

SKYCITY Implements Peoplesoft supply chain V8.8. A year on we take a look back

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Introduction

SKYCITY Entertainment Group has just completed its first year of operation with PeopleSoft Supply Chain V8.8. The year has been one long roller coaster ride with many lessons learnt along the way. This paper will discuss the key aspects of SKYCITY's implementation and the lessons that can be shared for any companies considering a similar project. It will also discuss the challenges faced post go-live and outline SKYCITY's strategy for realising the benefits of PeopleSoft Supply Chain Management.

Background

SKYCITY began as a single site opening SKYCITY Auckland in 1996; it has continually grown and expanded its operations over the last 9 years. The most significant include:

- SKYCITY Adelaide – purchased in June 2000 with expansions opened June 2005.
- SKYCITY Queenstown Casino – opened in December 2000.
- SKYCITY Hamilton –opened 2002 with a new function centre that opened in April 2004.
- SKYCITY Leisure and Village SKYCITY chain of cinemas.
- SKYCITY Darwin – purchased 2004.
- SKYCITY Auckland opened a new Convention Centre in July 2004 and SKYCITY Grand Hotel opened April 2005.

SKYCITY employs nearly 5,000 people and hosts more than 17 million visitors a year. A significant Supply Chain support structure is needed to facilitate the Group's 21 restaurants and 22 bars, 780 hotel rooms, large conference and convention capacity and several thousand gaming machines.

In October 2003, the Board approved the implementation of PeopleSoft across all SKYCITY properties. PeopleSoft was to replace a wide range of disparate systems including Infinium, JD Edwards and Maxial, which would enable us to improve many of our business processes in Human Resources, Payroll, Finance and Supply Chain.

What did SKYCITY expect when implementing Peoplesoft?

PeopleSoft was chosen to replace the existing ERP systems because it could provide a fully integrated system that could be utilised to manage the procure-to-pay processes. The decision to choose PeopleSoft over its competitors at the time was driven by Finance and Human Resources needs; it was not Supply Chains first choice.

Supply Chain had a number of features and benefits for SKYCITY such as:

- Being a single system that is streamlined and has integrated functionality.
- Allowing automated transaction processing.A scaleable system that can grow and evolve with the business as it expands.
- Providing intuitive, user-friendly functionality with modern information management tools.To inherit standardised and efficient processes without the need for extensive reengineering.
- A group-wide view of information, single point of delivery, timely & easily accessible information.More efficient processes, less errors & cost, freeing up time to spend on value-creation activity.

PeopleSoft was to improve the efficiency and capability of our Supply Chain function in four key areas:

- Electronic workflow was to enable us to automate purchasing transactions freeing up staff from manual tasks to focus on more value-adding activities
- Provide formal supply and demand analysis and sales forecasting that would enable us to reduce cost of sales, minimise duplication and reduce cycle times.
- Enable access to improved spend analysis, visibility of approved suppliers and agreed discounts, which would facilitate volume leverage, supplier rationalisation, and increased use of preferred supplier agreements.
- Enhance inventory optimisation, helping us to reduce waste and/or obsolescence.

An example of the improvements to be made with the implementation of PeopleSoft is moving from manual approval and intervention of requisitions, to an automated process. Under the old process a requestor would enter a requisition, receive a warning that the requisition was above their limit, the requestor would then change the price on the requisition to 1c so that system constraint did not apply and save the requisition. Commercial Services would then pick up the request manually, change the details, then run a process to convert requisitions to purchase orders and send out to vendors. With the PeopleSoft system the requestor enters the requisition (they can't change the price of the item), receives a notification that a manager needs to approve, the system then automatically forwards the requisition to the requestor's manager for approval and advises the manager by email. The manager approves (or declines) the requisition via an email hyperlink and then the system automatically generates the purchase orders from the requisition and sends them out to vendors.

Did we get it what we expected? YES and we got a lot more.

What did Peoplesoft deliver?

SKYCITY chose a "rapid" implementation of PeopleSoft Human Resources, Financials and Supply Chain Management, completing the project in six months. About two months into the project the decision was made to move from V8.44 to V8.8, primarily to realise some key enhancements specifically affecting cost management and bill of materials. SKYCITY now utilizes the following V8.8 Supply Chain features:

- eProcurement and Purchasing.
- Payables.
- Inventory Management.
- Cost Accounting.
- Bill of Materials.

With the implementation we have streamlined our master data. We consolidated three item masters and vendor files within New Zealand. The ability to define specific item and vendor attributes for each SKYCITY site against the one item or vendor ID means we have eliminated duplicate files for the same item or vendor. The benefits are evident when it comes to setting up new items and making payments to vendors.

We have improved our inventory processes because the PeopleSoft Supply Chain functionality supports multiple units of measure for one item. This means we can specify one unit of measure to be used for internal inventory transactions, such as one for stocktaking and inter-unit transfers, and another for purchasing the item from an external vendor. A good example is bottle beer where we need to transact internally in bottles but can only purchase externally in cases.

The eProcurement module provides business users with a single user-friendly interface for requisitioning goods or services together. Each user can customise their procurement environment to suit their needs. A favourites list and requisition templates can be created for the items they order frequently. This saves time searching through item catalogues to find an item every time they need to order it.

One of the key requirements for automating our purchasing and accounts payable transactions was to have requisitions approved on-line in "real-time". This has been achieved by defining a delegated financial authority (DFA) limit for each user. Requisition amounts under the user's limit are self-approved. Requisitions exceeding the DFA limit are forwarded to the user's manager via PeopleSoft workflow for approval.

SKYCITY has increased its automated processes by having requisitions feeding into the purchasing sourcing engine to determine which lines are sourced externally to a vendor and which lines are sourced internally from an inventory business unit. Currently scheduled purchasing processes are automatically sourcing 80% of requisition lines. It generates inventory demand 7 days a week. It also consolidates requisition lines into a single purchase order for each vendor location. Purchase orders are dispatched automatically through an integrated fax software application. There are significant benefits in receipting and accounts payable processes due to this consolidation, providing the vendor only produces one invoice for each purchase order.

We have an inventory management system that supports 65 individual inventory business units. The business unit structure includes two central warehouses in Auckland supplying food, beverage and consumable items to the entire site. It also includes four production kitchens, which supply prepared food to the restaurants, hotels and convention centre. The scheduled purchasing processes feed inventory demand into the central warehouses where order fulfilment processes are automated to provide the output for the logistics team to pick and deliver orders.

The inventory management system is integrated with two of SKYCITY's point of sale systems. Sales to customers generate inventory transactions that deplete inventory and, through the Cost Accounting module, calculate the cost of goods sold by individual bars, restaurants and retail gift shop.

The inventory replenishment functionality allows us to define replenishment parameters for beverage and retail items in our bars and retail gift shop. Based on inventory depletions from the integrated point of sale systems, requisitions and purchase orders are automatically generated to restock inventory up to the specified maximum stockholding.

Using the Bill of Materials (BOM) module we have created recipe items within the item master file to capture the cost of producing goods in bars, restaurants and production kitchens. We create a recipe BOM by listing all the ingredients and quantities that make up the recipe. Creating a BOM for a recipe allows us to more accurately set retail prices to meet cost of sales margins. When the price of an ingredient changes, recipe costs can be easily updated and retail prices changed accordingly. With the recipe BOM giving a projected cost of goods sold based on the recipe cost, a comparison of projected vs actual cost of goods sold can be achieved providing margin analysis. We currently use about 3500 food recipes.

There was an expectation that PeopleSoft would provide supply and demand analysis and sales forecasting tools, and the use of these tools would help improve margin performance and optimise inventory. We did not in the end purchase the manufacturing suite or demand planning suite of modules due to the fit with SKYCITY needs. Instead we are customising our own demand management functionality.

What lessons did SKYCITY learn?

So far we have discussed what we expected when we purchased PeopleSoft, how we are using the PeopleSoft Supply Chain module and some of the benefits realised to date. So what did we learn from the implementation and from our first year of operation?

Implementation

With the benefit of hindsight, a six-month implementation timeframe was too aggressive for the Supply Chain module, for a number of reasons.

It meant that we had to go 'vanilla' and minimise changes to delivered functionality, screens and reports. This had large change management implications because business expectations exceeded the out-of-the-box scenario. As a project team we had to park most requests to have field name and length changes actioned and instead concentrated on developing interfaces, production plans and other more process driven functionality.

As version 8.8 was a recent release, there were few people to consult as to how best to configure the system. There were bugs that hadn't been thrashed out through operational testing by any site other than PeopleSoft directly. As problems were encountered during testing, they all needed to be logged with PeopleSoft support and when solutions weren't forthcoming, the project team was required to assess the impact the bug would have on go-live. No bug was deemed so critical that the go-live date should be moved. This later proved to be incorrect. For example a bug in calculating GST caused a huge impact on Finance as every transaction line had to be corrected retrospectively.

Another challenge was data migration. PeopleSoft had additional fields we weren't sure how to populate to ensure the data was future proof. The task to cleanse data was undertaken at the same time. There was little time to validate the data that lead to items being set up incorrectly or being missed all together. In hindsight, the data should have been cleansed before the project started and item set up should have been tested before the final data configuration was agreed.

Beware of external influences that impact on timelines and decision-making. Organisation re-structures, new key staff, new business units, new menus etc can impact on the quality of the end result.

Support

The perception for the project team was that once the system went live, our job was basically done except for a bit of support for a month. Wrong! Why was support needed when the system had been tested and essential functional staff trained? A whole raft of reasons:

- We went live with known bugs.
- There were gaps in data.
- Security permission lists weren't configured as designed and there were other access related issues.
- The system was under resourced.
- Training was too short or detailed for some users with not enough practice time.
- The portal was operating differently to the testing and training environments.
- Both the system and the business are constantly changing.

We developed a fluid support model to allow flexibility until we knew more about what we were supporting. The support structure was to have contracted Helpdesk support for a few months, and project Subject Matter Experts (SME) as the next level of support for 1 month.

It was quickly evident that the Helpdesk didn't have the skills to rectify system bugs in a very new product/version, nor did the SME's. The third level of support, technical, had left when the project finished. There was also a gap between functional and technical knowledge. So when an operational issue came up, it was a lengthy process to find a suitable solution.

All this fuelled with growing unrest from the business, which necessitated a change in the support structure. We have since moved to a fully internal functional support model, augmented by an external provider, comprising a team of Business Analysts (previously SME's) tasked with looking after specific areas – Inventory, Purchasing, Bill of Materials, Cost Management, Accounts Payable, Finance, Projects, and Human Resources.

Functionality

In hindsight, it would have been useful to conduct 'negative' testing and batch testing, in an attempt to break the system or stress it to replicate what-if and live scenarios. It would also have been useful to run PeopleSoft in parallel with our legacy systems.

Single point of delivery was seen as an advantage and is. What it needs to be balanced with is the risk of the system hanging. One user or process has the potential to bring the whole system to a standstill!

Although 80% of purchase orders are generated electronically, we initially had the Purchase Order Create process running too frequently creating double orders, which resulted in a large volume of invoices being received. This put a huge strain on Accounts Payable resources. Accounts Payable had to deal with an increase in invoice numbers as well as a new system and cranky vendors.

Inventory optimisation was seen as a key benefit. Careful thought needs to go into determining if an item is Inventory or Non-Inventory, if an item is assigned to selected or all Inventory Business Units, if an item should be replenished and when. The project team were instructed to configure the system the way the business thought it should be configured. The business based the configuration on where they wanted to be. In practice though, you need to be able to walk before you can run, so don't expect replenishment to be fully automated from Day One.

We have learned that there is continual administration around optimising automated process functionality. Processes can be sequenced and automated but require regular monitoring to ensure each step has not only run to success, but has updated the database as expected. An example of this is the point of sale interface. Depletion is the first in the sequence, followed by replenishment processes. If the interface doesn't pick up sales for a given period, the replenishment processes will still run to success and if not monitored, outlets will quickly run out of stock.

You can monitor that processes run to success, but there is still the potential for transactions to remain unprocessed and vital tables not updated (such as the last in the chain, the General Ledger). For this reason it is still necessary to conduct reconciliations. Reconciliations should be at a high level by Business Unit, Inventory Business Unit and Department.

The first year has been spent in supporting the system as delivered. We have now come through this phase and the focus has changed to realising the benefits through continual process improvements.

How is SKYCITY continuing to realise the benefits?¹

Accurate data is the number one way to realise any benefits in a relational database, such as PeopleSoft. The item master has a one-to-many relationship with inventory and purchasing tables. Continual reviewing of the data is required to ensure accuracy and consistency. If an item is setup incorrectly or not maintained, the flow on effect can be exhaustive to fix. Setting the wrong unit of measure conversion rates, for example, which leads to receiving and average cost errors or not updating vendor prices, which leads to invoice match exceptions.

You need to understand and define the current process before you can recommend any process improvements. What might be possible needs to be balanced with what is practical before making a proposed change. Then you can start to align functions with positions and get them working more closely together.

There is benefit in centralising processes and administration, and standardising business processes to ensure a consistent supportable approach, particularly in set-up and data entry. PeopleSoft demands a high level of accuracy and attention to detail to ensure a smooth transaction flow. There are many possibilities and options, so a continuous improvement methodology needs to be employed.

Analysis is a key focus now that we have a year's worth of transactions. Delivered reports go some way to assisting data analysis, but the real benefit is in customising reports to suit your business requirements once you have a better understanding of what it is you really need.

Initially the majority of the system knowledge sits with the project team. To fully realise PeopleSoft potential we need to continually disseminate the knowledge base out into the business by facilitating different levels of training.

The SKY CITY Business Improvement team's aim for the future is to continue to fully realise the potential benefits PeopleSoft can provide the business. We now know a lot more about where this system can take us – if only we knew all that before the implementation.

DISCLAIMER: This report is based on the opinions of the authors.