

SAP Case Study



mySAP™ All-in-One **AT MORGAN FOODS**

THE BEST-RUN BUSINESSES RUN SAP



AT A GLANCE

The mySAP™ All-in-One solution was instrumental in enabling Morgan Foods to achieve its corporate goals of reducing costs, encouraging an environment where employees think strategically, and improving cash flow.

Key Findings:

- 125% return on investment (ROI)
- 62% internal rate of return (IRR)
- Six month time-to-solution
- Product planning and scheduling savings of \$80,000
- Inventory accuracy improved from 45% to 99.95%, yielding a savings of \$500,000 per year
- Total employees reallocation savings of \$230,000
- Product recall savings of \$500,000
- Shipping charges reduced by \$150,000
- Cash flow improvement of \$90,000

BACKGROUND

Morgan Foods, based in Austin, Indiana, is a family-owned business striving to be a leader in the food processing industry. Founder Joseph Stanly Morgan determined that the “leader” was not necessarily the oldest or largest company; it was the company that could deliver the highest quality product. Over the course of the last 100 years, Morgan Foods has implemented many technologies that not only improved product quality, but also improved Morgan Food’s relationship with its customers, vendors, employees, and community. One of the hallmarks of Morgan Foods is its implementation of a state-of-the-art IT system that optimizes the overall efficiency of multiple business processes. Currently, Morgan Foods employs approximately 500 people and sells to 35 customer groups, including Wal-Mart and Save-A-Lot.

In addition to focusing on technological innovations, Morgan Foods identified particular financial and customer satisfaction-driven goals that would be enabled by technology investments. These goals included improving the cash flow of the company, reallocating employees and, most important, reducing redundant tasks to allow more and more employees to think strategically.

With the valuable assistance of Computer Sciences Corporation (CSC), formerly Holland and Associates, Morgan Foods went live with mySAP™ All-in-One in 1999. The impressive six-month time-to-solution was driven by CSC’s industry expertise coupled with prepackaged solution offerings that are based on historical industry know-how and templates.

“Morgan Foods looked at many software packages, and as we continued looking and continued learning, we were very amazed at SAP’s breadth of technology and capabilities to control,” says Dan Slattery, vice president and chief financial officer of Morgan Foods.

STUDY OBJECTIVES

SAP commissioned Gartner Consulting Inc. to conduct an unbiased, third-party assessment of the ROI of the mySAP™ All-in-One solution as implemented at Morgan Foods.

The results of this study are based on Gartner's Total Value of Opportunity (TVO) methodology. They were developed independently by Gartner Consulting and Morgan Foods. Results were approved by the Morgan Foods financial office. Results should not be deemed as an industry average and may vary from published Gartner research.

Gartner's standard TVO methodology includes what it believes are the best practices – applied methodologies for each of the value questions. These components of TVO allow for a complete view of an IT-enabled business initiative – from the capability inherent in the solution, based on a technology perspective, to the ability of an organization to convert that capability into business value. In addition, the TVO components build a trail of evidence that link the IT capabilities to the resulting projected financial model that makes the business metrics visible and resulting business operations involved in unlocking value.

THE BUSINESS

Morgan Foods markets products in 18 different categories, ranging from canned broth to refried beans. Morgan Foods sells directly to grocery stores as well as to food distributors. Manufacturing is comprised of nine different processing lines and involves more than 100 different canned items. The processes include raw material inspection, water treatment, computerized batching, in-line blanching, pressure cooking, multistage filling and seaming operations, Douglas tray formers and loaders, finished goods storage, and a sensory lab.

Morgan Foods' ongoing high-level strategy is to supply the best products and services to customers more efficiently than its competitors. Great-tasting products need to be delivered quickly, reliably, and safely. Recent key business decisions to ensure that Morgan Foods addresses its high-level strategy include:

- Implementing world-class enterprise software
- Implementing an on-site water treatment facility
- Using a programmable logic controller (PLC)–based mixing and batching system
- Improving production equipment
- Using a radio frequency (RF) scanning system to allow tighter control
- Increasing security measures to ensure quality and safety

STRATEGY FOR CONTROLLING COSTS, MAINTAINING PRODUCT QUALITY, AND IMPROVING CUSTOMER SERVICE

Morgan Foods is pursuing a high-level strategy to lower costs, maintain product quality, and improve its ability to service its customers. This strategy consists of focusing on inventory management, financial close, and production planning and scheduling. More specifically, Morgan Foods focused on lowering the costs of raw materials and finished goods, as well as improving its cash position.

SELECTING mySAP All-in-One

Given the size of Morgan Foods, SAP was deemed as being too powerful for the company's current needs – at first glance. "Morgan Foods looked at J.D. Edwards and SAP with the early understanding that J.D. Edwards would probably satisfy our needs better, but after meeting with the SAP solution partner (CSC) and considering an Ernst and Young recommendation, we decided to go with SAP. SAP was ultimately deemed to be a better long-term investment due to its ability to grow with our company," says Dan Slattery, vice president and chief financial officer of Morgan Foods.

Morgan Foods' final decision was based on the SAP solution partner's expertise coupled with the flexibility enabled by pre-packaged, industry-specific business applications.

"CSC was instrumental in successfully bringing us live on the promised date. We were blessed with a very competent solution partner that possessed the industry-specific and integration knowledge needed to bring us live on time, and without any glitches," says Slattery.

CSC received a bonus by bringing the SAP® solution live in approximately six months, which was right on schedule. "Our original goal was to drive sales through EDI with SAP, but since going live, we've found so much additional strategic functionality that we hadn't planned on," says Renee Collins, sales manager at Morgan Foods. The out-of-the-box nature of the solution allowed Morgan Foods to reduce the time-to-solution and to be up to speed on multiple business applications far sooner than originally anticipated.

"CSC truly allowed us to fully utilize the prepacked benefits of the mySAP All-in-One solution. Midstream, we wanted to include warehouse management, but felt it might add too much complexity. CSC reassured us that it wouldn't, and then did it. There was minimal complexity introduced, but most importantly, there were no delays," says Keith Mohny, accounting manager at Morgan Foods.

PRODUCTION PLANNING AND SCHEDULING

Prior to the mySAP All-in-One implementation, production planners would review a stack of orders, then visually compare those orders to the current raw material inventory level. Run sequences were not optimized, product shelf life was not closely monitored, and in-process aging was not monitored as effectively as possible. This lack of control caused product bottlenecks, decreased throughput, and increased the cost of raw materials

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inventory. In addition, the highly manual process increased the instances of inappropriately labeled products and, in some cases, product shortages.

Today, the mySAP All-in-One solution has automated the entire production planning and scheduling process at Morgan Foods. Once the product is sold, the entire process is mapped out by the SAP solution. mySAP All-in-One generates a feasible product schedule with little or no user interaction, in a work-order-driven production environment. Based on prelabeling, the oldest lot code within the work-in-progress or finished goods areas is automatically chosen. Considering the sensitivity of food processing, SAP enabled Morgan Foods to monitor freshness dates and lot codes across the entire preproduction process.

The current SAP-enabled production planning and scheduling environment is fast, flexible, and accurate. These important measures have enabled Morgan Foods to automatically optimize run sequences, monitor the shelf life and age of the raw materials, monitor in-process wait time, and adjust for ramp-ups. The ability to completely automate all of these processes has reduced the cost of the production planning and scheduling group via employee attrition by \$80,000.

FINISHED GOODS INVENTORY

Prior to implementing mySAP All-in-One, inventory control was a highly manual process. Inventory identification was manually determined by reading a card attached to a pallet. Finding a particular lot code could take a couple of days. “Before SAP, we hoped and hoped that someone took good notes, because if they didn’t, and if we needed to find a particular lot, we were in for a couple of long days,” says Slattery.

Since going live in 1999, Morgan Foods has not conducted a physical inventory. Inventory accuracy has improved from an annual manual-count accuracy of 45% to a real-time accuracy of 99.95%, and inventory turns increased from 4.9 to 6.6 times per year. This improved accuracy and saved Morgan Foods approximately \$500,000 per year. “It takes much less labor to find a specific product in the warehouse because the system tells us precisely where to find the product,” says Slattery. “The accuracy allows us to schedule and ship customer orders on time and complete, resulting in improved order fulfillment and full trucks. Higher inventory accuracy has allowed us to eliminate an annual physical inventory.”

Improved inventory accuracy reduced the amount of product that must be salvaged as a result of it being out of date. The improved accuracy of the finished goods inventory enabled by mySAP All-in-One has allowed Morgan Foods to reallocate inventory management positions, yielding a total savings of approximately \$80,000.

The real-time monitoring of finished-goods inventory reduced the costs associated with product misbatching by \$250,000. In the past, when a product was misbatched, it was not uncommon to scrap an entire lot or a day’s worth of product based on the company’s inability to accurately label the product with 100% confidence. Reducing the number of misbatched products saves Morgan Foods approximately \$150,000 in unnecessary shipping charges.

FINANCIAL CLOSE

For years, Morgan Foods relied on financial information that could be up to 30-days old. This labor-intensive effort was conducted via disparate systems and hand-carried spreadsheets. “Our previous system was so labor intensive, and so inaccurate, that it was extremely difficult to close financial documents to the nearest penny,” says Slattery. “Our [cost of goods sold] COGS and poor budget accountability were not anywhere near optimum levels.”

Morgan Foods now generates a number of financial documents with mySAP All-in-One. Closing activities now occur during the month instead of every 30 days. By month’s end, 90% of the activity is complete. Morgan Foods has been able to make strategic business decisions based on improved reporting, more accurate actual versus budget reports done weekly instead of monthly, and accurate inventory cost figures.

“SAP allowed us to develop creative A/R and A/P plans that drastically improved our bottom line. In addition to the time value of money, we were also able to save money by reallocating employees that had worked on redundant tasks, and our ability to cut out waste saved us approximately \$150,000 per year and improved our cash position by \$90,000,” says Slattery.

RETURN ON INVESTMENT (ROI)

To determine ROI, Gartner Consulting isolated the present value of the cost-reducing and revenue-enhancing benefits introduced by the three top mySAP All-in-One business process improvements, then divided this sum by the present value of the total investment. Although there are definitely additional benefits derived from other business processes, the study team could not isolate any of these benefits with the same confidence level as the three isolated for this study.

For the purposes of this study, the time period investigated was a 10-year useful life period. Although there are industry discrepancies regarding anticipated useful life periods (because of the nature of enterprise software and the expectations of customers), it was determined that a 10-year ROI would be the most useful life period on which to calculate ROI.

The investment estimate includes all of the costs involved in licensing, deploying, debugging, and maintaining mySAP All-in-One software and services, although this estimate did not include any indirect, soft, or overhead costs. In most cases, the indirect and soft costs would either be negligible or too difficult to quantify, whereas the overhead costs would be consistent regardless of the SAP strategy implemented.

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| ROI of the mySAP All-in-One solution at Morgan Foods | 125% |
| IRR | 62% |

Table 1: ROI Results

Overall, the ROI results calculated in Table 1 represent very positive and realistic numbers. Although the consultants made reasonable efforts to uncover an exhaustive list of the financial benefits associated with mySAP All-in-One, they could not be expected to identify all of them. Therefore, this ROI should be considered conservative.

CONCLUSION

The implementation of mySAP All-in-One solution enabled Morgan Foods to better meet its strategic objective of operational excellence by:

- Eliminating organizational and technology redundancies
- Streamlining business processes across the organization
- Providing Morgan Foods' stakeholders with an improved cash position
- Enabling strategic cost savings and an environment in which employees can think more strategically

The mySAP All-in-One solution allowed Morgan Foods to lower costs by reducing the redundant, manual tasks within the production planning and finished-goods inventory processes. mySAP All-in-One also helped Morgan Foods reduce operational costs, streamline the organization, and improve its cash position in a very safety-driven, competitive industry.

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