

ROI Case Study: Microsoft Dynamics GP MAAX Spas

THE BOTTOM LINE

Deploying Dynamics GP to manage all its operations helped MAAX Spas automate manual efforts and improve visibility into manufacturing processes. The greatest benefits from the Dynamics GP solution have taken the form of reduced staffing costs, reduced capital tied up in inventory and finished goods, and reduced warranty costs.

ROI: 161%

Payback: 1.34 years

THE COMPANY

MAAX is the leading manufacturer of bathroom fixtures and accessories in Canada, and one of the six largest in North America. MAAX makes a range of products including bathtubs, tub showers, faucets, medicine cabinets, kitchen cabinets, and spas. Enterprisewide sales totaled more than \$600 million for the most recent fiscal year. The MAAX Spas sector of the company operates divisional plants in Arizona, British Columbia, and Ontario.

THE CHALLENGE

As early as 1998, MAAX Spas identified the need for a new, integrated software package to manage its operations. The company's three regional divisions each battled problems associated with aging, inadequate systems: the ERP software on which the Arizona division depended was running on software written for the IBM System/36 platform; the British Columbia division had no software to support inventory control, and proprietary ERP system used at the division in Ontario was unreliable. Lacking software support for many basic processes, all three plants relied heavily on manual efforts, keeping labor costs higher than necessary.

The three divisions also wanted to centralize some of their systems in order to standardize processes and reduce overhead. Using any of the existing software at any of the three divisions as a platform for consolidation was out of the question. And regardless of the course of action taken by MAAX Spas, it needed to fit into a broad corporate ERP initiative that had been based on SAP solutions.

THE STRATEGY

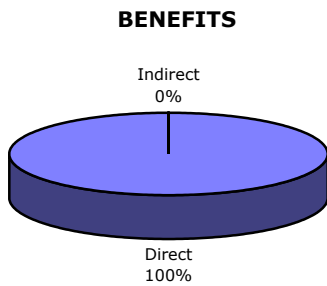
During 2001, a team of managers at MAAX Spas in Arizona decided that they could not afford to wait any longer for a new system. Based on informal evaluations that the team had conducted over the previous five years, the company created a short list including Dynamics GP, Epicore, BEST Software and a few other vendors specializing in midmarket enterprise software solutions. The team chose Dynamics GP for several reasons, including the following:

- Dynamics GP, like the other solutions, provided the core financial applications required by MAAX Spas.

- Dynamics GP offered strong support for MRP, CRM, and manufacturing including modules for returns and warranties. Because MAAX Spas applies a ten-year warranty to some of its products, those modules were critical.
- Dynamics GPs' acquisition by Microsoft in 2001 gave the team greater confidence that they would be offered upgrades and feature enhancements on a regular basis.

In March 2002 MAAX Spas kicked off the deployment in Arizona. Working with systems integrator EPartners, the internal team established requirements and identified business processes that would have to be standardized for all three divisions, like parts numbering and the keeping of general ledgers. By May, the installation and configuration of the software in the Arizona division was complete.

Working with progressively less help from EPartners, MAAX Spas brought the two divisions in Canada onto the system via a VPN. The deployment team decided to allow extra time to accommodate the manufacturing calendar and to make sure that each site's deployment was as stable and complete as possible. British Columbia went live in November and Ontario, in March 2003.



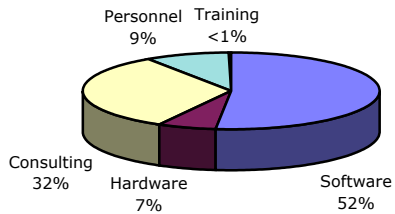
3-YEAR TOTAL: \$2.1M

KEY BENEFIT AREAS

Deploying Dynamics GP to support operations at MAAX Spas' three divisions has yielded a wide range of benefits. The most significant of these include the following:

- **Reduced personnel costs.** The Dynamics GP solution has reduced the manual labor requirements associated with tasks like checking inventory, creating bills of materials, managing manufacturing order processing, and entering sales data into financial accounting software applications. As a result, MAAX Spas has been able to reduce staffing costs in several departments through reduction and reassignment.
- **Reduced inventory costs.** Increased visibility into raw materials and manufacturing orders has given MAAX Spas the means to reduce the capital tied up in finished goods on hand, work in progress, raw materials, and inventory scrap. In all, Dynamics GP is driving a 10 to 15 percent reduction in raw materials inventory across the three divisions.
- **Reduced receivables.** Reducing the number of days that sales are left outstanding adds about \$100,000 to MAAX Spas's bottom line every year.
- **Reduced warranty costs.** Having a reliable, consistent database of warranty information and product returns means that MAAX Spas now knows when incoming warranty claims are invalid, can confirm receipt of goods returned by buyers, and can better handle the company's own returns to its vendors. In a typical year, these changes can save MAAX Spas almost 5 percent of its historical warranty-related costs.

COSTS



3-YEAR TOTAL: \$437,181

KEY COST AREAS

Consulting and software expenses made up most of the total three-year project costs for MAAX Spas' Dynamics GP deployment, accounting for 52 percent and 32 percent, respectively. Personnel costs amounted to 9 percent. New hardware, including a database server and an application server, added 7 percent to the project costs. Because training was managed as a skills transfer at the Arizona division and then conducted via Web-based peer training, the cost was minimal.

LESSONS LEARNED

MAAX Spas' deployment team encountered few problems during the project. The team attributed part of this success to the strategy of allowing time for each of the sites to "gel" before proceeding to the next division. In this way, each subsequent deployment could be executed with greater confidence, quality, and speed. The team also credits their success to intense work with EPartners at the Arizona site; leaning on EPartners' expertise not only ensured a smooth first deployment but also enabled MAAX Spas's internal team members to learn enough in Arizona that they could then deploy the Canadian sites with little assistance.

CALCULATING THE ROI

Nucleus quantified the costs of software, hardware, consulting, personnel, training, and other investments over a 3-year period to quantify MAAX Spas' total investment in Dynamics GP. Direct benefits calculated included reduced personnel costs, reduced inventory costs, increased revenue from reduced receivables, and reduced overpayments on warranty costs.

SUMMARY

Project:	Microsoft Dynamics GP
Annual return on investment (ROI)	161%
Payback period (years)	1.34
Net present value (NPV)	503,526
Average yearly cost of ownership	145,727

ANNUAL BENEFITS	Pre-start	Year 1	Year 2	Year 3
Direct	0	200,500	975,959	909,334
Indirect	0	0	0	0
Total Benefits per Period	0	200,500	975,959	909,334

DEPRECIATED ASSETS	Pre-start	Year 1	Year 2	Year 3
Software	118,805	28,896	0	0
Hardware	28,447	0	0	0
Total per Period	147,252	28,896	0	0

DEPRECIATION SCHEDULE	Pre-start	Year 1	Year 2	Year 3
Software	0	23,761	29,540	29,540
Hardware	0	5,689	5,689	5,689
Total per Period	0	29,450	35,230	35,230

EXPENSED COSTS	Pre-start	Year 1	Year 2	Year 3
Software	0	26,000	26,000	26,000
Hardware	0	0	0	0
Consulting	77,500	64,027	0	0
Personnel	39,746	0	0	0
Training	0	1,760	0	0
Other	0	0	0	0
Total per Period	117,246	91,787	26,000	26,000

FINANCIAL ANALYSIS	Results	Year 1	Year 2	Year 3
Net cash flow before taxes		79,817	949,959	883,334
Net cash flow after taxes		40,186	492,594	459,282
Annual ROI - direct and indirect benefits				161%
Annual ROI - direct benefits only				161%
Net present value (NPV)				503,526
Payback (years)	1.34			
Average annual cost of ownership		385,181	205,591	145,727
3-year cumulative ROI	245%			
3-year IRR	98%			

FINANCIAL ASSUMPTIONS

All government taxes	50%
Discount rate	15%

All calculations are based on Nucleus Research's independent analysis of the expected costs and benefits associated with the application profiled in the accompanying case. Financial modeling tool, format, and methodology copyright Nucleus Research Inc., all rights reserved.