CASE-IN-POINT: PERDOMO CIGARS ERP JOURNEY FROM INCEPTION TO CURRENT DAY OPERATIONS

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This case study for Perdomo is a story of how a family business tailored their ERP system to help them gain control of their business and grow into an international organization.

As part of the Perdomo review, we have included references for Best-in-Class companies vs. All Others for similar activities to provide a context for the actions that Perdomo undertook in their journey to achieve an end-to-end ERP solution.

Perdomo: Business and History

Perdomo Cigars is one of the few remaining family-owned and operated cigar manufacturers in the world today. Headquartered in Miami, Florida, with agricultural and manufacturing facilities in Estelí, Nicaragua, Perdomo is a vertically integrated cigar manufacturer that controls every process from seed to smoke. Perdomo employs over 4,000 workers in Nicaragua, has a staff of 20 employees at their distribution center in Miami, and has 14 sales representatives managing targeted sales areas throughout the United States. Celebrating their 28th year in the industry in 2020, Perdomo is world-renowned for offering the finest premium handmade cigars that set the industry standard for quality and flavor.
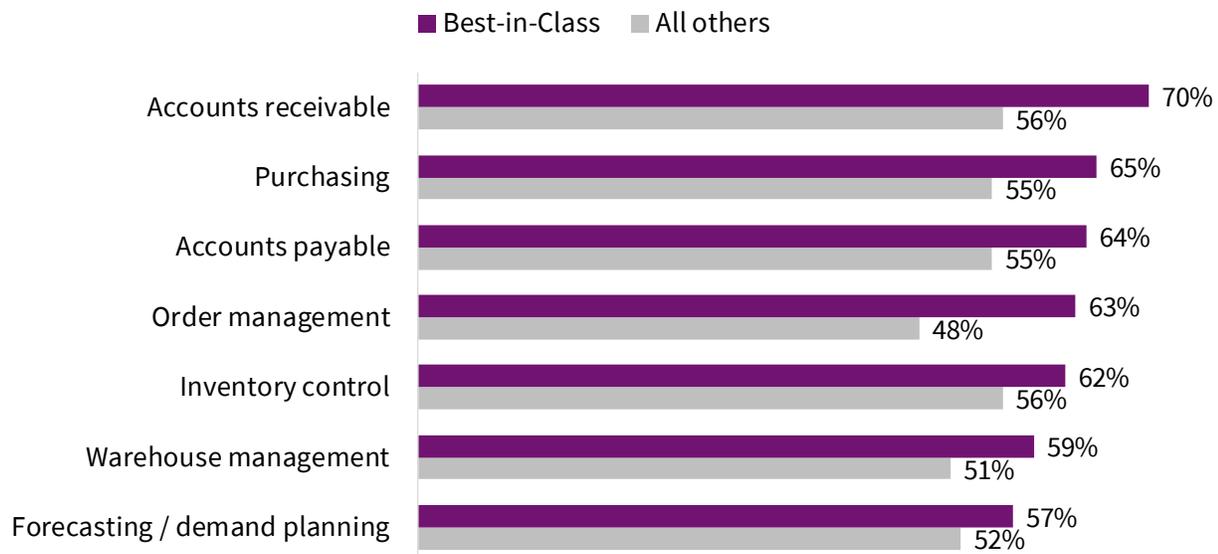
The Systems: Phase 1 Miami

The story begins when Nick Perdomo, Jr. was introduced to Juan Liranzo through a mutual acquaintance in 2000 who suggested that they speak to discuss some of Perdomo's operational and system management issues. At the time, Juan was on active duty in the Navy which provided him with a strong background in aviation systems

management. Two years prior to Juan joining Perdomo as a part time advisor while still serving in the Navy, Perdomo installed the Sage 300 system (known as ACCPAC at the time) at their Miami distribution center to manage their customer orders, shipments, and financials. The Sage 300 business management solution at the time was comprised of the financial, accounting, inventory, sales order management, purchasing, shipping, and receiving modules / applications. One of the issues the business management solution needed to address was the ability to financially handle multiple entities within the accounting structure for intercompany transactions and consolidation requirements.

Figure 1 shows that the Perdomo business management solution is very close to that of what Best-in-Class companies (top 20%) would deploy. Note that the adoption levels for All Others (bottom 80%) is far less in comparison.

Figure 1: Best-in-Class ERP Footprint for Order Management

Best-in-Class   All others

Category	Best-in-Class	All others
Accounts receivable	70%	56%
Purchasing	65%	55%
Accounts payable	64%	55%
Order management	63%	48%
Inventory control	62%	56%
Warehouse management	59%	51%
Forecasting / demand planning	57%	52%

After Juan began working to optimize Perdomo's Sage 300 system performance, the system management issues, including hardware and resulting implementation problems cleared up, and the Miami operation moved forward. In 2004, Juan engaged with Peter Kaufmann from ADSS, a software implementation firm with experience in Sage

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300, to handle some of the changes and modifications, such as adding barcoding and scanning software for the warehouse and shipping operations in Miami. This made Perdomo much more efficient by automating many manual tasks. The barcoding and scanning made a significant difference in their efficiency and accuracy within the warehouse and tighter control over their fulfillment operations. Following these improvements, the fulfillment operations were running smoothly.

Maturity Matrix: Best-in-Class Definition

The Aberdeen maturity class framework is comprised of three groups of survey respondents used to determine overall company performance. Classified by their self-reported performance across several key metrics, each respondent falls into one of three categories.

➔ Best-in-Class: Top 20% of respondents based on performance

➔ Industry Average: Middle 50% of respondents based on performance

➔ Laggard: Bottom 30% of respondents based on performance

➔ All Others: Aggregate of average and laggard respondents

Table 1 defines the performance by maturity class levels of the Best-in-Class vs. All Others for ERP software usage.

Table 1: Maturity Class Matrix

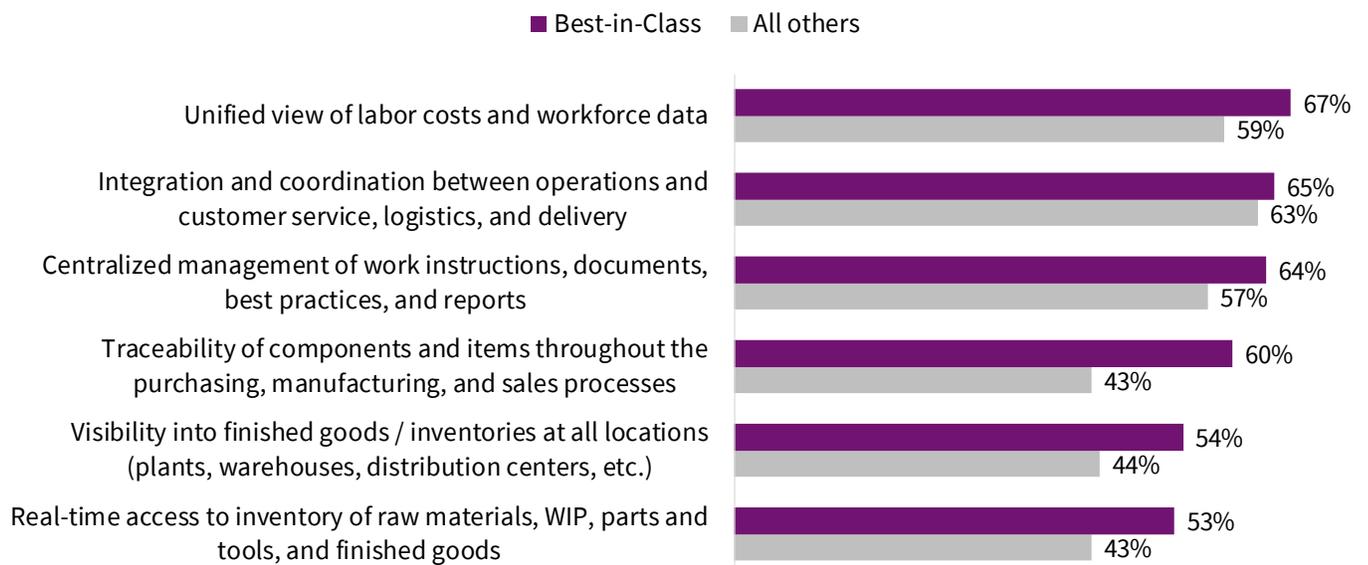| Performance Metric	Best-in-Class	All Others
Current percent of complete and on-time delivery	97%	83%
Current percent of projects that follow compliance procedures	96%	81%
Percent change in profitability over the past 2 years	+17.8%	-2.97
Percent change in productivity over the past 2 years	+21.9%	-1.3%

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The performance of the Best-in-Class is significantly better across the board for customer service, profitability, productivity, and project management performance. Best-in-Class companies are also more advanced in their warehouse operations (see sidebar). These operations align with Perdomo's warehouse and shipping capabilities at their Miami location.

Phase 2: Nicaragua

The next step was to take Sage 300 to Nicaragua. Juan retired from the Navy in 2009 and joined Perdomo full time, at which point, the plan to implement the system in Nicaragua began. At the time, Nicaragua operations were pen and paper, with some spreadsheets — making it almost entirely manual. The initial phase involved the financial and accounting applications followed by inventory, which resulted in a significant boost in efficiency and productivity for the accounting department. The new-found control and visibility provided a strategic advantage by knowing inventory location and value instantly.

Figure 2 shows the efficiency gained by implementing a complete ERP system that incorporates manufacturing operations, financials, and order management processes. Standardization, inventory and process visibility, and access to data are all enhanced with a connected ERP implementation

Best-in-Class Warehouse Operations

➜ Process warehouse activities without paper

- o Best-in-Class: 70%
- o All Others: 38%

➜ Practice advanced picking and replenishment

- o Best-in-Class: 58%
- o All Others: 28%

➜ Central direction of warehouse processes

- o Best-in-Class: 63%
- o All Others: 38%

➜ Improve throughput through systems / automation (scan / voice)

- o Best-in-Class: 63%
- o All Others: 39%

Figure 2: Value of an Integrated ERP Solution

■ Best-in-Class ■ All others

	Best-in-Class	All others
Unified view of labor costs and workforce data	67%	59%
Integration and coordination between operations and customer service, logistics, and delivery	65%	63%
Centralized management of work instructions, documents, best practices, and reports	64%	57%
Traceability of components and items throughout the purchasing, manufacturing, and sales processes	60%	43%
Visibility into finished goods / inventories at all locations (plants, warehouses, distribution centers, etc.)	54%	44%
Real-time access to inventory of raw materials, WIP, parts and tools, and finished goods	53%	43%

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"We went from weeks to create and package and a shipment, down to days just due to the improvement in packaging efficiency using the scanning software in conjunction with the Sage 300 software"

Juan Liranzo, Perdomo Cigars

Because of the drying and fermentation processes, the tobacco could be stored up to 6 years. Therefore, getting a handle on the inventory value added real control to their financial reporting and manufacturing planning. Integrating their manufacturing and inventory operations into their ERP system was the next phase, which again improved efficiency, control, and visibility across their entire production operation.

The biggest challenge to overcome was implementing the system in the packaging department because of the complexity involved. For context, in a cigar product line, there might be three strengths — mild, medium, and full-bodied. Within all three strengths, there are different lengths and shapes available. This myriad of combinations for cigars offered within a given brand makes the packaging process tedious and detailed.

When they hit several snags implementing the system in their packaging department, Perdomo called up Peter Kaufmann and Maria Colina for help. They delivered with a way to implement the Sage 300 solution that worked well. A key piece was implanting a third-party barcoding and scanning capability as part of the solution to automate the inventory updates and improve the speed of their entire packaging operation. Similarly, automation is a real enabler for Best-in-Class companies in terms of warehouse productivity (see sidebar).

As Juan indicated, they went from weeks to create and package a shipment down to days just due to the improvement in packaging efficiency. The time frame for completely transitioning Nicaragua operations to their ERP system was approximately four years, beginning in 2010 and ending in 2014.

Phase 3: Current and Future Projects: eCommerce and Sales Automation

The end of implementing their Sage 300 system in Nicaragua was not the end of Perdomo's ERP journey, but rather the beginning for Perdomo to have their entire organization on the Sage 300 system. This was a tremendous success in terms of control, visibility to their inventories, efficiency improvements in their operations, and

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productivity gains, not to mention their tighter control over commitments and customer fulfillment improvement. In 2014, Perdomo added a POS system for their customer lounge at their Miami headquarters to make it easier for their visitors to buy products on-site. They also upgraded and improved their analytics capabilities using Peter Kaufmann's proprietary third-party software working with Sage.

Figure 3 indicates the applications that are likely to be involved in sales automation and eCommerce initiatives. In each case, Best-in-Class companies are more likely to have adopted automation technology than their competitors.

Figure 3: Sales Automation Process Improves Efficiency
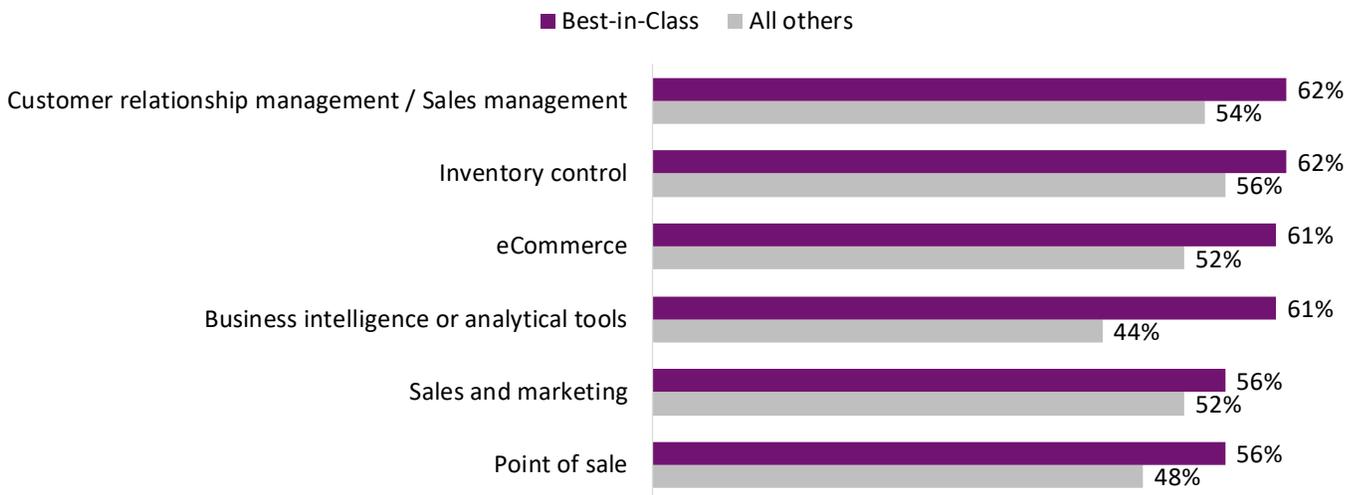
One of the latest projects Perdomo has implemented is the capability for sales representatives to enter orders from the field via mobile devices. This has minimized delays and increased daily revenue by reducing phone-in orders and increasing order volume via Sage automation. Furthermore, they now transfer these orders to the "UPS world ship software" for shipment, with no further manual rekeying. The net result is a further improvement of Miami's fulfillment operation.

Perdomo is currently in the final stages of automating their eCommerce implementation that offers company gear to a global

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audience. Orders submitted via perdomocigars.com are routed automatically into their Sage 300 system and processed for fulfillment and shipment on the same working day received.

Perdomo Accomplishments

Over the course of their ERP journey, there were major hurdles for Perdomo to overcome. Table 2 indicates some critical KPIs that Perdomo is willing to share as a private company regarding their process improvements from implementing Sage 300 in their Miami operations in Phase I and their manufacturing operations in Nicaragua in Phase 2.

Table 2: Perdomo Performance Accomplishments

Performance Metric	Perdomo
Same day order processing / shipment - Miami	100%
Percent improvement in productivity - Miami	+40%
Inventory accuracy - Miami	100%
Percent change in productivity for Sales order entry and automation - Miami	+85%
Shipping department automation - Miami	+80%
Online orders from manual to automated processing - Miami	100%
Percent improvement in productivity for boxing and packaging operation - Nicaragua	+75%
Inventory accuracy (+/- 5% due to humidity changes) - Nicaragua	95%

Perdomo has clearly gotten their inventory accuracy into the range of Best-in-Class companies at 100% for the Miami order management / warehousing / shipping operation, as well as Nicaragua ~95% depending on humidity. Humidity plays a role in Perdomo's operations in Nicaragua because dryer weather causes the tobacco to shrink and become brittle, which can result in a loss of inventory. With such fluctuations, the storage and curing process, which can sometimes last up to 6 years, benefits immensely from greater visibility and control over inventory. Having exact or near exact knowledge of the location and quantity of available products influences both shipping efficiency

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and predictive modelling for future manufacturing and necessary storage space.

Productivity also stands out as a significant improvement — up 40% for the Miami operation and up 75% for the Nicaragua packaging and boxing operation, which was one of the tougher implementation challenges.

From a customer service perspective, Perdomo ships 100% of online orders in the same day, which could not have happened without their process streamlining and productivity gains. To further drive improvement, their sales order automation yielded an 85% productivity gain.

Overall, Perdomo indicates they are certainly operating in the ranges of Best-in-Class companies for the metrics that have been reported for their Sage 300 implementation.

Summary and Key Takeaways

It is not often that we get to view the story of an ERP implementation over the span of roughly 20 years from beginning to end, but Perdomo certainly qualifies. They adopted solutions when they were ready and when the time was right, because their existing processes were holding them back. They did it in phases and currently have Sage 300 implemented at all their locations from farm to retail. The Perdomo / Sage partnership has been vital in their ability to continue thriving, even considering the current economic downturn and health crisis.

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