

ERP System Implementation at Pantaloon Retail

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Introduction

Pantaloon Retail is the flagship company of Future Group, India's retail pioneer catering to the entire Indian consumption space. Through multiple retail formats, the company has managed to connect a diverse and passionate community of Indian buyers, sellers and businesses. Around 300 million customers walk into the retail outlets each year and choose products and services supplied by over 30, 000 small, medium and large entrepreneurs and manufacturers from across India. This company has generated trust among the Indian customers through innovative offerings, quality products and affordable prices that help customers achieve a better quality of life every day. Currently the company serves customers via 1000 stores across 71 cities in India (Wikipedia, 2013).

The Company forayed into retail in 1997 with the launching of its fashion retail chain, Pantaloons in Kolkata. In 2001, it launched Big Bazaar, a hypermarket chain. This was followed by Food Bazaar (a food and grocery chain), Collection I (home improvement products), E-Zone (consumer electronics), Depot (books, music, gifts and stationary), aLL (a Little Larger, fashion apparel for plus-size individuals), Shoe Factory (footwear) and Blue Sky (fashion accessories).



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¹ Now known as Future Retail India Ltd

More than eight years after it forayed into the retail business, Pantaloon Retail realised that they needed an IT solution that would help to integrate their operations and help them to stay competitive in the rapidly growing Indian retail market. Pantaloon was regularly opening stores in the metros and there was an urgent need for a reliable enterprise wide application to help run its business effectively. “The basic need was to have a robust transaction management system and an enterprise wide platform to run the operations,” said Rakesh Biyani, Director, Pantaloon (Shah, 2007). The company was looking for a solution that would bring all of its businesses and processes together. Mr. Biyani assigned the task to Mr. Deshpande, the CIO, who had joined recently.

Pantaloon Retail Before ERP

During the early days of Pantaloon, most of the solutions were developed in-house. Retail Enterprise Management (REM) - a distributed POS based solution developed in-house, was deployed at every store, which managed inventory promotions, sales and customer profiles across all the outlets. With the expansion in business, the software was modified, enhanced, and stretched to accommodate the changing retail dynamics. Pantaloon had also piloted the use of RFID technology and their experiment had been successful.

Shortly after Mr. Deshpande joined Pantaloon as CIO in May 2004, he took stock of the situation at hand. He noticed disparate systems being used by the different units. He began work on two initiatives: first, to bring in people with project and business focus and second, to abandon the application development projects with local vendors, which was the cause for the disparate systems. There were so many different systems developed by many different vendors and these systems could not be integrated.

He set up a team to evaluate high-end ERP vendors like SAP, Oracle & others. A major roadblock confronted him: the mind-set of business people in the organization. They were not mentally prepared to deal

with such a large investment in IT. Mr. Deshpande says “I had to struggle with the mind-set that ‘just because this person has come from some MNC, it doesn’t mean we should do whatever he asks us to.’” (Trivedi, 2010)

Despite the hurdles, Mr. Deshpande and his team went ahead with their plans. One of the things the IT team did then was to setup a corporate VPN across the organization. Pantaloon partnered with Sify to interconnect all its locations. In effect, “at the end of every day, we had central consolidation of all of our sales reports and data. The very next morning, management could see the performance of every single store and category of merchandize,” recalls Mr. Deshpande (Trivedi, 2010).

Need for ERP

Pantaloon wished to improve their store operations and have a robust system to support their growth. An ERP system would help meet their requirements like:

- Improved financial tracking and reporting for all retail locations and business levels
- Deft handling of complexities in retail business requirements
- Enhanced decision making by providing more granular, real-time information
- Support for the financial accounting needs of a rapidly expanding retail business
- Expediting the reconciliation and closing processes

The Solution

After a comprehensive evaluation of different options and software companies, the management at Pantaloon decided to go in for SAP’s retail solution. This was on account of the fact that SAP had a solution specifically directed at the retail sector, which met much of Pantaloon’s requirements. SAP being the market leader in the ERP vendor space, it was believed that SAP was the best possible solution provider.

Some of the qualities of SAP retail solutions are that it supports product development, which includes ideation, trend analysis, and collaboration with partners in the supply chain; sourcing and procurement, which involves working with manufacturers to fulfil orders according to strategic merchandising plans and optimise cost, quality, and speed—variables that must be weighted differently as business needs, buying plans, and market demand patterns change; managing the supply chain, which involves handling the logistics of moving finished goods from the source into stores and overseeing global trade and procurement requirements; selling goods across a variety of channels to customers, which requires marketing and brand management; managing mark-downs and capturing customer reactions, analysing data, and using it to optimise the next phase of the design process.

A pictorial depiction of SAP's retail solution is shown in figure 1 below.

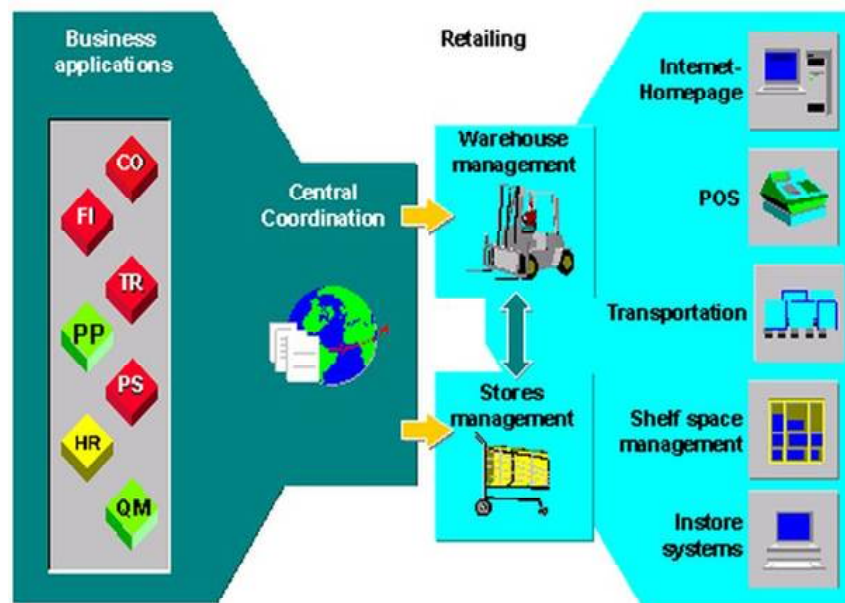


Figure 1: SAP Retail

(Source: <http://help.sap.com/saphelp-45b/helpdata/en/12/084169470311d1894a0000e8323352/content.htm>)

The Implementation

At this point, Mr. Deshpande faced three successive risks associated with the adoption of new technology. The first risk was more of a technological one: whether the decision to opt for certain technology is correct or not. The other problem was: once it is established that the technology a CIO has adopted is good enough, the trained employees would start to leave the organisation in search of better jobs armed with their new learning. So, there would be the case of trained employees leaving the organisation creating a void very difficult to fill. How would they handle that?

The biggest of the three risks was planning the implementation - and the danger of investment going awfully wrong. Mr. Deshpande grappled with this risk the most. Initially, his entire focus was on validity of the solution, and whether it met business needs (Trivedi, 2010). Once he was certain of this, he decided that they could proceed further.

To ensure top management support, the CFO was roped in to be the executive sponsor for the project. Several sessions were planned to educate and inform all the employees about the need for ERP and the benefits that would accrue to the company as a result of the implementation. The SAP implementation project was named and branded as SAARTHI (Baburajan, 2007).

With everything in place, the next step was to form an implementation team. This team comprised of experts from Pantaloon, consultants from SAP, the vendor and Novasoft the implementation partner. About 24 qualified people worked on this SAP implementation. Mr. Deshpande, the CIO, headed the implementation. This team composition ensured that the team had expertise at all required levels namely domain, process, project management, technical, package etc. (Trivedi, 2010).

Once this was done, a newsletter was started with the intention of keeping everyone informed about the ERP project. The implementation was undertaken in three phases. In the first phase, the existing processes were documented and the gaps were identified. This was used to then arrive at new states of the solution.

For this the SAP team worked in close association with the Pantaloon team to get a finer understanding of their current processes. At the end of this exercise, the customisation required and the processes to be reengineered were identified.

In the second phase, the SAP platform was developed with the help of the template designed by Novasoft. SAP defined this template on the basis of their expertise in retail solutions and a careful evaluation of Pantaloon's needs. This technique is called Accelerated SAP (ASAP) which is used to speed up the implementation. The technical setup required for the deployment was put in place as shown in figure 2.

The last phase in this project was for stores to go live. This involved switching over to the new system and porting data from the legacy system to the new system. Before the SAP implementation, all the data was unorganised. This data had to be organised and ported to the new SAP application and this was a major challenge. This was the most time consuming activity during the implementation.

Finally, the implementation project which began on 15th June 2005, was completed in six months' time. It went live at the head office on 1st January 2006. The stores went live on SAP from 1st January 2006 to 30th June 2006. This project cost them \$10 million.

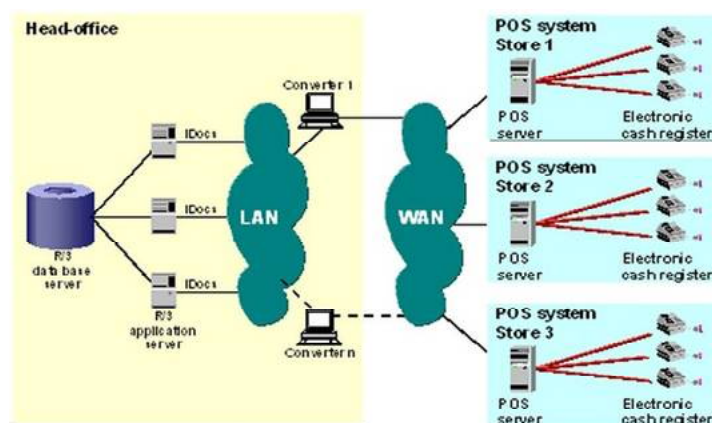


Figure 2: SAP Retail Technical Setup

(Source: <http://help.sap.com/saphelp-45b/helpdata/en/12/084169470311d1894a0000e8323352/content.htm>)

Post Implementation

In the period following the implementation, steps were taken to ensure the smooth functioning of the newly deployed system. In the 5 years after the completion of the first phase of implementation, several additional modules from SAP were implemented to keep the system future dated. The changes, the challenges and the benefits experienced are mentioned in the next few sections.

Information Security

It was necessary to ensure that data or information was available to the right persons at the right time. In order to ensure that information security is controlled within company premises, the company educated its manpower. With this in mind, they tightened their internal processes, while HR practices were brought in line with the company's overall policies. Since HR was playing a crucial role in creating awareness among employees, it became a day-to-day practice for the company employees.

For any external threat, the company put up strong firewalls in both hardware and software forms. This apart, the company tried to combine best of prevailing standards in the industry, ranging from perimeter security to desktop level security. Taking into account the geographic spread and the nature of business the company segregated the internal set-up from the outward facing infrastructure and implemented the best in class products, services and solutions (Baburajan, 2007).

Maintenance & Hardware

SAP Retail is being used by around 1,200 employees across the organization. For maintaining this implementation and its related applications, Pantaloon has an in-house team and it has outsourced the Advanced Business Application Programming (ABAP) resources. This team of ABAPers takes up any software changes required. They have also set up a SAP Competency Centre. The system runs on a HP Superdome server on HP UNIX 11i and the database is from Oracle (Shah, 2007).

Business with IT

In order to specifically cater to emerging and growing business needs, the IT team has a business relationship cell which interfaces with the various business teams to understand their needs. This enables changes required to be captured at source and incorporated as needed. IT has got strategic importance within the organization and is represented at the senior management reviews and discussions. Thus, Pantaloon made strategic use of IT (Baburajan, 2007).

Augmenting the ERP System

By 2007, SAP Retail was implemented across all business functions which included finance, category management, SCM and store back office and covered all stores across India. Very soon, HR and payroll were also covered. A data warehouse and Business Intelligence (BI) solution from SAP were up next. It was also planned to implement a CRM system to better understand customer requirements. In 2012, Pantaloon implemented a webbased interface using IBM Cognos TM1 to help with financial planning, forecasting, reporting and analysis. This was integrated with SAP Retail (Kumar, 2012).

ERP System Audit

In order to ensure that the system is current, it was continuously reviewed. In 2011, Ernst and Young were called in to undertake an audit to help strengthen the controls in the ERP system. Based on this report, changes and improvements were made to the system to help Pantaloon to remain competitive (Annual Report, 2012).

Challenges and Benefits

The key challenges in this project were not in the implementation but in managing the perceptions of people during the period of six months when the implementation was underway. People were not convinced about the need for ERP and did not see why it was necessary. Migrating unorganized data to an organized format was the next key challenge (Shah, 2007).

Pantaloon was not able to see immediate benefits from this implementation. They were already working on MAP (Merchandise Assortment Planning), Auto-Replenishment and Purchase Orders. They hoped to use these systems to optimise their inventory and cut it by about two to four weeks. The SAP ERP system is completely integrated with point of sales machines (POS). Further, all the sales data generated in a day are uploaded into SAP overnight, automatically updating the inventory movement and financial changes.

In the long run, they were able to experience improvements in several areas. Some of the benefits were:

- Financial and Strategic Benefit
 - Greater business insights through more accurate and timely financial information
 - Lower costs via convergence of financial accounting and controlling
 - Enhanced data quality
 - Easier compliance with regulatory requirements via the SAP parallel accounting feature
- Operational Benefits
 - Real-time, continuous reconciliation of cost elements and expense accounts, freeing up personnel for more value-added activities
 - Ability to close books 15% to 20% faster
 - 5% to 10% reduction in accounts receivables

In 2011, Pantaloon Retail also won the 'Best run Business in Mobility Adoption' from SAP. This reaffirmed that they had made good use of IT to make information available anytime, anywhere on any device (SAP, 2011).

Future

With the success of the ERP implementation, Mr. Rakesh Biyani was a happy man. But he was aware of the changes happening in the retail industry and the increasing competition with the entry of foreign players. The question on his mind was whether the current system would serve their needs in future too. What enhancements would be needed to support their growth and allow them to respond to the dynamic market conditions?

Questions for Discussion

1. How did Pantaloon Retail complete their implementation in a short span of time?
2. From the case, draw on the key factors responsible for the success of the implementation?
3. In view of the changes in the retail industry, what more should Pantaloon Retail do? What are the new features in the SAP Retail package that they can benefit from?

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