

Indus Consumer Products Limited

Assessment of IT Operations

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INTRODUCTION

Indus Consumer Products Limited (INDUS) is one of the leading consumer goods manufacturers in the country. INDUS aims to grow rapidly over the next few years, including adding large numbers of suppliers, distributors, and retailers to its supply chain network. Additionally, INDUS aims to attain international levels of operational efficiency, and quality, in the shortest possible time. Information Technology (IT) will be the backbone of these ambitious objectives.

BUSINESS IMPERATIVES

The FMCG industry in India continues to be an important growth sector in the Indian economy. Traditionally, growth has mandated IT platforms to develop enhanced functionality in order to collect and analyse large amount of transaction data. However, intense competition in this sector has driven companies to strategically leverage IT to achieve their efficiency and innovation objectives related to operations, product, and customer satisfaction.

PORTFOLIO OF EXISTING IT PROJECTS

1. EMPLOYEE CONNECT –ASSET CLASS: INFORMATIONAL

The HR department at INDUS launched the Employee Connect system in 2009 with the aim to keep employees abreast of strategic goals, initiatives and practices within the company. The application later evolved to increase the efficiency of HR management practices such as performance appraisal, benefits management, and claims processing. In its current form, the system has evolved into an internal social networking platform that provides shared workspaces for knowledge management, collaboration and conversation among employees. Estimated expenditure for maintaining this system during 2013-14 is INR 2.50 million. The maintenance cost will go up to INR 2.60 million from 2014-15 onwards.

2. PAYROLL & TAX PROCESSING – ASSET CLASS: TRANSACTIONAL

INDUS modernised and automated its payroll and tax processing activities by outsourcing this function to ADP Private Ltd. The fixed annual payment to ADP Private Ltd is INR 1.55 million.

3. PURCHASING ACTIVITIES AUTOMATION – ASSET CLASS: TRANSACTIONAL

INDUS has automated all steps of the purchasing process, including raising requests for quotation, generating purchase orders, invoice checks and recording of payments. The automation of the purchasing process helped INDUS significantly increase its operational efficiency. Additionally, the application facilitates better monitoring of inventory, supervision of

the purchasing process and final delivery, and vigil over purchasing expenses and redundancies. Maintenance cost for this system during 2013-14 is estimated to be INR 1.50 million.

4. MFG/PRO ERP MAINTENANCE – ASSET CLASS: INFORMATIONAL

In 1995-96, INDUS was one of the few companies to adopt ERP systems for manufacturing and distribution. It used QAD's MFG/PRO as the ERP package. MFG/PRO helped INDUS gain significant benefits within the organisation. The manufacturing and distribution modules of MFG/PRO facilitated better inventory planning and more timely co-ordination of deliveries.

The company faced some initial problems with user adoption, structural changes and process revisions in the Operations department. However, with time, the company successfully overcame these challenges to realize cost efficiencies. Maintenance and support is idiosyncratic to each business location. This is because the MFG/PRO is not an integrated ERP application and does not require centralized management. The maintenance and administration costs of this system are estimated at INR 2.22 million for 2013-2014.

5. PLANT MAINTENANCE SYSTEMS – ASSET CLASS: TRANSACTIONAL

This application facilitates the maintenance of various IT systems used at the production facilities. It included process control devices and systems, SCADA systems¹, line-monitoring systems etc. These systems form the backbone of manufacturing at INDUS. Any failure of these systems will result in heavy losses in terms of production hours. INDUS incurred additional expenditure of INR 1.75 million in 2011-12 and INR 1.10 million during 2012-13 to strengthen these systems. The annual maintenance of these systems is estimated at INR 3.40 million for 2013-2014.

6. INFORMATION SECURITY & DISASTER RECOVERY SYSTEMS – ASSET CLASS: STRATEGIC

INDUS' growing dependence on IT systems mandated the installation of information security and disaster recovery processes. In 2012 the company put an IT security policy in place which checks and tracks fraudulent e-mails and conducts ethical hacking to ensure that the company's network is safe from external threats. The incremental software cost incurred for this application during 2012-13 was INR 2.50 million. Investments in information security are critical

¹ SCADA (supervisory control and data acquisition) generally refers to industrial control systems: computer systems that monitor and control industrial, infrastructure, or facility-based processes. These are centralized systems which monitor and control entire sites, or complexes of systems spread out over large areas (anything from an industrial plant to a nation). [Source: Wikipedia]

and may increase in the future. The budgeted expenditure for this system during 2013-14 is INR 2.25 million.



7. BUSINESS INTELLIGENCE SYSTEMS – ASSET CLASS: STRATEGIC

Business Intelligence (BI) Systems enable companies to make more informed business decisions in response to changing economic and market conditions. INDUS has already started investing in data warehousing, data mining tools, business analytics programs and Online Analytical Processing (OLAP). The strategic importance of BI is reflected in the huge investment of INR 12 million that the company made in this regard. However, investments in BI are currently underleveraged, resulting in significant costs and sub-par performance. The biggest challenge is lack of accurate and integrated data. Given the poor return on investment on this initiative, INDUS is considering selling its BI assets in the current year, which may prove difficult at a later point in time. Budget for 2013-14 for maintenance of these systems is INR 2.03 million.

8. COMPLIANCE SYSTEMS – ASSET CLASS: INFORMATIONAL

Today companies are governed by a complex web of regulations, laws, voluntary codes, industry codes, and corporate policies. Compliance with these regulations is not an easy task as there are continuous changes, amendments and overlaps. Inability to comply with the regulations can lead to large penalties or even temporary suspension of operations. Hence, compliance is about protecting an organisation's license to operate. Lack of compliance introduces a substantial financial and operational risk to an organisation. As a result, compliance is very closely related to risk management.

INDUS' Compliance system includes:

-  Financial and Regulatory compliance
-  Process Compliance

In 2012-13 INDUS made an additional investment of INR 4.5 million to strengthen this system. Estimated expenditure for maintaining this system during 2013-14 is INR 1.75 million.

9. FINANCIAL SYSTEMS – ASSET CLASS: TRANSACTIONAL

The financial systems currently used at INDUS take care of General Ledger, Accounts payable and receivable, reporting and other bookkeeping requirements. The financial systems are not yet integrated with the ERP system for all business locations. The budget for maintenance of the financial system during 2013-14 is INR 1.98 million.

IT EXPENDITURE SUMMARY (2011-2013)

(AMOUNTS IN INR MILLION)

IT Projects	2011 -2012		2012 -2013	
	Maintenance Expenditure	Incremental Expenditure	Maintenance Expenditure	Incremental Expenditure
Operations				
MFG/PRO ERP Maintenance	2.21		2.21	
Purchasing Activities Automation	1.50		1.50	
Production & Plant Maintenance Systems	3.25	1.75	3.40	1.10 ¹
Finance				
Compliance Systems	1.75		1.75	4.50 ²
Financial Systems	1.98		1.98	
HR				
Employee Connect	2.50	1.50	2.50	
Payroll & Tax Processing	1.75		1.75	
IT				
Business Intelligence Systems	1.50		1.50	10.50 ³
Information Security & Disaster Recovery Systems	2.25		2.25	2.50 ⁴
	18.71	3.25	18.86	17.10
Total Application Costs	21.96		37.46	
Employee Costs				
Salaries and Wages	9.50		14.25	
Training	5.00		6.00	
Infrastructure Costs	23.00		31.50	
Total IT Expenditure		59.46		89.19
Expenditure as % of Sales		0.73%		1.13%

¹ Cost for development of a new interface to introduce two new process controls in the production process

² New modules were added to the compliance systems in 2011-2012. The costs of this system will revert to the annual maintenance costs of INR 1.75 million in 2012-13.

³ As indicated in the description of the projects, the extant business intelligence system was significantly enhanced to accommodate new competitive capabilities. This system will get into maintenance mode in 2012-2013. Annual maintenance costs will increase to INR 2.03 million.

⁴ In addition to the annual maintenance costs of INR 2.25 million, INDUS will invest INR 2.50 million in development of new security features in 2012-2013.

IT BUDGET 2013-2014

The IT budget for 2013-14 is INR 145 million. The total expenditure is divided between maintenance expenses and incremental expenses.

Maintenance expenses typically include the following:

1. Routine system upgrades
2. System support
3. Annual license renewals

Incremental expenses typically include the following:

1. New application development
2. Addition of new features, modules or interfaces to extant applications
3. Consulting expenses

In addition to the maintenance costs and incremental costs already committed for 2013-14, salaries & Wages for the current portfolio of projects are budgeted @ INR 15.15 million and Training Costs @ INR 6.75 million. Infrastructure cost is budgeted @ INR 42.50 million.