

Most Common Business Process Improvements for ERP Efficiency

Eight mini-case studies illustrate cost cutting, labor savings and improved profitability by 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 the disappointment of an apparently inefficient ERP system: Why isn't it helping the company to cut costs?

The answer to ERP's return on investment goes beyond the mere purchase of functionality to the deeply established policies and procedures that define a company's business processes. Without alignment of operational and supporting processes with 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 is 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, due to all of the variables, the underlying processes can be identified, mapped out and aligned to 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

Yet businesses operate daily with broken processes that never touch the ERP system. It is common for employees to work around the system because they do not understand how to use the software's functionality. Instead, they develop standalone spreadsheets that reside in desktop files and drawers that no one can easily access. When off-line spreadsheets get handed off in the workflow process, the information is re-keyed with the chance of error.

These wasted process steps add labor costs without value to the organization. Again, this is vertical thinking as people enter and manipulate data in a spreadsheet instead of the ERP system. This leads to frustration at the top of the organization, as executives cannot make good decisions with poor or "hidden" data.

To fix broken processes requires the participation of the process performers — the cross-functional group of employees that operate the process. Working together with an experienced consultant that has deep knowledge of best practices, the



horizontal “disconnects” of each process can be discovered and diagnosed, then aligned to the ERP system.

Disconnects are improvement opportunities where waste is being generated within a process. Waste in the Lean Manufacturing context includes: wait time, motion, transport, extra processing, inventory, overproduction, and defects.

Waste is non-valued-added activity from a customer perspective and increases total costs. It does not support a company’s business strategies. When compiling a list of process disconnects, it is imperative to capture clear descriptions



and document any known financial impacts.

To obtain a clear view of the disconnects and subsequent improvement opportunities, it is 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, which can be inefficient and costly, especially if many disconnects have a similar root cause as their origin. By attacking the root cause, results can be leveraged for greater return on investment.

Most common processes to automate

What if a business could streamline its processes and use the power of its ERP software to automate all of 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 improving processes. In each case, a proven methodology developed by PRAGMATEK Consulting Group — called Business Process Technology Alignment (BPTA) — was applied to identify and prioritize 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 administrative back-office processes

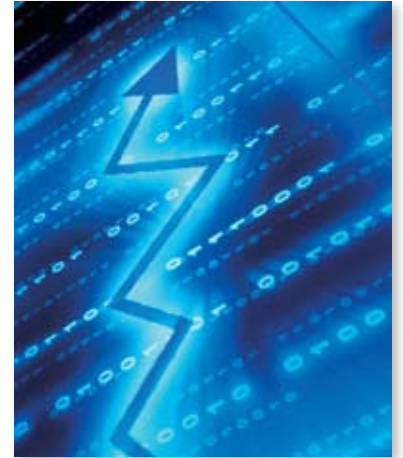
When not integrated into the ERP system, companies lose out on the advantage of centralization for economies of scale. This is typically a case of management not enforcing consistent standards across divisions and departments of a company.

One international industrial business suspected SG&A expenses were higher than its industry group, especially across Europe where different infrastructures existed from various acquisitions. An analysis confirmed that it was 124 percent higher than its peers. A 12-week BPTA engagement with business process experts to discover and analyze all back-office processes across the company uncovered a \$24-million savings potential for aligning and standardizing newly mapped-out processes with the ERP system.

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 information can cause many costly issues.

For example, a consumer-goods company consistently experienced high freight cost overruns. An analysis revealed a lack of clear master data control process for new products. As a result, each new product’s weight and dimensions were often wrong, missing or dummied up. This low-quality data produced erroneous calculations, often undercharging customers, which resulted in absorbing the variance. The solution: A checklist and sign-off process for creating product master data to ensure correct weights and measures entered into the ERP system. 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 convenient for customers.

A large equipment distributor offered the on-line capability to purchase replacement parts and accessories but discovered that many customers opted for more

expensive knock-offs from smaller competitors. A customer survey revealed that customers had tried to use the web site, but gave up due to the complexity of searching for parts by year, brand and model number across a variety of catalogs. The solution: Develop an indexed, content management search process within the ERP system to enable an easier, cross-referenced parts scheme. This resulted in a substantial year-over-year increase of on-line 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. Often, companies do not 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 multi-million dollar, annual contracts with specific spending limits. However, managers did not 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, as 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. The solution: Use the existing ERP system (SAP) functionality, called "value contract management," to replace all the spreadsheets and provide real-time spend view and workflow advice. The first year's results captured an additional \$2 million in sales.

5 Increase margins by improving responsiveness in a company's supply chain processes

Increased global competition often means having an extremely nimble, responsive supply chain to ensure 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.

A distributor of fresh poultry products that did not properly integrate manufacturing and warehouse inventory views

within its inventory processes and ERP system had product turnover problems. This led to the build up of highly perishable product that necessitated selling at reduced margins. Once a clear demand pattern became noticeable, the time it took to



changeover production lines to produce the demanded product cuts resulted in excess product. The solution: Remap the company's inventory and production planning processes and link them to key market indicators available from daily product shipment data and customer-ordering trends. Further steps were taken to obtain weekly point-of-sale (POS) data provided by key customers to spot emerging trends. These capabilities were all resident 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 supporting processes to identify and remedy low-profit customers. 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. The problem: 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 to use 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 hand-held device, which resulted in increased profit margins by more 35 percent.

7 Labor-savings by 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.

A company with good intentions used its ERP

system's workflow to send daily notifications about customer orders likely to be shipped late, but the emails were sent too early in the process. With many new customers requiring a detailed credit check, this early identification 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 percent 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 promptly ignore including late orders. The solution: Re-map order processes, uncouple the normal credit check as a trigger event and substitute a real-order event to cause a true delay — a hold for anything other than the routine credit-check period.

8 Cut expenses by moving non-integrated processes into a single ERP system

Many companies lack a central ERP 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 and reporting processes.

One 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 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 did not interact negatively with other integrated applications. Although it might not be possible to support all business processes in 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.

Self-funding process improvements

The BPTA methodology applied in these examples has proven to help companies leverage and update existing ERP systems and related software application. They now run leaner, faster and cheaper. This approach has driven multi-million-dollar payoffs with annual, hard-cost savings by identifying and prioritizing a self-funding portfolio of projects. It has effectively addressed the burning pain in the cost of doing business for companies with sales of \$50 million to \$10 billion. And now CFOs have learned how to increase efficiency and ROI of their ERP systems — by reaping the benefits of business process improvement with system integration.



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