

“The Secret Sauce” that Maximizes ROI for ERP

**HOW TO JUMPSTART SOFTWARE UPDATES OR INSTALLATIONS WITH
STRATEGIC BUSINESS PROCESS IMPROVEMENT AND SELF-FUND IMPROVEMENTS**

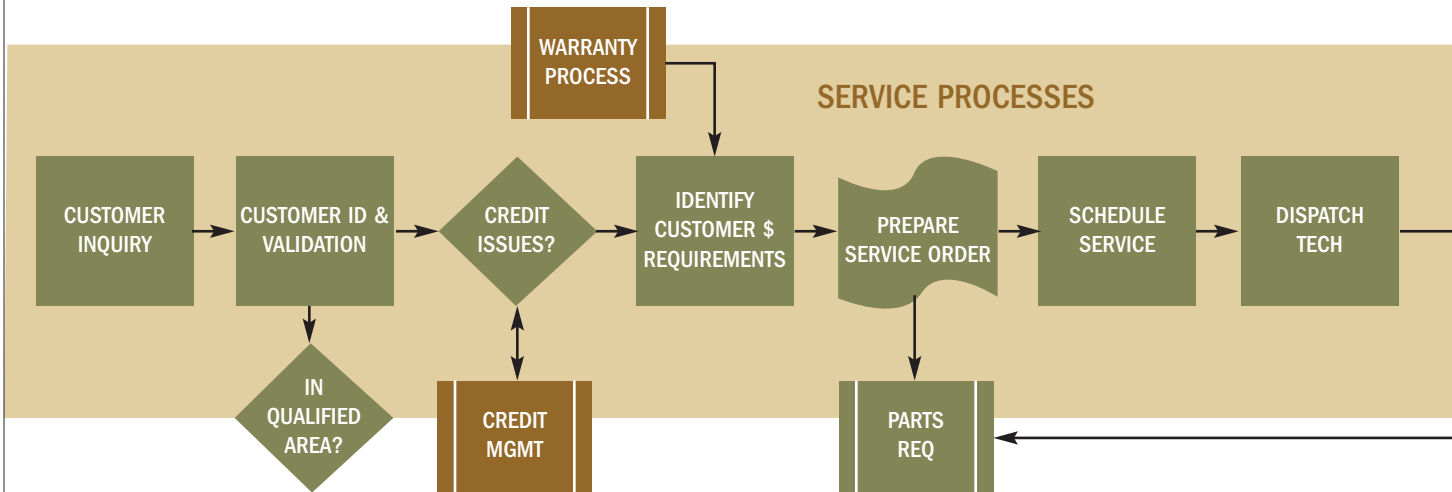
BY TIM ALLEN

What if every finance executive understood the company’s “secret sauce”? In other words, what are the special process ingredients that differentiate a company from its competitors for providing formidable marketplace advantage while bringing high value to customers? The answer is key to reducing costs while enabling new or upgraded enterprise resource planning (ERP) software.

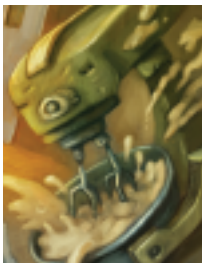
“Secret sauce” isn’t the typical recipe for success that enters every CFO’s or controller’s mind. Most want to contain costs, and one of the biggest is consulting time. Therefore, the quickest and fastest route to ERP project completion becomes the short order of the day.

Yet companies can actually reduce costs—operating and technology—by improving their business processes *before* they install the new software. It’s a “technology pull” vs. a “technology push” strategy. As a result, new return on investment (ROI) avenues can be applied to funding the technology and developing leading competitive advantages.

Figure 1: Sample High-Level Process Diagram



A CASE IN THE KITCHEN



One kitchen equipment repair business had a goal to respond quickly to customers—commercial restaurants, who could experience an equipment failure during lunch or dinner times. This company knew that the faster it identified the customer’s equipment problem and the

repair parts required, the quicker a qualified technician could be dispatched to put that kitchen back in business and save money. This advantage was known as “first-time fix capability.”

Service-order fulfillment was identified as this company’s “secret sauce” because it could perform its service quicker and better than its competitors, mom-and-pop repair shops. It had the size and capability to carry different types of parts, more and better-trained technicians, and a better dispatching process coordinated through a central customer service call center.

Therefore, the ERP software for this order-fulfillment process was customized to automate an improved service process, which also reduced the number of dispatchers required in the call center. To support this new process, auxiliary software for automated dispatch service scheduling was integrated into the ERP system. This new software functionality allowed a dispatcher to handle more technicians and to route them more efficiently to increase daily service call productivity, which increased revenues and profitability.

This process efficiency lowered labor costs and increased productivity to the tune of nearly \$500,000 in ROI. The company was able to more efficiently “cluster”

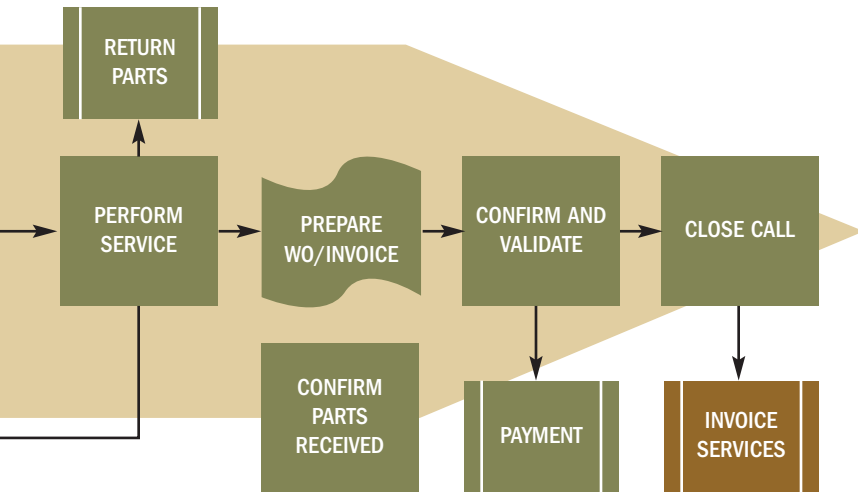
service calls to reduce technician travel time, which led to a revenue increase because technicians spent less time traveling and more time on-site fixing and billing for customer repairs. (They had the means to visibly see where the service calls were coming from geographically, allowing them to optimize service routes.) The savings were reinvested into training call center customer service employees to understand new kitchen equipment technologies and improve their capability to diagnose customer problems in a quick and efficient manner. Therefore, the right repair parts and technicians were routed to customers’ sites for a higher “first-time fix rate.”

PROCESS PITFALLS AND PAYOFFS

Many companies are too busy from a day-to-day operational perspective to think about their processes and how they relate them to the value or lack of value to customers. Processes simply evolve over time rather than resulting from a conscious effort to constantly examine and improve them based on their strategic value. Some companies may have process or quality control manuals that outline standard processes, but, in many instances, users will actually be doing something quite different.

Another common pitfall is companies putting too much faith in their ERP software to standardize processes and making assumptions about software functionality based on advertising and not a rigorous review. If it’s good enough for their competitors, then it must be good enough for them, right?

But gaining advantage over competitors—making them irrelevant—is the key to long-term business success. It pays for financial executives to begin any ERP project by asking three questions about their current processes.



They are:

- ◆ Do we understand our processes, and are they documented?
- ◆ Which processes relate to the company’s “secret sauce” vs. which ones should and can be standardized?
- ◆ How much diversity in processes span company divisions?

By asking these questions, companies take a “technology pull” approach to maximize their ERP systems. That is, they do a better job of identifying value and future technology or software purchases in regard to the capability to model current or improved business processes, especially those processes that give competitive advantage. This results in a cost reduction for ERP implementation that’s normally associated with customization or a mismatch in functionality, which can mean additional customization or system maintenance in the longer term. Companies implementing ERP systems often do the opposite to save costs: Instead of doing a customization for selected critical processes the first time, they go strictly with “out of the box” functionality for critical competitive processes and learn later, through various issues such as customer complaints, that they need to go back and reimplement. Since ERP systems are highly integrated, it usually means that a major reimplementation and testing project is required. The total cost of a reimplementation ends up being much greater than the associated cost of customization at the start of the original implementation. The key is selecting what critical processes *may need* to be customized in the first place and understanding if the ERP software to be utilized has the necessary requirements out of the box.

A “technology push” approach occurs when the com-

pany is sold on the technology simply because it’s suited for its industry and particular processes when, in fact, it may not have the customization elements required to support those processes that give the company competitive advantage. This can result in a lot of work downstream in terms of development, which could mean offshore work (as often happens these days). In some cases, it may have to be internal work that results in extra data management or “go live” delays with the ERP package. Also, it’s possible to pay too much for functionality that a company doesn’t really need.

Therefore, it pays for financial executives and their ERP teams to do their homework up front to select the right software, avoid common pitfalls, and invest time to customize key areas for competitive advantage.

BEST PRACTICES TO IDENTIFY PROCESSES

Documenting and validating processes helps CFOs and controllers to see specific areas that have the probability of ROI from implementing the technology in terms of future benefits, streamlining, and money to be saved.

A sample high-level process diagram is shown in Figure 1, which maps out process steps and decision points for a service order-fulfillment process. A good format for mapping out current or “as is” processes will include discussions among cross-functional teams. This is a discovery time in terms of finding out the number of steps that each process takes and the potential differences in how one person or department handles a process over another. In some cases, it makes sense to bring key suppliers and customers into these discussions to help identify which processes are strategic and provide competitive advantage.

Based on mapped-out processes, an important next step in process identification is to compare them to best practices to uncover any missing components and develop “to be” processes that represent improvements. Industry associations offer best-practice tools as do cross-industry organizations that focus on specific types of processes, such as supply chain, demand chain, business process management, and waste elimination.

Supply chain methodology. One supply chain methodology comes from the Supply-Chain Council’s supply chain operations (SCOR) model, which identifies process improvements to drain cost and streamline material, work, and information flows from a company’s supplier’s supplier to its customer’s customer.

Table 1: Performance Metrics

TYPE OF METRIC	METRIC CATEGORY
Customer-Facing Metrics	Service, or delivery, metric: How well is each market channel performing to customer delivery expectations, quality, perfect fulfillment, on time, and in full?
	Lead-time, or responsiveness, metric: What is each market channel's lead time, and how flexible is it in reacting to fluctuations in customers' demands?
Internal Performance Metrics	Cost metric: What is each market channel's supporting cost structure for supply chain process in terms of total supply chain servicing costs, planning, sourcing, and delivering?
	Asset utilization metric: How well does each market channel use its assets, including fixed assets, cash, accounts receivable, and inventory?



The SCOR model provides a way to prioritize performance requirements—with respect to the competition—by supply chain through a “chip exercise.” Table 1 outlines the four performance metric categories that are key to uncovering the company’s “secret sauce.” In this process, CFOs and their improvement teams play four chips for each supply chain, with each chip possessing a perceived metric priority: one chip for “superior” performance, one chip for “advantage,” and two chips for “parity.” This chip prioritization prevents the impractical tendency of choosing a “superior” target in every category.

An example of “superior” performance is the speed of delivery for a perishable food company. The key to its competitive advantage was to get the freshest product in the market. To promise same-day turnaround on orders, they went to a Web-based process and invested in customized software that allowed customers with electronic data interchange (EDI) or manual systems (fax or telephone) to hook into the Web order to speed that process.

Demand chain methodology. Demand chain methodology identifies best practices associated with customer management/customer service and the appropriate performance metrics to ensure both organizations are meeting the expectations of the customer. The order fulfillment process, described earlier by the kitchen equipment repair business, is a good example of a demand chain best practice.

Business process management methodology. Business process management methodology looks at the business rules that define or govern behavior behind every process. These are various types of conditions, terms, or limits typically expressed in mathematical expressions, such as “less than” or “greater than or equal to.” Most ERP software runs on algorithms or other tables or conditional statements that can be used to automate and control

decision making instead of leaving this to an employee’s subjective opinion.

For example, it may be costly and inefficient to order a particular item until there’s a certain level of demand reached based on a supplier’s minimum order quantity that grants a lower cost. If a company needs two items from a supplier, but that supplier requires purchases in units of 10, there’s no reason to buy 10 for each order vs. combining orders to reach the minimum requirement and then triggering a purchase requisition. So the system has to be smart enough—that’s the business rule—to manage a minimum order quantity and hold fulfillment until the certain level is reached and within a reasonable context of ensuring timely fulfillment for customer satisfaction.

Other business rules are more complex. Many companies have different types of customers. For premium customers who provide the highest level of profitability, the company might allow certain exceptions or circumstances in terms of their orders.

For example, one company in the home building industry that sold insulation distribution products to home contractors was under “allocation,” which meant that the factory supplying its insulation could produce only a certain amount due to limitations in capacity and the spike in new home production. The situation: Supply wasn’t as great as demand. In that case, this company needed to understand how to allocate product to customers. That company’s software had to alert customer service order processors to the condition of each order: premium customers who ordered every day and gave high profitability vs. customers who ordered once a year and gave limited profitability. That’s an example of a business rule that could be put into place in order to gain the most favorable profitability when demand exceeds supply.

Lean methodology. Lean methodology looks at process-

es from a waste perspective. One Lean component—value stream mapping—measures the typical yield of a business process over a given time. The steps involved in processing a purchase order include: Who touches it? Who does what? How many times does it go through perfectly from a yield perspective? How many times are orders accepted automatically by the supplier vs. requiring changes or modifications? Does each step add value? Can it be controlled or not?

From a yield perspective, look for waste and nonvalue-added activities so you can automate, eliminate, or reduce them. Examples are inadequate information about the supplier, wrong addresses, unclear product specifications, and number of people required for authorization.

Short-term changes, made by eliminating wasted process steps, are called “quick hits” for ROI that can occur within a 12-month period and sometimes prior to the ERP implementation. They are savings that can be applied to self-fund the technology purchase.

An example of a Lean “quick hit” is one company’s warranty processing, which used a standardized manufacturer’s third-party warranty form that’s accepted by about 90% of manufacturers. But this company didn’t have the form automated in the software for customers to populate, so the information was filled out manually and then entered into the website—duplicate data entry. By eliminating that step and getting a software package that offered standardized forms, the customer service reps had the capability at their desktop to enter data once and transmit it to the vendor’s website. This resulted in labor efficiency and savings, including the ability to pare down some warranty personnel. With the headcount reductions, those people were refocused into more strategic, profitable work, such as developing new products and services.

PROCESSES AND TECHNOLOGY

Once a company has identified, mapped, and aligned its processes with best practices for improvement, the next step is a segmentation exercise for an ERP or software implementation:

- ◆ Define processes that are strategic for the business and that drive unique competitive advantage or represent your “secret sauce.” Is the ERP technology capable of handling customizations out of the box? If it is, implementation resources will be saved. If not, then a development plan is needed, including qualified expertise, cost, and time to achieve it.
- ◆ Define processes that are standard, which many of the

large ERP systems already have in place, to simplify those areas, such as preparing P&L statements, balance sheets, month-end closings, and transactional processes. These are considered “core infrastructure.” If a company is doing these processes in a highly complex manner, the CFO should ask, “Why are we doing it that way, and why are we not using a standard process so that we can match it back to the software?” Without agreement on standard practices, more time and money will be needed to customize the software.

- ◆ Define processes that are supporting infrastructure and aren’t core competencies. These processes can often be better served through outsourcing to other specialists or supported by standard ERP infrastructure processes or add-on modules. Some examples of these types of processes may be payroll, accounts payable, and collections.

Once processes are documented and classified as strategic, standard, or infrastructure, companies can better understand where they should make additional investments in customization/development or research to ensure the chosen ERP software can meet the unique needs of their strategic processes or their “secret sauce” and where they can rely on using the standard “off the shelf” configurations to save time and money.

Without conducting this analysis and planning prior to the scheduled ERP implementation, many companies encounter unexpected delays and budget overruns. They also may even waste time and effort on customizing their ERP systems for basic processes that don’t provide strategic value and could be better served using the software’s standard “off the shelf” functionality. The up-front analysis can also speed up the blueprinting phase of an ERP implementation because processes are already defined and clearly documented.

From a CFO’s perspective, the goal is to better control, manage, and reduce unexpected costs with the ERP implementation through up-front business process improvement. By doing their homework and taking a proactive “technology pull” approach, companies can self-fund the improvements, increase competitive advantage, and gain better efficiency and effectiveness from the ERP system. ■

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