

ERP at Anika Fragrances Pvt. Ltd.: Should We Implement on the Cloud?

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Abstract

Small and medium enterprises (SMEs) are a very important part of the economy of any country. In order to cope with the dynamic market conditions, they need to adopt Information Technology (IT) solutions like enterprise resource planning (ERP) systems. While large enterprises adopt ERP systems with ease, SMEs find it difficult to do so. This case presents the travails of a SME that is considering implementing an ERP system.

Mr. Amitav Natarajan, the Managing Director of Anika Fragrances Pvt. Ltd., an SME, is faced with the question of whether to implement ERP on-premise or on the cloud. The case raises the doubts and fears SMEs may have with regard to implementing ERP on the cloud. It poses the question of whether implementing ERP on the cloud is a viable option for SMEs.

Keywords: Cloud, ERP Implementation, SME

Introduction

It was a late afternoon in May 2014 when Mr. Amitav Natarajan, the Managing Director of Anika Fragrances Pvt. Ltd. (AFPL), a manufacturer of fragrances, was discussing the plans for diversifying the product line with Chief Marketing Officer Mr. Hari Menon. Although AFPL was doing well, the growing needs of the business were bothering Mr. Natarajan. He was concerned that they were not able to respond quickly to the changing customer demands.

AFPL operates in a highly competitive business environment where the demand patterns are seasonal and the demand increases during festivals. AFPL has a loyal

customer base. But, in the last few years, the threat of new entrants had made them realize that they needed to do more to survive and sustain their growth. They needed to focus on lowering inventory costs, having a clear picture of the stocks, and optimally utilize resources. They needed a system that would provide them with an accurate analysis of the market and forecast the demand for their products.

Mr. Menon apprised Mr. Natarajan about the readiness of the company to add to the existing product line, which at present was limited. They had planned to venture into beauty products, aromatherapy products, and more. They had recently decided to launch three new perfumes for Diwali.¹ The new fragrances had to be ready for launch just before the festival season in October.

About the Company

Anika Fragrances Pvt. Ltd. (AFPL), one of the Indian fragrance companies, was established in 1993. Headquartered in Mysore, it has world-class production facilities to support the ever-growing requirements from customers worldwide. It began as a small company with just 50 people serving customers in southern India. Today, they have customers in India, North America, Europe, Japan and China. Recently, an R & D centre was inaugurated in Kolkata with the intention of discovering more about sourcing natural aroma ingredients available locally.

Today, AFPL has 500 employees and manufactures essential oils, fragrances, and incense sticks. Since its inception, it has grown steadily and captured a major share of the Indian fragrance market. Earlier, their product range had been limited to essential oils, perfumes,

¹ A festival of lights celebrated in India

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and potpourri. In the recent years, they had planned to diversify their product range and include beauty products, aromatherapy products, and many more.

Growing Needs

AFPL, on account of their size, did not rely much on Information Systems (ISs). When they began, most tasks were done manually. As they grew, they had limited amount of data and hence managed their production scheduling, inventory management, etc., using MS-Excel. They used Tally to meet their finance and accounting needs.

In 2008, the company grew from a turnover of a few lakhs to Rs. 50 crores. As they started to grow, they needed to deal with large volumes of data. Their existing use of Tally, Excel, and some other tools was insufficient. ISs were built to meet the specific needs of each of the departments and they served their needs well.

But, most of the ISs that they used operated in silos. This resulted in information islands. It was not possible to have an accurate assessment of what was happening across the company. Decision-making was difficult as information was not readily available. To add to this, in 2012 they started exporting to a few countries abroad, increasing the need for robust ISs. Their ISs at that time were not able to meet their need for integration.

In 2013, the Heads of Departments (HODs) at AFPL, after assessing the future growth of the organization, had informed Mr. Natarajan that the existing ISs were insufficient to meet their needs. It was imperative to implement an Integrated Information System (IIS), which would be scalable and provide the advanced functionality needed. At this stage, Mr. Balakrishnan, the IT Head, had suggested that an ERP system would be the right choice.

Search for an IT Solution

In 2014, considering the requirements at that time, Mr. Menon suggested that they implement an ERP² system as a possible solution to help them to respond to the dynamic market conditions. Mr. Natarajan recollected that this solution had been suggested six months ago by

² ERP is a packaged business software system that allows a company to automate and integrate majority of its business processes, share common data and practices across the entire enterprise, produce and access information in a real time environment.

Mr. Balakrishnan. He remembered having put off this decision for later as he was aware that implementing an ERP system was a time-consuming activity, one that would call for a lot of effort and a huge capital investment. He now knew that a decision had to be taken soon.

Mr. Natarajan knew about ERP systems and had used one at his earlier company. He was not sure of its efficacy for his current company, given their size. He knew that AFPL's processes were unique and this had given them an edge over their competitors. ERP systems would call for a standardization of processes, which he believed would be detrimental to their organization.

He was aware that ERP systems took too much time to implement and were also very costly. The need was for a new system that would be quick and easy to implement and adapt to. Given the upcoming festival season, they had to plan the production and hence a decision had to be taken soon to either implement an ERP system or look for an alternative.

Mr. Natarajan decided to consult his friend Mr. Cariappa who was the Chief Technical Officer at Google. Mr. Cariappa would be the best person to show the way forward and help him to take the right decision. Mr. Natarajan called and apprised Mr. Cariappa of the problem. They decided to meet and discuss this matter over lunch the next day. Mr. Cariappa promised to help his friend.

Next day, Mr. Cariappa listened to his friend and understood the problems he was facing. He believed, that given the situation, an ERP system would be a wise choice. He told him that today the time taken to implement an ERP system was far less than earlier and the costs had also reduced substantially. To convince his friend of the same, he explained to him about ERP and the various ways to deploy it.

An ERP System

ERP is a packaged business software system that allows a company to: automate and integrate the majority of its business processes, share common data and practices across the entire enterprise, produce and access information in a real-time environment. In short, ERP is a concept that aims at optimizing the usage of resources in an enterprise via proper planning which in turn leads to a significant increase in the profitability of the enterprise.

An ERP system integrates the functions of different departments of an enterprise and provides a single-window view of the occurrences in an organization. For instance, when an order is placed by a customer and entered into an ERP system, this information is automatically available to all the interrelated departments such as production, finance, inventory control, etc. This allows for reduction in cycle time, increased flexibility, better decision-making ability, and higher customer satisfaction.

When ERP systems were introduced in the 1990s, considering that ERP had evolved from Manufacturing Resource Planning (MRP), they were meant for adoption by large manufacturing companies. Over the years, however, companies of all sizes from across all sectors are adopting ERP systems. Whereas a large number of companies have benefitted immensely from a successful implementation, not all of them have been successful.

To ensure a successful implementation, it is important for an organization to have top management support. The top management has to drive the ERP implementation project, as ERP is not just another software but a new way of doing business. It calls for involvement of all the stakeholders to ensure its success. A team of the best employees from each department should decide on the expectations from the ERP system and select one that best meets their needs. A proper project management and change management plan will ensure that the task of replacing the old system with the new will be smooth.

ERP System Deployment Options

Mr. Cariappa explained that any company wishing to implement an ERP system has three choices. They are:

- **Build ERP:** Should a company possess a strong IT team with the requisite ERP experience, they could build their own ERP system to meet their requirements. If not, they could approach companies like TCS, Seimens, IBM, etc., to build an ERP system for them. This option requires a strong focus on best practices and not just on automation. It would be a wise choice for larger companies.
- **Buy ERP:** There are several vendors like SAP, Microsoft, Oracle, etc., that sell Customised Off the Shelf (COTS) ERP systems. These systems have to be purchased and implemented on-premise. This

calls for installing new infrastructure, purchasing the hardware, and the associated software, which is always costly. This is a difficult job for any organization and involves great risk. It also requires constant maintenance and upgrading to keep the system current.

- **Rent ERP:** Here, the organization can rent the ERP system and pay as per use. The ERP system is hosted on the cloud and hence the maintenance is entirely taken care of by the service provider. The organization can opt for a public, private, or a hybrid cloud depending on their need. This solution is quick to implement, also cost effective and easy to adapt to. There are several vendors like SAP, Oracle, Ramco, etc., who provide ERP on the cloud.

SMEs and ERP

SMEs are smaller than the large enterprises but the challenges they face are not very different from that faced by their larger counterparts. Although many new SMEs are commissioned each year, nearly 50% cease to exist in the first 3 years of business itself. This can largely be attributed to SMEs lack of long-term business strategy. They mainly focus only on survival. SMEs which have been running on a very thin bottom-line must look at various avenues to reduce their costs and increase their operational efficiencies. While IT in general and ERP in particular is considered as a solution, most of the time it is brought in to solve a problem and very rarely is it considered as a strategic decision.

SMEs can benefit from ERP in many different ways. An ERP system will introduce efficiency and reduce operational costs. It helps in achieving transparency and makes data available across all business functions. It gives right information at the right time to the right people for effective decision making. Thus, decisions will be based on accurate information, which will give positive results and increase productivity.

Years ago, an ERP system required a very high capital investment that SMEs could not afford. In the last several years, vendors have been developing packages specifically meant for SMEs and the costs have come down substantially. The cost of ERP depends upon the quantum of hardware and software, functional areas

covered, and volume of transactions.

The cost of implementing ERP is being driven to lower levels based on newer technological & implementation options like renting ERP or hosting ERP on the cloud & Open Source ERP. This is particularly beneficial to SMEs as they can pay as per the usage. They will not have to maintain costly hardware and software on their premise. They can opt for just the functionality they require and pay for it on a monthly basis.

After Mr. Cariappa explained all this, the discussion that ensued resulted in Mr. Natarajan being convinced to a certain extent about implementing ERP on the cloud. He thanked Mr. Cariappa and headed back to his office. He called the IT Head and shared his thoughts with him and asked him to find out all the details about implementing ERP on the cloud, the vendors who offered ERP on the cloud, etc., and make a presentation to all the HODs next week.

The Meeting

In the meeting, Mr. Balakrishnan explained the idea of implementing ERP on the cloud. He also explained about private, public, and hybrid cloud. He described about the benefits that would accrue to the company if they implemented ERP and also shared data on why implementing on the cloud would be faster and require less capital expenditure when compared to an on premise implementation.

What is ERP on the Cloud?

Cloud refers to a popular way of implementing software and technology services. Here, services are hosted by a service provider and accessed via a network instead of from physical servers located on the client's premises. Thus, cloud-based software is hosted on the vendor's servers and accessed through a web browser.

Traditionally, an ERP system is implemented on-premise on the company's own infrastructure. This kind of implementation requires constant updating and servicing to stay current. When the ERP is implemented on the cloud, the service provider hosts all the services on their infrastructure, thus eliminating the task of maintaining

and updating the systems at the company's end. All of these tasks are taken care of by the service provider.

Another key difference between cloud and on-premise solutions is based on how they are priced. Cloud software is priced on a monthly or annual subscription basis whereas on-premise software is generally priced under a one-time license fee, which depends on the size of the organization among other factors. Both solutions will have additional fees for support, updates, and training. Thus, on-premise systems require a large capital expenditure, which may not be affordable by SMEs. On the other hand, cloud-based systems call for an operating expenditure that is affordable.

ERP on Cloud: Advantages and Disadvantages

The advantages of implementing ERP on the cloud over on-premise are (Hedges, n.d):

- There is no capital expenditure.
- The organization need not buy servers and hire IT resources.
- The entire system will be maintained by the service provider allowing the company to focus on their core competence.
- Implementation time is very less.
- It allows for anytime, anywhere access, thus making the business agile.

The main disadvantages are:

- The security of the data is in the hands of the vendor.
- Customization is limited as the ERP is hosted and hence shared by many users.

A company deciding to implement ERP on the cloud can choose from three types of cloud implementations: public, private, and hybrid (Edtech Staff, 2013).

- Public Cloud

A public cloud allows a company to access services via a secure Internet connection. Many users share many public cloud services, as it is a multitenant model. This means that the services are not provided exclusively for any one client.

- Private Cloud

A private cloud is dedicated to a single client and not shared. This provides for greater security as it is dedicated to one single client.

- Hybrid Cloud

A hybrid cloud allows organizations to use a combination of public and private cloud resources based on their need. For example, an organization may choose to run some applications on the public cloud while keeping some others on the private cloud for security reasons.

Reactions of the Team

The idea of hosting ERP on the cloud raised many concerns. Some HODs raised the concern of data security whereas others questioned the reliance on Internet.

Mr. D'Souza (Head of Finance): "How safe is our data at an external location? When you say that the security of the data is in the hands of the vendor, what control do we have? Why should we have our data at a remote location and wonder what is happening to it?"

Mr. Manikanta (Head of Production): "I agree with Mr. D'Souza. What if our data is stolen? We have been reading about so many such cases in the press. Since our data is at an external location, we won't even know if the data is shared with a rival firm. How can we trust the service provider?"

Mr. Balakrishnan: "The service provider will be signing a Non-Disclosure Agreement (NDA). This will prevent them from sharing the data with anyone. Hence, our data will be safe."

Most of the participants were not convinced with this explanation. They began arguing with Mr. Balakrishnan. The data centre being located at a considerable distance from their plant was another issue.

Ms. Shrividya: "The data center you are mentioning is located at a considerable distance from our plants. What support would be provided for any problems that would arise?"

Ms. Malini: "None of the other companies we know have implemented a solution on the cloud and therefore

this model is not tried and tested. How can we believe that this would be appropriate for us?"

Mr. Manjunath: "What about poor Internet connectivity at some of our locations? Since implementing ERP on the cloud would require a steady and reliable Internet connection, how could we use ERP? Some of our units do not even have a connection at present?"

Mr. Natarajan: "If we implement on the cloud, will customization be possible? So many of our processes are unique. You mentioned that one of the disadvantages of implementing on the cloud was that since many users share the application, it does not allow for customization. What kind of cloud model would allow for customization? How expensive would that be?"

Mr. D'Souza: "What about the recurring cost if we opt for the hosted model on the cloud. Now we would have to pay a monthly subscription. Would it not be cheaper to buy ERP instead? Why should we pay a monthly rental?"

Mr. Balakrishnan: "Please check the handout (Exhibit 1) I had shared earlier with you. This gives a cost comparison of on-premise and on cloud ERP. This should give you a fair idea."

What Should We Do?

The meeting ended on an inconclusive note. The reactions of the participants clearly indicated that they were not convinced about implementing on the cloud. Many of them were strongly opposed to the idea. With the upcoming festival season, their production had to get underway soon. Mr. Natarajan was not sure of what they should do next.

Questions for Discussion

1. As a consultant, how will you assuage the doubts AFPL's employees have about implementing on the cloud?
2. Should AFPL choose a private, public, or hybrid cloud? Explain your answer.
3. Is implementing on the cloud a viable option for SMEs? Justify.

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Exhibit 1

<i>ERP Cost</i>	<i>Cost</i>	<i>I year</i>	<i>II year</i>	<i>III year</i>	<i>IV year</i>	<i>V year</i>	<i>Total</i>
On premise (5 users)	\$11,250	\$11,250	\$0	\$0	\$0	\$0	
Hardware	\$10,000	\$10,000	\$0	\$0	\$10,000	\$0	
IT support	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	
Software maintenance	18%	\$2050	\$2050	\$2050	\$2050	\$2050	
Total		\$33,300	\$12,050	\$12,050	\$22,050	\$12,050	\$91,500
On demand (5 users)	\$225 per month	\$13,500	\$13,500	\$13,500	\$13,500	\$13,500	
Activation	\$2500	\$2500	\$0	\$0	\$0	\$0	
Total		\$16,000	\$13,500	\$13,500	\$13,500	\$13,500	\$70,000

Source: Microsoft Great Plains Business Essentials sample pricing for information purposes only. Does not include the cost of implementation services which is generally 1–3 times the cost of software licenses. (Purohit et al., 2012)

Note: This case has been prepared on the basis of the discussions the author has had with the officials at Anika Fragrances. The name of the organization and other details have been masked to ensure confidentiality.