

Square peg in a round hole?

ERP systems can often end up creating more problems than they solve, unless the system is designed for the people who use it across a business, as Nigel Ash hears from two finance directors: **Annie Guerard** at Diesel and **Margaret Mayne** of the British Council.



A recent study concluded that poor visibility of payables and receivables is tying up e500 billion of working capital in the financial supply chains of Europe's top 1,000 companies. And although achieving the synergies between the physical and financial supply chain seems straightforward, operational complexities and the pace of business change, not to mention recalcitrant partners, can impose challenges throughout the enterprise resource planning (ERP) system.

Fashion house Diesel and the British Council are currently rolling out new ERP systems, and their finance functions are discovering that most standard systems lack the flexibility to manage their complex requirements.

Annie Guerard, UK finance director at Diesel, describes how the search for a single ERP system to replace a range of legacy products failed in part because of the supply chain management complications of inside leg measurements. Similarly, Margaret Mayne, the British Council's finance director, has faced problems reconciling data from banks all over the world.

However, they both agree that within ten years executives will marvel at the fact

that the financial supply chain was ever not an integral part of the supply chain. By then, technology will have automated data capture at virtually every level of a business and today's struggling and refractory legacy ERP systems will have been succeeded by adroit and flexible grandchildren.

Yet for now, both must grapple with the challenges facing their specific models on the journey towards a truly integrated supply chain.

Flexible jeans

For Diesel, the search for a single ERP system to replace a range of legacy products failed, says Guerard, because its product range is so wide. 'We pride ourselves on being one of the few companies that offer jeans that come with the correct leg lengths,' she says. 'Our manufacturing side told us that this – combined with all the other variables, such as size, colour and wash – could not be handled by the ERP software that we had selected.'

Diesel is a complex business, operating in 80 countries with 270 branded stores and offering wholesale supplies and mail order services. It undertakes part of its manufacturing and outsources the rest

to a range of countries. Whether the financial supply chain is viewed simply as acquiring control of the cash flow between businesses in the physical supply chain or whether it embraces the exchange of assets and liabilities within the working capital management cycle across the whole supply chain, the challenge for Diesel has been to find methodologies that would reduce the paper flow and give the company a real-time financial view.

'The fashion world is frantic, and it is only successful if it is frantic,' says Guerard. 'We have six-week product cycles and we must constantly reinvent ourselves. But behind a company like us, there should be a very robust process. The back office should never be frantic.' In the UK, Diesel is working to reduce internal paper-flows to a minimum.

The challenge, she explains, has been to find systems that will generate data so that merchandisers can spot trends in real time and the finance function can have an accounting view throughout the month, not just at the end.

'We are a fast and flexible company, but ERP systems are very rigid,' she says. 'Once they are established they are set in

Banking on a solution

The British Council may not operate in the frenzy of the fashion world, but as **Margaret Mayne** points out, the challenges it has encountered in integrating the financial with the physical supply chain have been complex.

A charity charged with promoting cultural exchange, the British Council has a turnover of more than £500 million – £200 million in government grants and the rest from commercial earnings – and works in 110 different countries.

The council was fortunate in having little legacy software. It is the complexity and high cost of replacing existing systems and introducing a new end-to-end solution that is inhibiting many companies from seeking to convert the conceptual opportunities of financial supply chain management into reality.

Mayne says: 'We were very explicit about what we needed to achieve but made absolutely no assumption about how we were going to achieve it.'

The council bought a system from SAP with modules for cash management, finance, information, running its teaching centres and project management. The last includes work it undertakes for international organisations, such as the World Bank and the Department for International Development, in areas including education reform and supporting good governance. The system has so far been rolled out in 36 countries and will cover the whole network by March 2009.

Margaret Mayne

Margaret Mayne is Director of Finance and Resources at the British Council. Her responsibilities are global, covering finance, IT, procurement, estates and internal audit. She is also chairman for British Council Trading, the council's commercial and non-charitable subsidiary. She joined the British Council in 2000.



After studying languages at university, she lived and worked overseas in her early career. On return to the UK, she trained as a Chartered Accountant, specialising in the voluntary sector. She pursued her interest in social issues by spending 10 years in finance roles with two of the largest housing associations in the UK.

stone, and this is the problem. The lack of flexibility is our challenge.'

Guerard adds that they are also, in her view, expensive. 'You are often shifting cost,' she points out. 'You may gain 1p per invoice transaction, but then you are moving that cost to IT consultancies for further development to the system.'

Besides, adds Guerard, for financial supply management to work effectively, it presupposes widespread use of e-invoicing, in line with the 2004 EU directive. Many suppliers were not geared up for this, and wholesale customers in particular, many of which are relatively small businesses, were reluctant to tool up to receive electronic invoicing and make BACS payments. 'Even some of our big customers still want to pay with cheques,' she says. 'It is much

more fun to have a cheque lost in the post. It adds a few days to your DSO.'

Nor in her view are early settlement discounts likely to enhance the attraction of electronic payments because in highly competitive businesses, clients still try to capture the discount when paying late, fully expecting that suppliers will accept this to keep the trade. She questions research, such as that produced by Gartner, which predicts that by the end of 2009 at least 30% of the world's top 2,000 companies will have adopted early payment discounting as a standard practice in accounts payable.

However, she is confident that these issues will eventually be overcome and that one day, ERP systems will be flexible enough to manage any inside leg measurement. ■

Annie Guerard



Annie Guerard has been Diesel's UK Financial Director for over eight years, during which time the company's turnover has increased tenfold. Its UK operation is the largest of Diesel's 22 subsidiaries.

She is involved in systems changes and internal review of group procedures, and her 14-strong finance team acts as the business intelligence hub for the whole company, looking after finance and IT.

Previously, she worked in a range of industries for companies such as Warehouse, Guinness (pre-Diageo) and the luxury goods firm Dunhill. She is a Fellow of CIMA.

Banking on a solution, cont.

To take full advantage of the automation of data input and streamline the whole reconciliation and cash management process, Mayne says the Council will shortly be selecting a single global supplier of banking services. This poses a very complex challenge (see box, right). 'The challenge for us is the complexity of working in 110 different jurisdictions and the limitation of the international banking system,' she says. 'It is not standard. There are regulations about money laundering, which mean that there are hurdles when you are transferring money. It is also expensive to transact internationally as opposed to nationally.'

She adds that although the British Council has a considerable international network, in some countries its operations amounted to those of only a small or medium-sized enterprise, whose business was not particularly attractive to a local bank. By consolidating banking provision, this should be overcome.

To avoid exchange rate risks, surplus local earnings are converted to sterling and transferred to the UK. 'However,' she adds 'there is a point at which the transactional cost of transferring money, especially across jurisdictions on a regular basis, is higher than the amount of extra benefit you get in terms of better interest and returns from the investment. Now if you were in a higher volume organisation, you only get charged a given amount per individual transaction, regardless of how large that transaction is. While an organisation with a larger volume

Irreconcilable reconcilables

The British Council's links to multiple banks have proved that the quality of information delivered by a system relies wholly on the quality of data put into it.

Margaret Mayne explains: 'What we have found most challenging with the SAP implementation is understanding the end-to-end process – how the technology interfaces with the business activity, whatever that might be.

'So, for example, if you look at the bank and cash side, we can do automatic reconciliation. The information is sucked in from the bank and gets put onto the

ledgers. You then compare the information from the bank with what you have in the ledgers on a basis of one-for-one matching. Then, in theory, you simply press a button and out of your, say, 20,000 bank transactions, you just have five exceptions to look at.

'In practice, however, there is a whole load of complexity around how the information gets into the banking system in the first place and how the bank system transfers it into your SAP system. This scuppers that beautiful concept, and you end up with only a 5% instead of a 95% match.'

'The challenge for us is the complexity of working in 110 different jurisdictions and the limitation of the international banking system. It is not standard.'

would find that the benefits would well outweigh the costs, for us in many cases, the cost outweighs the benefit.'

The financial supply chain management challenge for businesses operating in a single country is, she believes, markedly less. 'I think, that on the cash side of the supply chain, when companies are working in a less complex environment, particularly a single

national environment such as the UK, they have done an awful lot to make sure that the cash management is really up to scratch and the banks major very much on the kind of service that they can offer to support that efficiently.'

However, this is not the case worldwide, and it will be the British Council's particular challenge to find a solution to this issue.