

Improve Your Business

Eight examples illustrate cost cutting, labor savings, and improved profitability that can result from self-funding improvements that automate processes using already available software.

By Tim Allen

There's a burning pain in companies today as the cost of business skyrockets while the ability to lower headcount and expenses has hit bare bone. Frustrations run deep as executives yearn to run leaner, faster, and cheaper.

And the aching question in the back of many CFO minds goes directly to their disappointment with an apparently inefficient enterprise resource planning (ERP) system: Why isn't it helping the company cut costs?

The answer to ERP's return on investment (ROI) goes beyond the purchase of functionality to the deeply established policies and procedures that define a company's business processes. Unless operational and supporting processes are aligned with the software, the efficiency of an ERP system suffers tremendously.

The Horizontal Nature of ERP Systems

Unfortunately, companies are plagued by "vertical thinking"—single division or department tasks. Executives need to think about their businesses horizontally, which is how ERP systems are made to work. When horizontal processes that span the entire enterprise are aligned within a horizontal system, significant cost savings result.

Consider the classic case of procurement incentives: Most

purchasing departments buy using the purchase price variance (PPV) approach to find the lowest possible cost of goods. Their year-end bonus is predicated on this one metric. But that's vertical thinking. Even at the best price, goods that have to be transported, handled, and stored create new costs downstream for manufacturing and distribution. Waste can occur through damage, perishability, and quality issues.

"Horizontal thinking" would take into account the total cost of ownership (TCO) to procure goods. Although this can be difficult to measure because of all the variables, the underlying processes can be identified, mapped out, and aligned with the ERP system. The result is what's best for the entire business—rather than the best price—and not how one vertical department of people is paid to perform.

Fixing Broken Processes

Businesses operate daily with broken processes that never touch the ERP system. It's common for employees to work around the system because they don't understand how to use the software's functionality. For example, they develop stand-alone spreadsheets that reside in desktop files and drawers that no one can access easily. When offline spreadsheets get handed off in the workflow

Processes for ERP Efficiency



ILLUSTRATION: VISUAL MOZART/IMAGEZOO

process, information is rekeyed, which creates a chance of error.

These wasted process steps add labor costs that have no value to the organization. Again, this is vertical thinking when people enter and manipulate data in a spreadsheet instead of the ERP system. And it leads to frustration at the top of the organization because executives can't make good decisions with poor or "hidden" data.

The process performers—the cross-functional group of

employees who operate the process—must help fix the broken ones. Working together with an experienced consultant who has deep knowledge of best practices and/or a representative from the ERP vendor, they can discover and diagnose the horizontal "disconnects" of each process, then align them in the ERP system.

Disconnects are opportunities for improvement where waste is being generated within a process. Waste in the lean manufacturing context, for example, includes wait

time, motion, transport, extra processing, inventory, overproduction, and defects.

Waste is nonvalue-added activity from a customer perspective, it increases total costs, and it doesn't support a company's business strategies. When compiling a list of process disconnects, it's imperative to capture clear descriptions and document any known financial impacts. To obtain a clear view of the disconnects and subsequent improvement opportunities, it's necessary to carefully map the business process at a low level of activity, often called the "configuration level," where the ERP software operates.

Companies often choose to fix single, ungrouped disconnects. This can be inefficient and expensive, especially if many of them have a similar root cause. By attacking the root cause, you can leverage results for greater ROI. For example, a company that doesn't have good utilization of a particular software module or functionality decides to replace it with another separate piece of software, thinking that the new software will be easier to operate than the original ERP module/functionality. But the real problem is a lack of training for system users. By adding new software and thinking it's the solution, the company has added more cost (new software license and maintenance fees) and hasn't really addressed the underlying problem.

Most Common Processes to Automate

A business can streamline its processes and use the power of its ERP software to automate the spreadsheet-based workarounds.

The following eight examples describe the most common business processes that can be mapped to an ERP system by eliminating disconnects in an organization's workflow and by improving processes. In each case, the company identified and prioritized a self-funding portfolio of projects to attack ERP inefficiency. Significant payoffs resulted from eliminating waste, saving time, and cutting costs across a horizontal business and system environment.

1. Savings from improved back-office administrative processes

When their processes aren't integrated into the ERP system, companies lose the advantage of centralization for economies of scale. This is typically a case of management not enforcing consistent standards across all



divisions and departments.

One international industrial business suspected that its sales, general, and administrative (SG&A) expenses were higher than those of its industry group, especially across Europe where different infrastructures existed from various acquisitions. An analysis confirmed that they were 124% higher than those of the company's peers. A 12-week engagement with business process experts to discover and analyze all back-office processes across the company uncovered a potential savings of \$24 million by aligning and standardizing newly mapped-out processes with the ERP system. For example, invoicing processes were different across each business unit—they weren't standardized or automated—so each business unit needed specialized clerical help. The company should have had a more efficient and centralized invoicing process that could support all business units with standardized processes that enabled a higher degree of automation, thus reducing administration expenses.

2. Savings from improved "master" data processes

A cornerstone of any ERP system is the quality and integrity of its "master" data, which typically includes key attributes of customers, products, suppliers, and the organization. Without disciplined processes for creating, changing, and deleting master data, low-quality informa-

tion can cause many costly issues.

For example, a consumer-goods company consistently experienced high freight cost overruns. An analysis revealed the lack of a clear master data control process for new products. As a result, each new product's weight and dimensions were often wrong, missing, or dummed up (someone put arbitrary data into a data field to get the system to work). Rather than doing the work to accurately calculate and enter the weight and dimensional data, someone entered an arbitrary number so the system work could proceed. This low-quality data produced erroneous calculations, which meant that the company often was undercharging customers and absorbing the variance. The solution: A checklist and sign-off process for creating product master data to ensure that correct weights and measures were entered into the ERP system. This became part of the new product commercialization process and was a required business rule—the company couldn't sell any new products until all detailed information such as weight and dimensions were entered into the ERP product master. This eliminated problems downstream when employees needed to give customers accurate freight/shipping quotes. The company saved more than \$800,000 in annual freight costs.

3. Sales growth through improved self-service, order-entry processes

Many companies establish Web-based processes for creating a customer self-service, order-entry option through the ERP system or integrated ERP Web applications. Problems arise when the order process is more confusing than intuitive or isn't convenient for customers.

A large equipment distributor offered the online capability to purchase replacement parts and accessories but discovered that many customers opted for more expensive knockoffs from smaller competitors. A customer survey revealed that customers had tried to use the website but gave up because of the complexity of searching for parts by year, brand, and model number across a variety of catalogs.

The solution: The distributor developed an indexed content management search process within the ERP system to enable an easier, cross-referenced parts scheme in which customers could search by common equipment terms and model year of their equipment. The search produced a visual equipment schematic they could recog-

nize, and they could select parts from a visual drawing, ensuring they were selecting the correct parts. The old way required a customer to enter a highly detailed part number, and not all parts had part numbers printed clearly on them. The new process resulted in a substantial year-over-year increase in online parts sales.

4. Sales growth through improved contract administration/management processes

Many businesses, especially in the business-to-business space, require the development, administration, and management of complex customer contracts and agreements. Companies often don't understand the processes and functionality available in their ERP systems that typically offer capabilities to support cost-effective contract management.



A company that had significant contractual business with the federal government was using spreadsheets to manage multimillion-dollar annual contracts that contained specific spending limits. But its managers didn't fully understand the remaining annual contract value in order to proactively recommend additional purchases to the customer to use up the full-spend limit. This resulted in lost revenue and a decline in the next year's contract value because the government typically sets new contracts to the previous year's actual spend. In essence, the company's poor contract management processes were causing its customer demand to decrease each year by several million dollars. More than 40 business departments/product units were selling product against the base contract and purchase orders to 120 different government entities/departments. Each kept a separate spreadsheet, but no

one reconciled all the spreadsheets because of the complexity and timing in daily credits and debits transacted between the government entities and the company—the number of transactions made it too complex to manage. The solution: Use the existing ERP system (SAP) functionality, called “value contract management,” to replace all the spreadsheets and provide a view of real-time spending and workflow advice. The first year’s results captured an additional \$2 million in sales.

5. Increased margins from improving responsiveness in a company’s supply chain processes

Increased global competition often means having an extremely nimble, responsive supply chain to ensure that the right product is in the right place at the right time. Many companies have implemented ERP or WMS (warehouse management systems) by simply enabling their current bad/slow processes without “leaning out” their supply chain processes and leveraging advanced functionality. They haven’t optimized the flow of goods between factories, warehouses, and customers. For example, a factory in California ships finished product to a warehouse



in Kansas that ships products back to California for orders by California-based customers. A more efficient model would be to look at managing California orders for a direct-from-factory shipping process/method.

A distributor of fresh poultry products didn’t properly integrate manufacturing and warehouse inventory views within its inventory processes and ERP system, so it had product turnover problems. This led to the buildup of

highly perishable product that the company then had to sell at reduced margins. Once a clear demand pattern became noticeable, the time it took to change over production lines to produce the demanded product cuts (from whole chickens to chicken pieces, for example) resulted in excess product.

The solution: Remap the company’s inventory and production planning processes, and link them to key market indicators that are available from daily product shipment data and customer-ordering trends. The distributor took further steps to obtain weekly point-of-sale (POS) data provided by key customers to spot emerging trends. All these capabilities were in the company’s existing ERP system. During the first month after changing processes and ERP configurations, the company reduced excess, slow-turning inventories by \$1.3 million.

6. Increased profitability via improved sales strategies/processes driven by customer analytics

Many companies lack the ability to clearly understand the profitability of specific customers or customer groups and lack supporting processes to identify and remedy

low-profit customers. They aren’t able to adequately account for all the costs involved in satisfying specific customers (“cost to serve”) because many expenses in the process of fulfilling customer requirements are buried deep in financial statements and aggregated expense classifications. So these companies don’t understand the true value of each customer to profitability. Yet most ERP and associated CRM (customer relationship management) systems provide a variety of financial tool sets to support effective marketing, selling, and promotional processes aimed at raising customer profitability by managing the cost to serve.

A large industrial products company had extremely detailed, real-time profitability data about each customer generated through its ERP and CRM systems. Unfortunately, this information was unavailable to field salespeople who were making on-the-spot product, pricing, and servicing decisions during sales calls. There was no process the sales staff could use to access the company’s customer analytical information and provide relevant sales strategy advice to the field staff to maximize profitability. The solution: Develop a mobile process and application ported into the sales field via Web and laptop or handheld device. This increased profit margins by more than 35%.

7. Labor savings from improved workflow processes

ERP systems have tremendous workflow automation capabilities, yet many companies try to solve too many process issues with a workflow that overwhelms employees with numerous warnings or alerts. A typical scenario may include an e-mail alert generated by the ERP system and sent to a manager when a certain business condition or event occurs, such as a quality issue that could substantially impact customers or create a major company liability.

An agricultural feed company with good intentions used its ERP system's workflow to send daily notifications about customer orders that were likely to be shipped late, but the system sent the e-mails too early in the process. The company had many new customers that required a detailed credit check, so this early identification and notification often resulted in a temporary order hold for up to eight hours. Unfortunately, this also triggered a late-shipment notice to the company's order managers, despite the fact that 98% of these orders cleared credit and were delivered on time. Order managers were receiving several hundred e-mail notices each day, which they began to ignore, including late orders. The solution: Remap order processes, no longer make the normal credit check a trigger event, and substitute a real order event that would cause a true delay—a hold for anything other than the routine credit-check period.

8. Expenses cut by moving nonintegrated processes into a single ERP system

Many companies lack a strategy to consolidate business processes into a single or reduced set of core ERP packages/systems. In many cases, a company may have separate systems for sales and marketing processes, manufacturing processes, distribution processes, financial processes, and reporting processes. Yet these need to be integrated.

A legal publishing company that used 76 different software applications to support its end-to-end business processes had more than \$5.6 million in annual software licensing and maintenance fees. This situation required more than 30 specialized developers and programmers to accommodate the full integration of many of these applications across horizontal business processes. When an application had to be upgraded, the company needed to



invest considerable time, money, and effort in testing the upgrade to ensure it didn't interact negatively with other integrated applications. Although it might not be possible to support all business processes with a single application, a company should consider reducing the total number of applications by carefully analyzing process needs and looking for an ERP system that can accommodate a larger portion of those needs.

The solution: They cataloged all the processes they needed to operate the business, determined which ones could be standardized across the different business units, and agreed that all those process would be automated into the company's core ERP system. They reduced their annual software license and maintenance expense by more than \$2 million annually.

Self-funding Process Improvements

The companies in these examples have leveraged and updated existing ERP systems and related software applications so they run leaner, faster, and cheaper. This approach has driven multimillion-dollar payoffs with annual, hard cost savings by identifying and prioritizing a self-funding portfolio of projects. And CFOs have learned how to increase the efficiency and ROI of their ERP systems by improving their business processes and making sure the processes are integrated with the systems. **SF**

Tim Allen is chief operations officer at PRAGMATEK Consulting Group, a Minneapolis-based business improvement and ERP solutions firm. Before Tim began his consulting career he was the CEO of a \$150 million manufacturer of industrial equipment. You can reach him at tim.allen@pragmatek.com.