

ERP systems: Drive growth, increase profits

Don't let your current IT investments hold you back

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Many manufacturers' information technology (IT) budgets are skewed toward maintenance and integration activities. This can prevent strategic investment in the systems the company really needs and restricts the organization's ability to grow and remain profitable. It becomes even more confining as the demands of the industry change, requiring new information.

A core problem is that while many IT shops can tell you about the frugality of their budget and targeted project ROI, few can explain IT's impact on productivity or profitability.

What eliminating existing integration and maintenance costs can mean to strategic investment

A litmus test for IT budgets is comparing IT operating expense to IT capital investment. A good rule of thumb suggests numbers should be in the range of 70 percent for operating expenses to 30 percent in capital investment. This tells us that systems are being invested in and renewed and that IT is continually addressing new business problems with technology.

Since the budget tightening that occurred during post 9-11 economy, the numbers have fallen out of balance for too many companies. It's not uncommon to see 80 percent or more of the budget spent on operating expense. The likely culprits: lots of maintenance and enhancement activity keeping old systems alive.

Why poor systems increase SG&A costs and hamper productivity

If you compare the cash outflow of the IT budget to employee productivity you'll find some interesting things.

Is productivity improving or slowly deteriorating over time? Depending upon the level of detail available here, the answer shows up in high indirect to direct employee ratios in manufacturing and often in high SG&A numbers for the overall company. The implication we can draw is that the systems may no longer be helping the firm succeed.

How so? Look for disconnected processes and systems that hamper communication and see if you find lots of workarounds. It's likely these prevent employees from doing the right things—slowing down decisions and customer response times while pushing up overhead—or they are doing the right things, but by spending far too much effort. The cost, ultimately, is profitability.

There are several areas where today's ERP systems can make a substantial difference.

Gain visibility into all aspects of the supply chain

Benchmarking studies have shown that one of the keys to supply chain success is forecast accuracy. A better forecast helps you make better decisions throughout your operations. For example, smoothing production plans uses labor and your manufacturing assets more effectively. And accurate procurement from your suppliers minimizes inventory. More efficient operation leads to more efficient customer response. And it's worth it. Supply chain benchmarking done by AMR Research has shown that improving sales forecast accuracy by as little as 1 percent can improve profitability by 2 percent.

To determine whether an ERP system would optimize your supply chain, assess forecasting and demand management systems. Look at how analytics systems reveal true performance. If there's room for improvement, consider how today's ERP systems provide the capabilities to access information through familiar desktop tools, so that employees can make rapid decisions informed by real-time, accurate data.

Get new products to market faster

New product development and launch is improved when good information and collaboration tools are available. Companies must quickly assess projects, pick the right ones, and manage intellectual property. Collaboration extends beyond coordinating the project and engineers, now it embraces marketing, sales, and all supply chain activity, both internally and externally.

Streamline manufacturing processes

While most manufacturers agree that lean manufacturing improves customer-response time and reduces costs, many organizations run their lean processes with manual systems, spreadsheets, and standalone personal computer applications rather than with enterprise-class applications. The challenge is to make data available to everyone. But this is difficult, laborious, and costly when sharing information with staff, customers, vendors, and partners must be done manually.

Increase collaboration and customer satisfaction

In most industries, supply chain transparency is essential to success. Manufacturers need to be tightly integrated with their suppliers and to provide critical product, price, availability, and shipment information to their customers. This is especially true in a global supply network. Responding to changing demands rapidly requires visibility across the entire supply chain and accurate information about the supplier's capacity.

Yet capabilities, such as inventory visibility, vendor-managed inventories, electronic Kanban replenishment signals, or working with new suppliers, are often done manually or not at all. So, the supply chain is difficult to manage efficiently. To increase efficiency, many companies invest heavily in integrating data from their customers and suppliers into their ERP systems. And they're adding customer portals to reduce order-taking costs, speed fulfillment, and increase customer satisfaction.

Ensure compliance with regulations

There is probably no sector of the manufacturing industry that is not concerned with new regulatory compliances. Simply put, regulatory compliance means collecting critical data and ensuring that production and the resulting products meet the constantly evolving required safety and quality standards. For far too

many manufacturers, collecting and compiling this data is an offline task that consumes valuable employee time and reduces profit margins. Compliance can't be ignored, but it can be done more efficiently when data is captured by a current ERP system.

Implement integrated information systems—from making do to moving on

Just because a business doesn't request an integrated system doesn't mean it doesn't need it. People have an amazing ability to accept what they have. When they need data, people go to great lengths to get it—even if it means rekeying data into spreadsheets and other applications. But when they do, it can add to overhead costs and slow down business processes—especially those critical to bringing new products to market or that are customer facing.

Integrated systems can speed time-to-market, improve customer delivery performance, and provide the data executives need to make the right cost and investment decisions as markets and products change.

Succeeding in today's fast-moving manufacturing world requires a combination of exciting new products, collaborative development, partnerships, and acquisitions. Integrated ERP systems have already embedded the best practices for many state-of-the-art global business processes. And, with powerful and familiar desktop tools integrated into the corporate data source, ERP systems give real-time, accurate visibility to the specific information needed to make decisions and move your organization forward.

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David Caruso is the founder and Principal of [David Caruso & Associates, Inc](#), a consulting firm specializing in manufacturing, supply chain, and technology strategy. Before starting his own firm, David was senior vice president and director of research at AMR Research, and he has held several senior management positions in the ERP and supply chain software community. David has more than 30 years of industry experience, and he focuses his current research on analyzing the business value of IT and the effective use of technology to support the profitable growth of his clients.