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Revlon's ERP Implementation Failure

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Abstract

ERP implementation can be considered the biggest investment the company might have. It requires resources, time, and effort. However, it became highly needed, especially for large companies. One of the ERP many benefits is to have quick access to information so business leaders make decisions in timely manner. In this case study, we review Revlon the major player in the world of cosmetics industry. They had an unsuccessful ERP implementation project, which caused huge losses and its investors filed lawsuits against the company. In this paper, we will review how Revlon reached the level of failing the ERP implementation project. We will address the implementation issues throughout the paper and at the end of it.

Keywords: *Revlon, ERP, Implementation, Failure*

Introduction

One of the essential technological components in large companies is the ERP system (Enterprise Resource Planning System). Large businesses implement the ERP systems in order to integrate their different departments of the business. For example, Finance department, Human resources, and logistics.

Although, implementing an ERP system requires a huge amount of money, resources, time and effort, it still provides many advantages. One advantage is the business leaders can make more accurate and timely decisions. Once they have all the information accessible and available they can come up with the right decision based on those information. Another advantage is that the businesses will have more capacity to grow. Once the business have applied ERP system it can store more data i.e. more orders more clients etc. In addition to easy access and a quicker way to retrieve information, they will have more chances to grow as an enterprise. Finally, implementing an ERP system will reduce costs in the long run. For example, if each department had a different type of software, integration those applications together will require more time and more effort. Moreover, they will need more service support from the IT department. All in all, implementing an ERP system has many advantages that could benefit the business despite its high implementation cost.

Many large companies start to implement ERP systems after they have already reached to a certain level of the business. In other words, this company could have been already used to other software applications or to a certain way of work. Acquiring the new ERP system will require a big change in the process and maybe a new style will be implemented to the company culture. As a result, this kind of investment may face many challenges along the implementation

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period, which can take up to years. The challenges could cause damages to the company process and then it could lead to a failure in the implementation project. There are many different actual cases of failure ERP implementation in the recent years. In this paper we will review a case about Revlon, a giant cosmetic company that owns many beauty, skin care, and fragrance brands. We will be looking at how that ERP implementation reached to a failing point, what are the reasons that caused the failure, and how they could have been fixed.

The Company's Background

In 1932, Charles and Joseph Revson, along with chemist Charles Lachman, established Revlon. They produced an invisible nail polish that came in a variety of colors and quickly became popular. Revlon became public in 1955 and proceeded to develop internationally. Other sorts of beauty items were also introduced by the corporation. In the 1960's the company acquired other businesses to diversify its products and also partnered with a famous designer, Norman Norell, and launched America's first designer fragrance which exceeded \$ 1 Million dollars in its first year of sales (Revlon, 2021).

Revlon went through a period of change in the 1980s. Ronald Perelman (Perelman) bought Revlon in 1985 through his investing business MacAndrews & Forbes. Revlon was taken private again by Perelman in a leveraged buyout, which left the company with a huge amount of dollars debt load. He sold off several of Revlon's earlier purchases. However, by the mid-1980s, Revlon's success had been eroded by competition from the Estée Lauder Companies Inc. c (Estée Lauder) and CoverGirl d brands. After that, in the 1990's the company was able to turn things around. They appointed a new CEO and they were able to go public again. After a few years, Revlon saw a powerful new impact in the 2000s. Gucci Westman, a well-known makeup artist, joined the firm as Global Artist Director, catapulting the brand to the front of fashion and trend (Madmedic, 2019).

The Beginning of ERP Implementation

In 2013, the company introduced Microsoft Dynamics as the new ERP system to bring the company's many companies together and make it function as one organization. Within Revlon, there were 50 separate business entities, each with its own ERP system. The management merged 21 different systems into one ERP system. By the mid and late 2010s, Revlon acquired different cosmetics companies to expand the company's portfolio and compete with the largest cosmetics brands in the world. In 2016, specifically, Revlon completed the acquisition of a major cosmetics company, Elizabeth Arden, which was valued at that time around \$ 870 Million. By 2019, Revlon became one of the leading beauty and cosmetics companies in the world. Its products were sold in more than 150 countries around the world including famous celebrity fragrances, skin care, hair care, and other products (Jones, 2019).

The ERP Failure

Prior to the New ERP Implementation

After the merger with Elizabeth Arden, the two companies wanted to improve their income and try to mitigate their losses which they both suffered during the past few years. The CEO of Revlon and management announce a major restructuring in the company. The restructuring was needed to accommodate the new brands and product lines that acquired during the merger. They decided to divide the sales division into four major brand groups: Revlon, Elizabeth Arden, Fragrances, and Portfolio Brands. Furthermore, they decided to reconstruct the

functional departments such as Human Resources and Finance, in order to support the sales team and increase the company's income (BusinessWire, 2017).

Many scholars propose the following grounds for the restructuring: operation operational synergy, financial synergy, diversification, and economic objectives. One of the most important strategies for improving a company's financial status is restructuring. Restructuring has a variety of motivations, but the end goal is to raise the company's value and strengthen its financial situation (Mavlutova, et al., 2021).

Implementing SAP S/4HANA

Revlon needed to streamline its procedures across business groups as part of the reorganization. Both companies decided to integrate their ERP systems and simplify their operations. Elizabeth Arden was one of the first companies to use Oracle Fusion Applications h, whereas Revlon used Microsoft Dynamics AX. Because most of Revlon's acquired brands were SAP-based, the business decided to upgrade to SAP S/4HANA.

In the beginning of 2018, Revlon announced the launching of SAP S/4HANA. The new ERP system was assigned to integrate the different department of the company including planning, procurement, production, distribution, and finance for a substantial portion of its North American operations. This migration was conducted to improve the performance of Revlon by supporting new customer technologies and procedures. This was supposed to be the final significant ERP rollout. While Revlon changes the ERP system to SAP S/ 4 HANA, Elizabeth Arden chose to install JD Edwards business' ERP system, was an enterprise resource planning software company (Jones, 2019).

Emerging of the Problem

Revlon installed SAP S/4 HANA at its manufacturing plant in Oxford, North Carolina, to combine the supply chain activities, as well as financial operations. However, things started to go downhill from there. Revlon's acquisition of Elizabeth Aden while both companies in bad shape did not help for a fast and healthy start of the merger. The company started to have problems merging its recently purchased business' operations, procedures, and organizational structure. In addition, Revlon and Elizabeth Arden were fighting to stay relevant in a congested beauty business, with customers flocking to specialized boutiques or ordering makeup and cosmetics online. Overall, the company faced operational challenges during the first two years and suffered losses at the same time of implementing the new SAP S/4 HANA ERP system.

In early 2019, the Revlon announced it will be late for the deadline for completing its 2018 annual report due to issues with a new ERP software system in the United States. The company said that it found material weaknesses in the 2018 financial reports. According to reports, due to production stoppages at the Oxford, NC manufacturing plant, where the business launched its first SAP implementation, the company encountered shipment delays, unfulfilled orders, and lost sales.

After the management investigated the late submitted 2018 financial reports, they found that it happened because of mainly two reasons. The first one is, when the company implemented the new SAP ERP system they did not have an effective risk management plan. They could have assessed the possible risks for the financial reporting and put a response action. In addition, the investigation found that Revlon did not have a sufficient number of knowledgeable, trained employees in the US operations, who were in charge of operations and

financial reporting.

The Effect of the Failure

Revlon's ERP transition turned out to be a disaster. The company's business operations and customer service levels were disrupted by the new ERP system, which had a negative impact on its complete business aspects. According to reports, the implementation of the new system put more load on the company's management team and workforce, diverting their attention away from other business objectives. The company incurred million of dollars loss in operation cost and in lost sales. In addition to other consequential failures such as delay in payments to suppliers and delay in federal and states' reporting's. The poor preparation led to disastrous implementation of the ERP system which contributed to a net loss of \$ 294.2 Million in the year 2018 (see figure). That led to drop in the stock prices, which had the investors file law suits against the company in 2019.

Points that Revlon could have Fixed the ERP Implementation Process at Revlon

Flexibility Alignment with Business Performance

Taskin et al. (2014) looked at different ways to inspect business performance, such as profitability, productivity, and growth. In this case, we can examine the business performance from an overall view. Revlon could have implemented flexible alignment with the business processes.

The Taskin et al. research showed that strategic ES flexibility has an indirect effect on business performance through alignment. The research findings indicated that flexibility had an impact, as it had been expected. In addition, alignment has an influence on performance. Alignment in this research investigates the relationship between flexibility and productivity, as well as performance.

The methods in the study have found that alignment has a strong relationship with business performance. In addition, individual investigations of flexibility and performance, as well as alignment and performance, indicate that all these variables are related.

All in all, the alignment of Enterprise Systems with business strategies, as well as its flexibility, could have helped a lot Revlon in is ERP implementations.

Methods in ERP Implementatio

The authors Schniederjans and Kim (2003) discussed the effects of Total Quality Management (TQM) and Business Process Reengineering (BPR) on the ERP implementation from different thoughts and perspectives. First of all, they think if we consider Total Quality Management and Business Process Reengineering separately it will mean two different things. BPR is a radical and dramatic change, while TQM is a continuous improvement to the ERP implementation. However, when they discuss TQM and BPR together to prevent ERP implementation failure, they propose a few different opinions. Some researchers think that BPR is a step to be applied before the planning stage. And the TQM to be applied before the performing stage. Other researchers think that TQM and BPR can be applied together. TQM is continuous development and improvement of the procedure were applied to the implementation of ERP system. It also enhances the cross-functional roles between different

departments inside and outside the organization. At the same time, BPR can work to radically change a complete process to achieve a major improvement in areas such as minimizing cost, quality improvement, flexibility or other areas. All in all, the authors think that Total Quality Management and Business Process Engineering can work together to avoid ERP implementation failures. And that is the TQM set the environment by solving cultural issues within the organization then the BPR can be applied and enabled.

In Revlon, there was a failure probably because the organization must move through three different phases. Those phases are unfreezing, altering, and refreezing. Nevertheless, BPR, which comes before implementing ERP system in both sequences, is clearly an excellent "unfreezing" method for getting the company ready for ERP. The use of TQM to begin the unfreezing phase and then the use of BPR to accelerate the unfreezing phase more radically might be logically considered as a more temperate approach to this phase in some businesses, particularly in bigger firms.

ERP Implementation Steps

Probably Revlon has tough times during implementation of their ERP system due to the low sales in both Revlon and Elizabeth Arden. However, the book "Modern ERP" states that the stage of implementation is when the actual work begins. Installation, customization, configuration, change management, data transfer, testing, and training are all part of the implementation process. There are several considerations to consider in each of these actions. For example, many sorts of testing on the ERP system must be completed before to go-live, including data, interfaces, security, and functionality tests. The training budget should include a variety of strategies, including train-the-trainer, but users must be taught ahead of time so that this crucial component of the implementation does not go unnoticed. Because many users' occupations may change, change management is also an important task. Training, communication, and education are all parts of change management. Consultants are frequently hired to provide knowledge in important areas including project management and configuration. However, the corporation must take care not to "give over" the implementation to consultants. No one knows the business the way its owners and leaders do. There are various strategies used to implement ERP include big bang, phased, and parallel (Bradford, 2015).

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