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A Small Company Gets Big Results from Its ERP

SkinCeuticals made the commitment to an Oracle ERP in 2001, and now has big-company oversight and control of its supply chain with small-company resources.

PharmaManufacturing.com

SkinCeuticals (Garland, Texas) manufactures and distributes “cosmeceuticals” to doctors and skin-care professionals. The company is not regulated as heavily as pharmaceuticals, but “we pretty much use the pharmaceutical model for testing and protocols” because of the active ingredients in its skin-care products, says COO Timm Elrod. This has greatly impacted the company’s IT strategy. “Any product that goes to the consumer, I need to be able to trace the genealogy of that all the way back to the supplier of the raw ingredients,” Elrod notes.

With an extensive background in IT, project management and supply chain management, Elrod joined the company in 2001 to help build an operational infrastructure that would enable complete supply chain oversight and optimize warehousing and shipping processes. That summer, he oversaw the implementation of an Oracle E-Business Suite, which went live less than three months later. It was the fourth ERP implementation that Elrod had overseen in his career. SkinCeuticals also enlisted the help of ClearOrbit, a maker of software that accessorizes and augments the Oracle 11i and facilitates data capture and integration with the system.

“The role was to build an infrastructure for a fast-growing company, and help put in the planning and supply-chain management to support that all the way out to the customer,” Elrod says. “A lot of people look at the supply chain and just think about getting products in and out the door. But we try to think about it all the way out to our retail partners and customers.”

SkinCeuticals has done so well that it was purchased by L’Oreal last June, though the company continues to manage itself and run its business essentially as before, Elrod says. If anything, L’Oreal has taken some pointers from SkinCeuticals about implementing IT systems and optimizing the supply chain from a small-company point of view.

We spoke with Elrod about his company’s success, and to find out how a small company can put in a new ERP system and make it work.



A sampling of SkinCeuticals' current product line.

PharmaManufacturing.com: *What was the state of IT before the ERP?*

T.E.: We had a combination of products, and most of those products had fundamental issues in that they weren’t fully integrated. The database structures were suspect. Usually they were modules but the modules were standalone with some loose ties that would make them work together. It was too slow. You couldn’t get the transaction speeds you needed. You couldn’t get any business analytics.

P.M.: *Clearly, you needed a centralized system. Why did you look to Oracle?*

T.E.: Oracle was selected for its one-data-source approach across all the modules. Even though it’s a full-blown ERP suite, they do have the ability to break it off and implement it as modules. The preferred approach

is to do a wall-to-wall implementation of one data source, so you have consistent data no matter whether you're in order entry, accounting, manufacturing, distribution or inventory control. You're looking at identical data. So it simplified life for us.

P.M.: *Did you consider SAP or other ERP vendors?*

T.E.: To be honest, it was more of a referral type of thing. When we looked at all the different SAP implementations, people who thought they had been successful with SAP had done a very large amount of customization. It wasn't anything negative, but it seemed a little more complex to implement and maintain. The core offering for Oracle fit our business real well from an application standpoint, and the technology deployment made more sense to us. When we looked at implementation costs and the pure economics of it, it seemed to make sense to go with Oracle.

If you think about it, in 2001, the ERP vendors were still chasing the large company sells. Oracle had approached us and made it feasible for a smaller company to implement. Oracle was a top-tier ERP that was able to make a fit for a company that at that time really wasn't a candidate. Now small to mid-size companies are the hot market for ERPs. J.D. Edwards at the time would reach down into that level, but we had under \$15 million in sales at the time. To implement a top-tier ERP system was unheard of.

But we made the investment, and Oracle partnered well, and ClearOrbit came to the table to enable other pieces. So we were able to use as few pieces as possible to fill a real grand strategy for IT, which we're still implementing today. We had this long-term vision, and we're maybe 60% of the way through that original planning process.

P.M.: *Just how hard of a decision was it?*

T.E.: It was a huge decision. It was a companywide decision. The primary shareholders, and the director of IT and CFO at the time, we all looked at it together. But they were very entrepreneurial. Once we laid it out and the vision was clear among the team, it was more of a negotiation thing. It wasn't a "should we or should we not" decision.

This was my fourth ERP implementation, and it was by far the easiest to get the money commitment. The relevance to the company was by far the largest in terms of impact and investment to the company. And the risk was greater. But it was by far the most successful implementation I've seen.

P.M.: *What made it work?*

T.E.: One of the things we did was saddle one of the owners to be the lead project manager at the time, to put his face and stamp on the whole thing so that everyone in the company was clear about where we were headed. The company continues to be very aggressive from a management perspective, and that's one of the reasons we've been successful.

Early on, getting the buy-in and taking a holistic approach was also important. For buy-in, it wasn't just at the top but all the way down. Top to bottom, left to right, so to speak. The pain was there, and I don't want to understate how much it took for people to get through the change part, but the hope and vision got them to the other side. It wasn't like they were going without pain in the old system.

The other key piece was minimizing the transition time from old system to new system. We did that in 70 days, from the time consultants came in our doors from the time we went live.

P.M.: *How did you do it so quickly?*

T.E.: You get buy-in and everybody lined up, and then we really started a thorough strategic and tactical planning process early on. That included choosing our planning partners [from Lucidity Consulting Group]. Once they were here, we really worked side by side with them and from the work force. There were very few times when we had consultants working on the project when we didn't have an employee with them. It was difficult to tell the difference between the consultants and employees sometimes, and at the end when the consultants left, it really felt like part of our family was leaving.

I had worked with almost all of those people before. I had worked with ClearOrbit before. We had familiarity with the people at Oracle, so we didn't have to go through that initial phase of figuring out what people are capable of.

Once implementation started, the key issues were really just tasks to complete. There wasn't a lot of debate and we didn't have to have meetings about who's doing what right or wrong.

P.M.: *You mentioned some pain during implementation — tell us more about that.*

T.E.: The big change on the user side was transitioning from a character-based screen environment to a GUI (graphical user interface) environment. That was difficult.

Another part was, we probably should have implemented a system a year earlier. The company was growing so fast. In 2001, we relocated facilities, we implemented an ERP system, and we grew about 35%. That was

all going on before the supply chain infrastructure was cleaned up, before the management infrastructure was put in place. That was pretty painful. A lot of companies would sweat doing 20% growth in a year in their current environment, but we also inflicted all that change in addition to it. It was a lot to take on in one year.

P.M.: *Where did you see the difficulties?*

T.E.: It was more from a business side, trying to make sure we didn't lose control of the business and disappoint our customers during the transition. We had some visibility and stopgaps put in place for the transition, but things we didn't see were like failures in supply chain on the growth side. Looking back now, we would have back-filled with more resources because we really had to leverage our resources to complete the project.

So we went live, we were well-trained, we were able to enter orders and ship product. We just didn't have the supply that we wanted. It was a resourcing challenge. As a small company you run really thin and lean, but the people that know the business are the ones that you want on the project. And to bring somebody in to backfill and run the business is very difficult for a small challenge.

We implemented some programs in front of the ERP project. But those things didn't come to fruition until about 12 to 18 months later. Before the Oracle project, our service levels were around 40-45%. When we implemented the ERP system, we immediately jumped up into the 60-75% range, but that was still unacceptable.

We still had a lot of back-order issues after we went live. We just had to manage through the perception that it was caused by the ERP implementation, because it really had nothing to do with that. Then it took about another four to six months before we were off back-order and it continues to this day. Now we consistently average well up over 98% service levels.

Since that time, we've more than tripled sales, and we do it on less than half the inventory. And we're still in the same space and still have room to double again.

From a technology standpoint, we've been able to leverage our fixed costs. The relationship with ClearOrbit's been fantastic, and Oracle basically acts as a big base for us. They continue to implement functionality, and we just decide whether or not we can leverage it and look at ways to group transactions and collect more data so that we have more data for analytics but I don't have to pay somebody to sit down and transact something.

P.M.: *Talk about how you've streamlined your warehousing and shipping.*

T.E.: It's really been a combination of things — better supply chain overall, working with better vendors and suppliers, reducing the total inventory pipeline instead of stacking inventory. The ERP side of things has enabled the visibility to do that.

From a transactional perspective, our shipping line used to be two 45-foot-long lines and it was all we could do to support the business. In 2001 and 2002, we were running people until 3 o'clock in the morning just to run the transactions that were required. At that time, there were four steps in the shipping process, so four transaction points.

Now that we've integrated, like with the ClearOrbit product on our shipping line, we've been able to integrate those transactions into two basic steps, the picking step and the packing step. Behind the scenes are all those other transactions that we used to do in four steps, but we've added things like containerization, where we actually know what product went into what box, and each box gets a specific ID. We actually trigger through an XML interface the UPS labeling and it comes right back to that same station.

We've created the ability to track back to select lots. If I have an issue with a particular lot, I can just run a report now that says, 'Here's every person you ever shipped that lot to and when you shipped it to them.' We're able to collect all that data in those same two steps now. We've not only gone from four steps to two, but have also added data collection those steps. Now we're doing three times the volume in one-half the space.

On the inbound side, we are able now to sequence and do replenishment inventory, and do demand planning, synchronizing with our outbound and demand flows of the product. And we're able to synchronize the planning and manufacturing.

It's really a combination of a push and pull system. We have some very long lead-time items that we do push processes, and then we do pull replenishment processes on the manufacturing side. It's a push-pull combination strategy to help reduce the amount of inventory that we have to carry and now putting pressure on execution.

The warehouse now acts as more of a staging area than a stack-it-up or store-it type of place.



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