraft paper stock levels. Alberto is inclined to believe that the kraft paper stock levels are too high and could be dramatically reduced if a proper stock control system were in place. He has heard from his French and Irish colleagues that mySAP can be used to control kraft paper stocks, but the process involves a lot of manual entry and has in fact increased the workload at many facilities. Alberto would prefer to automate the process of stock control as much as possible. He knows that all suppliers of kraft paper provide a bar-code on each roll of paper.
which contains all the details of the roll (weight, grade, width, purchase order number etc). Each roll of paper weighs approx 2,500kg and the cost is approx €450 per 1000kg. Special lift trucks move the paper stocks around the stores.

- he is concerned about the level of responsibility for data entry that will be passed to persons in lower positions in the organisation and how this could effect the monthly accounts preparation
- he is a bit worried about the transparency of mySAP ERP. Alberto is wondering will anyone in another region or in the US be able to view his financial results
- following recent legislative changes, the working week in Spain is being reduced to 36 hours per week. There are also changes in the tax laws which effect payroll systems. Alberto is wondering how, or whether, SAP will deal with this issue
- finally Alberto is concerned about language issues, in particular in terms of training and systems configuration. He would like to seek a consultant in Spain who has good English, knowledge of the mySAP system and knowledge of the packaging industry. While Alberto can speak good English himself, he will not have sufficient time to dedicate to the project on a daily basis

Alberto has conveyed his concerns in an email to Dave Borchardt in the US. Dave is the project leader for Spain and will be visiting Alberto shortly. Dave has been involved in all installations in Europe and has been an employee of Southern Paper for 23 years. Dave has already been in contact with Alberto to gather some basic information in advance of his first visit in January 2004. He has collected basic cost classifications from Alberto for a typical facility as follows:

- Material costs – kraft paper, starch and chemicals.
- Conversion costs – inks, cutting dies, printing dies, baling wire, cling film wrapping
- Labour Costs – direct labour costs of machine operators including pension costs, social insurance and profit sharing
- Distribution costs – transport costs, pallet costs, cost of jobbers* at fruit farms
- Selling & Administration overheads
- Manufacturing overhead costs – includes maintenance costs, which are a high proportion of total cost. Maintenance costs include the costs of spares and labour of fitter and contractors
- Share of Head Office costs – the cost of running the head office is apportioned to each facility based in number of employees
- Other Income/Expense

* A jobber is a third party person who erects boxes delivered by Southern Paper to fruit farms. This service is typical in fruit-growing regions and adds to the cost of the final box. The service may involve labour cost, machine hire and other costs.

A typical facility has six manufacturing machines:
• a corrugator – this machine makes flat cardboard sheets from kraft papers. It has two elements; the machine itself and materials handling equipment to deliver the papers from the store
• three die cutters – these machines cut the required customer box shape from the cardboard sheets
• two flexo-folder gluers – these machines print colour on boxes in accordance with customer designs and glue them as required.

(Note, the die-cutters and flexo-folder gluers are collectively referred to as conversion machines)

• An effluent treatment and recycling area where chemical are processed to a harmless level and waste papers baled for recycling.

Each facility would also have a pallet station – where stacks of boxes flat on a pallet are wrapped with cling wrap, and an ink kitchen – where primary ink colours are mixed to attain the customer required colour. All facilities sell both complete boxes and flat unprinted sheets. The despatch area in each plant typically has a number of fork trucks and drivers and one despatch clerk.

Dave is about to draft his response to Alberto to address his concerns and outline a basic cost centre structure which could be used by the Spanish facilities. Dave’s only concern regarding the cost classifications given by Alberto is that of the jobbers – he has previously seen them classified as conversion costs in France. Dave also wishes to alert Alberto of potential internal audit and control issues following recent legislative changes in the US. He believes that the staff numbers in the finance departments in Spain may cause a problem. For example, he knows that in the Almeria plant that the same lady who orders some goods also approves payment for these same goods. It is unlikely that additional staff would be available to permit a complete segregation of duties in such an example.

Dave also needs to ascertain if Alberto has any plans for his sales ordering systems. The mySAP install will not include the SD (Selling & Distribution) module. It will therefore have to be fed with data from existing sales systems in Spain to get sales invoice data. Dave sends his email late on a Friday afternoon US time.

Alberto gets Dave’s email containing his answers and comments to the issues he raised. He is a bit confused however that the SD module is not being installed. He had not asked any of his colleagues in Europe what modules they were using. He now knows it is purely GL, AP, AR and MM. Spain has six separate sales order processing systems most of which also include a product definition and costing module. Alberto is wondering would this be an opportunity to replace these systems with a single new sales ordering system. While thinking about this, Alberto consulted the web and found an article mentioning that an increasing number of industries are using Best-of-Breed solutions which include ERP. These industries were previously seen as perhaps unsuitable for certain components of ERP.
Requirements

1. Assume the position of Dave Borchardt. Write a report for presentation to Alberto and the other Spanish finance managers outlining your response to the concerns raised by Alberto. Ensure your report has sufficient explanations and clarifications on the issues raised. You may refer to cases in the business and professional press to support your answer – 25 marks

2. Prepare a draft cost centre structure for a typical Spanish facility based on information given above and any other information you consider relevant. Clearly state any assumptions you make. Write any brief notes to Alberto which you consider necessary to explain your proposed structure. – 20 marks

3. Write a memo to Alberto explaining the benefits of capturing cost by cost centre and explain how this might alter the budgeting process at Southern Paper Spain. – 15 marks

4. Write a memo outlining your understanding of the concept of Best-of-Breed. In your memo comment on why such systems occur and whether or not you think this is an appropriate solution for the Spanish plants at Southern Paper. You may refer to relevant literature - 15 marks

5. As an external observer, write a memo to Alberto outlining any issues which he has not raised in his communications to date, which you believe may be relevant to Alberto or Dave, the accounting organisation at Southern Paper Spain, or the implementation in general – 15 marks

Presentation, structure, grammar etc 10 marks.