Do you need ERP?
The answer is in your business process.

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Agenda

- What and why process improvement?
- What is a process?
- How to link the vision / mission with the processes?
- How to perform Business Process Improvement (BPI)?
- How to budget for new systems?
- How to develop an ROI for new systems?

What and why process improvement?

Business Process Reengineering vs. Business Process Improvement

- The fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in contemporary measures of performance such as: cost, quality, speed, service, flexibility.

  –Hammer and Champy

BPI vs. BPR

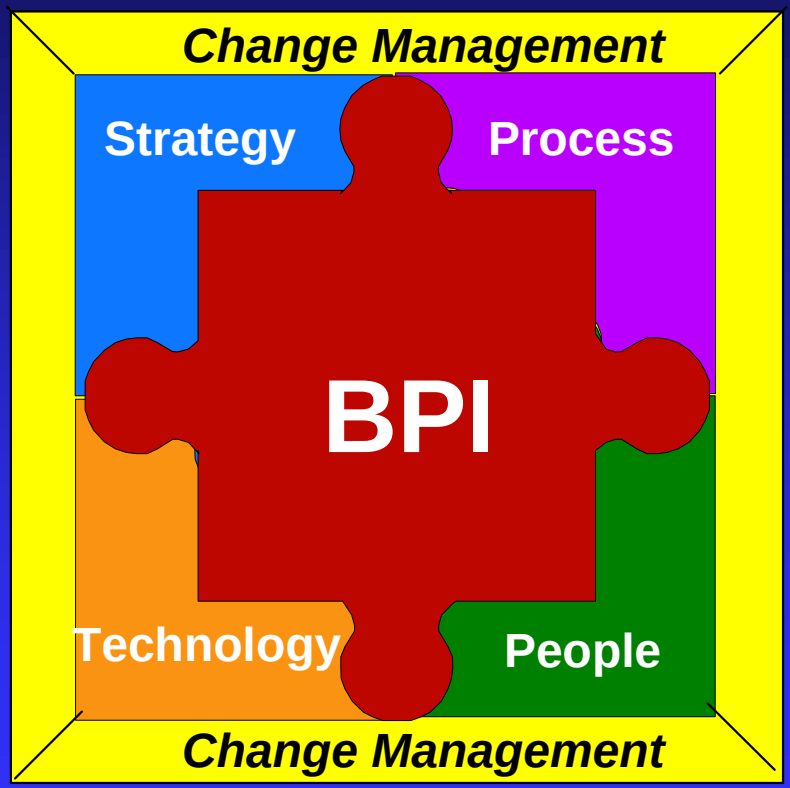
- Severity / Complexity of the Problem
- Focused vs. Enterprise-wide Redesign
- The Starting Point
  - "As-Is" Processes
  - Clean Sheet of Paper
- Organization's Tolerance for Change
- Scope / Cost of the Effort
- Immediacy of Payback
- Relationship to Information Technology

Why BPI?

- Most processes were never truly "designed“… they evolved over time:
  - Initiated with the inception of the organization
  - Developed initially to address a specific problem
  - Modified and enhanced over time
  - Added controls as errors occurred
  - Divided among departments as the organization grew
  - Generally lost external focus over time

Principle of BPI

- Integrates Strategy, Process, Technology and People



The Objective of BPI is to Enhance Business Performance

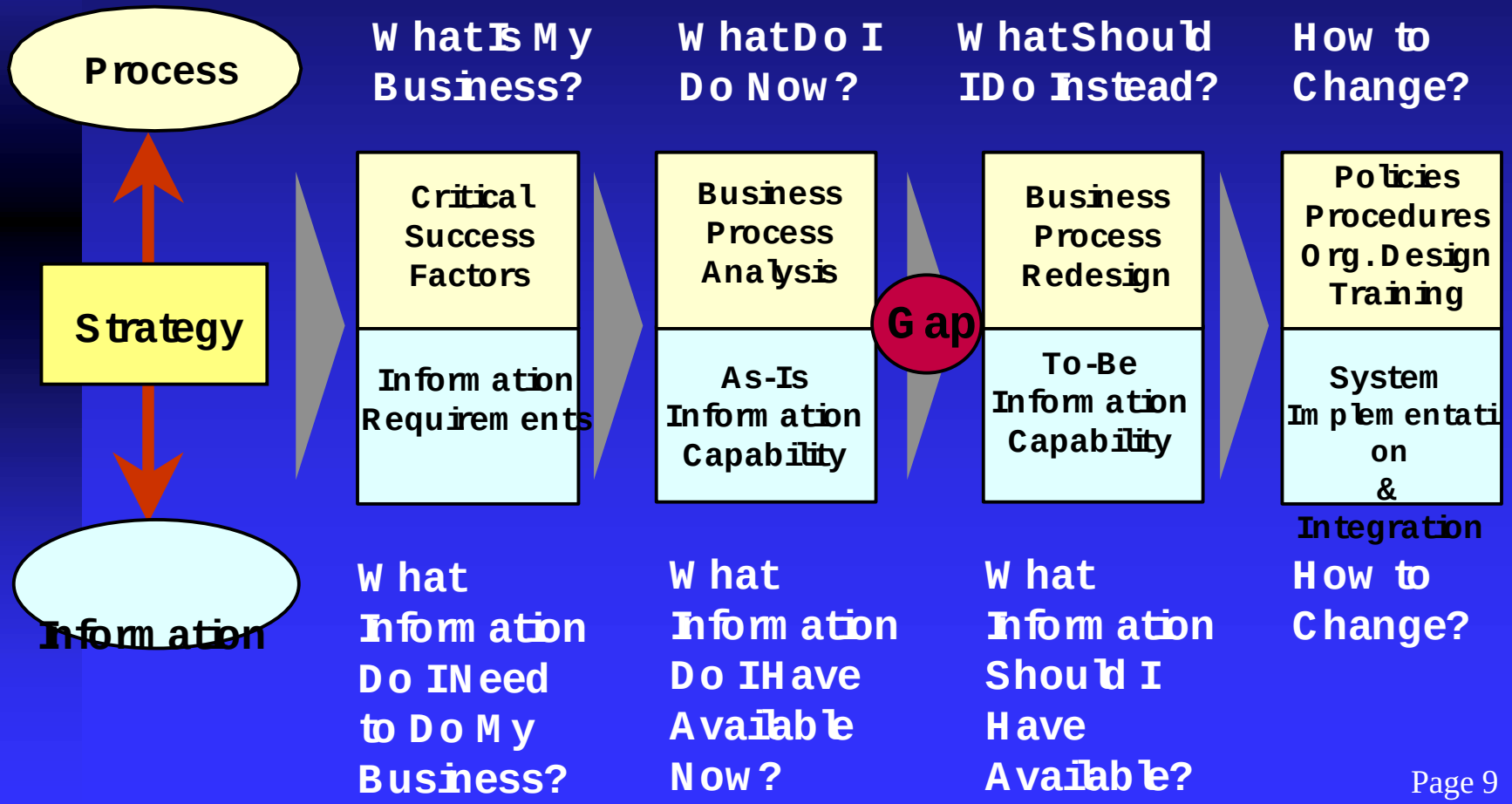
Business Performance

- Market Entry Barrier
- Productivity Improvement
- Market Share
- Sustain Growth
- Cost Reduction
- Cost Containment
- Value Added Services
- Revenue Enhancement

Process Performance

- Product Quality
- Service Quality
- Throughput
- Cycle Time
- Resource Utilization
- Flexibility
- Variability

Business Process Improvement



Advantages of BPI

- Processes were never “truly” designed, they evolved over time
- Get the team thinking out-of-the-box, not a replacement of the current system
- Better understanding of why a new system is needed (ROI) = Consensus
- Learn Best Practices
- Short Term Process Improvement = Cost Savings
- Regain Customer Focus

How to link vision / mission with the processes?

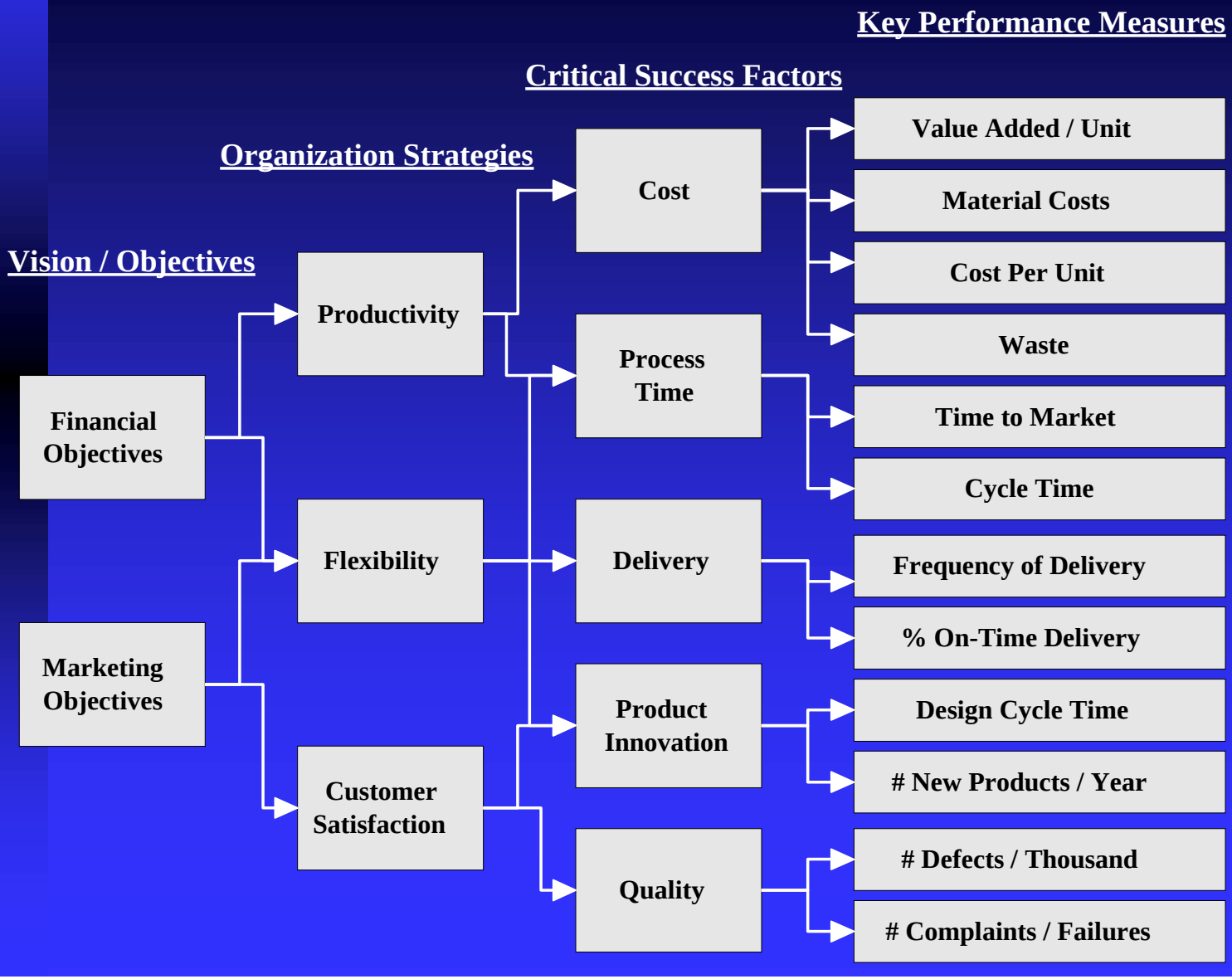
Step #1: Document Executive Management Interviews

- Mission… What is your business?
- Vision… Where is your business going?
- SWOT Analysis:
  - Strengths
  - Weaknesses
  - Opportunities
  - Threats

Porter Analysis or Benchmark Your Supply Chain

- Strength and Uncertainty of the Supply Chain
  - Competitors
  - Suppliers
  - Barriers to Entry
  - Risk of Demand (Innovation)
  - Risk of Supply (Natural Resources)

Performance Path

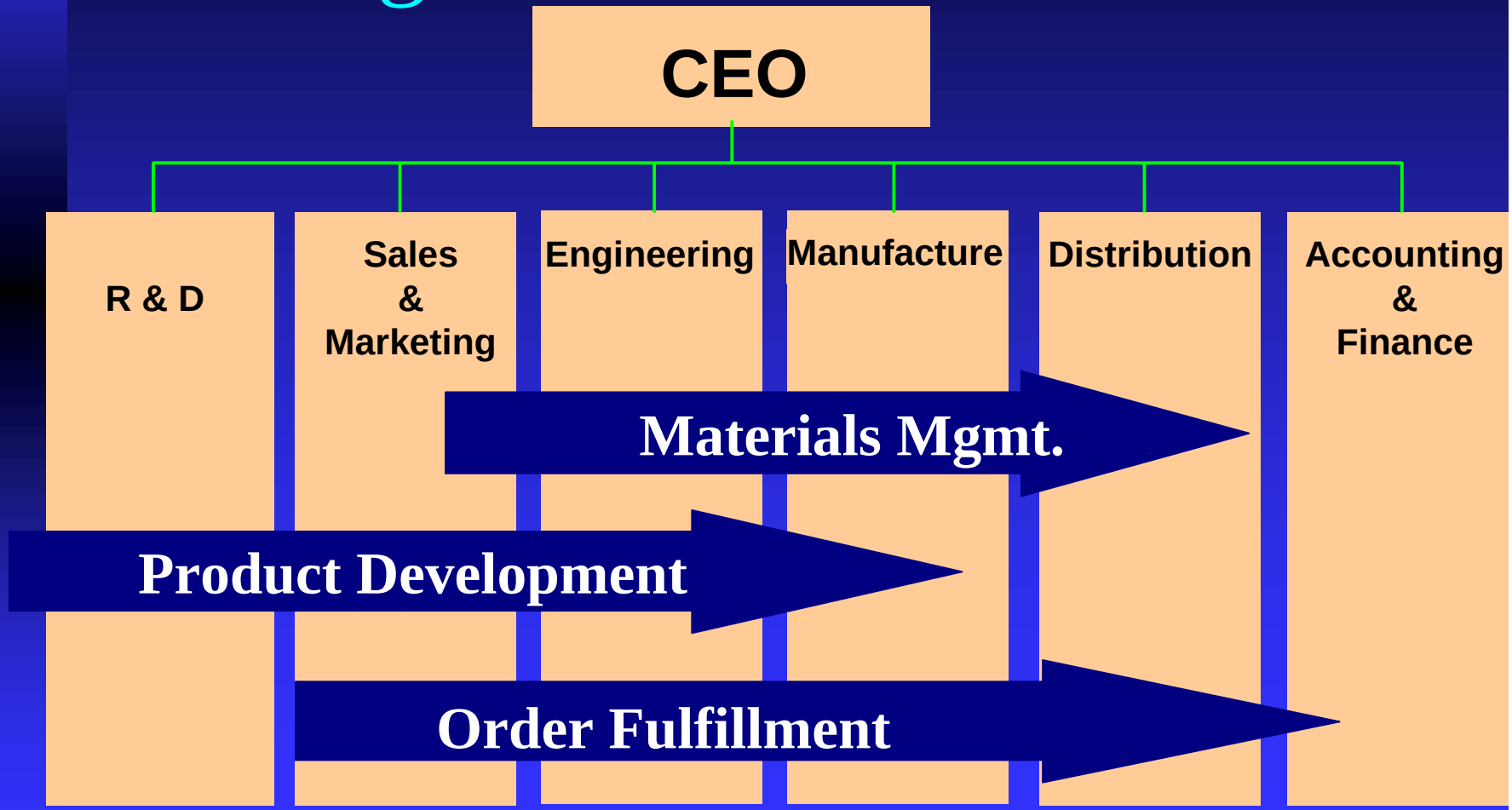


What is a process?

What is a Business Process?

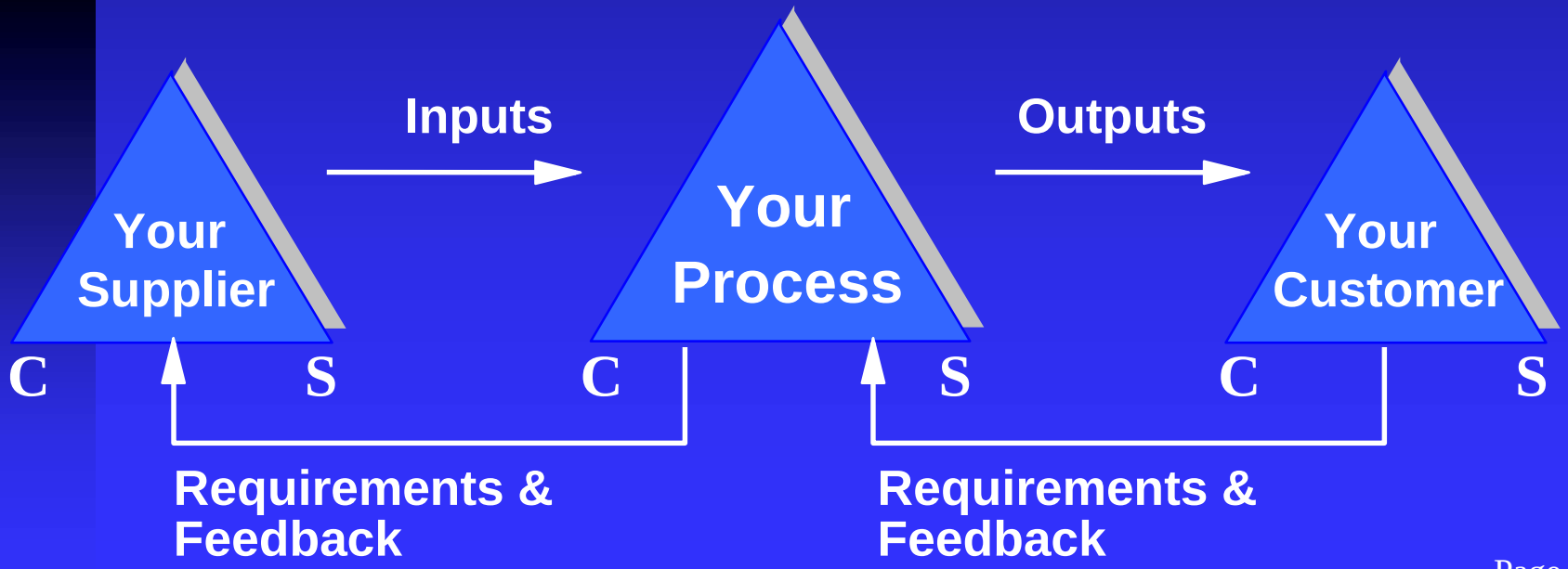
- A set of logically related tasks performed to achieve a defined business outcome
  - Processes have customers:
    - Internal
    - External
  - Processes cross organizational boundaries
  - Processes typically have some value connotation to their customers

Improve Business Processes VS. Organizational Units



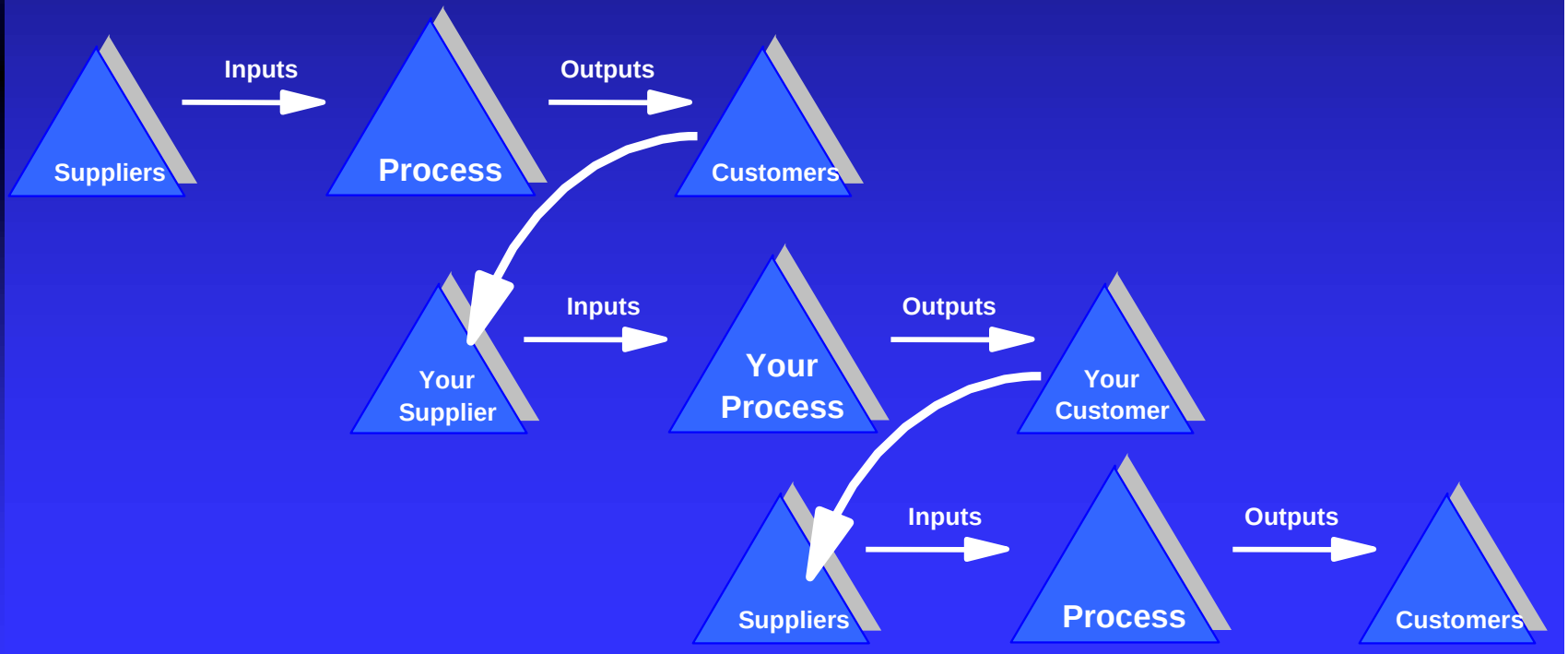
Customer - Supplier Model

- Everyone is a customer (receives inputs from someone); everyone owns at least part of a process (is responsible to add value to the input received), and everyone is a supplier (passes information, product / material to someone else).

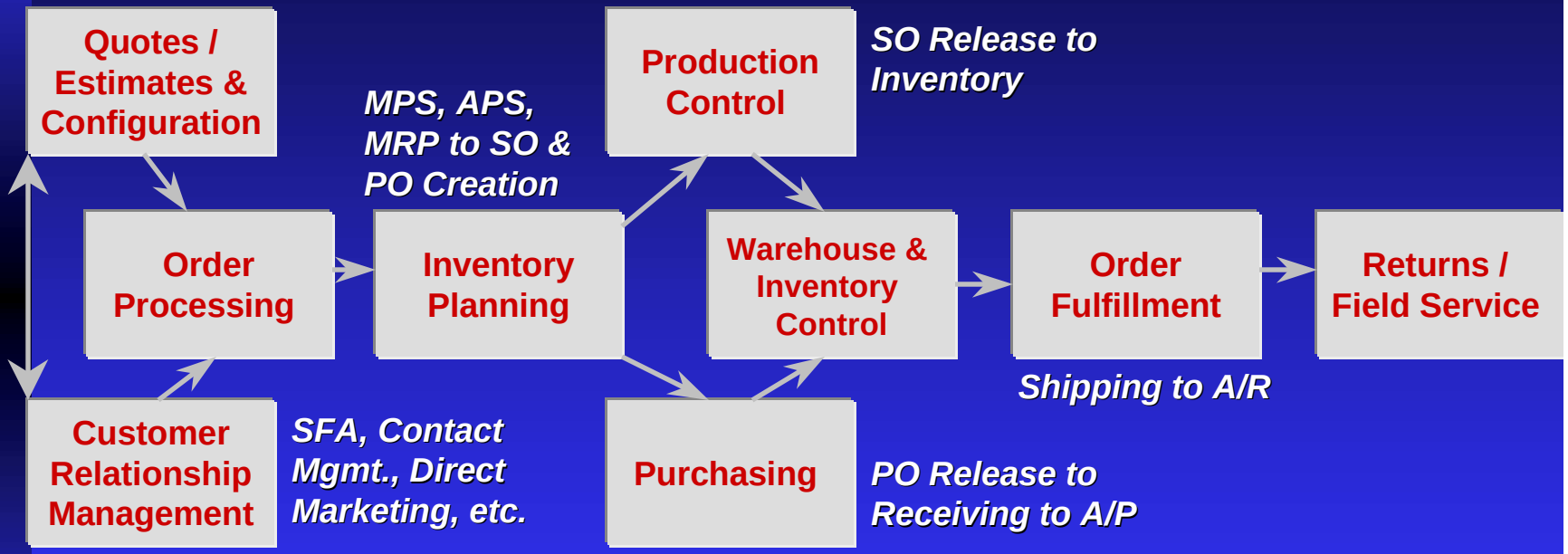


Extended Customer – Supplier Model

- The Customer-Supplier Model is actually a value chain that may extend beyond departments and even enterprise boundaries.



“Typical” Business Processes



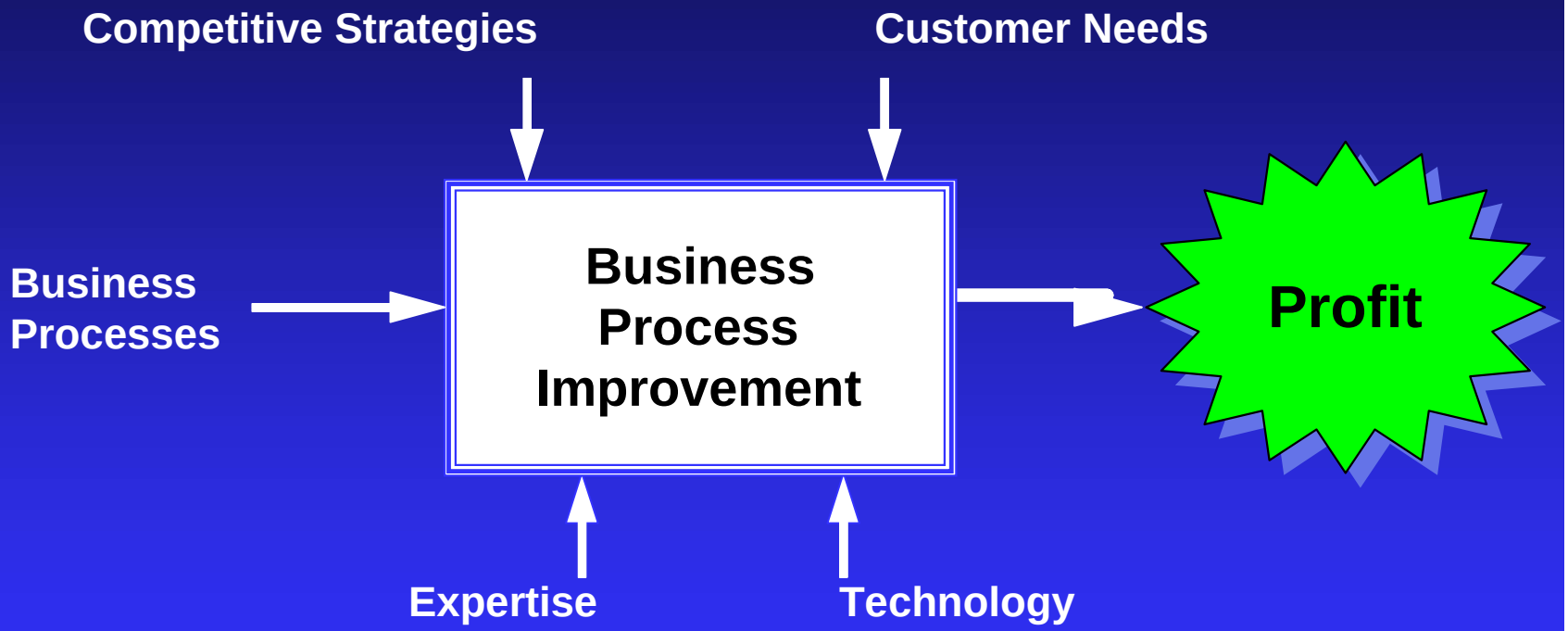
- Macro-Level or Departmental = Define Major Hand-offs Between Organizational Units.
- Mid-Level or Activity = Define at a High Enough Level to Include Significant Resources and at a Low Enough Level to Isolate Related Inputs and Outputs.
- Detailed-Level or Transaction = Define at the Computer System Screen Level.

Step #2: Define Processes and Scope

- Define the Scope of the Process with the Beginning and Ending Points
  - Planning = Forecast to Master Schedule
  - Order Entry = Customer Call to Invoicing
  - Scheduling = MRP to Order Release (PO / SO)
  - Accounts Payable = P.O. Release to Cash Dispersement
  - Production Control = SO Release to FG Put-away
  - Accounts Receivable = Shipping to Cash Receipt
- Brainstorm what is in and out of scope, which is the beginning of the individual process blocks.

How to perform Business Process Improvement (BPI)?

Elements of Improving Processes

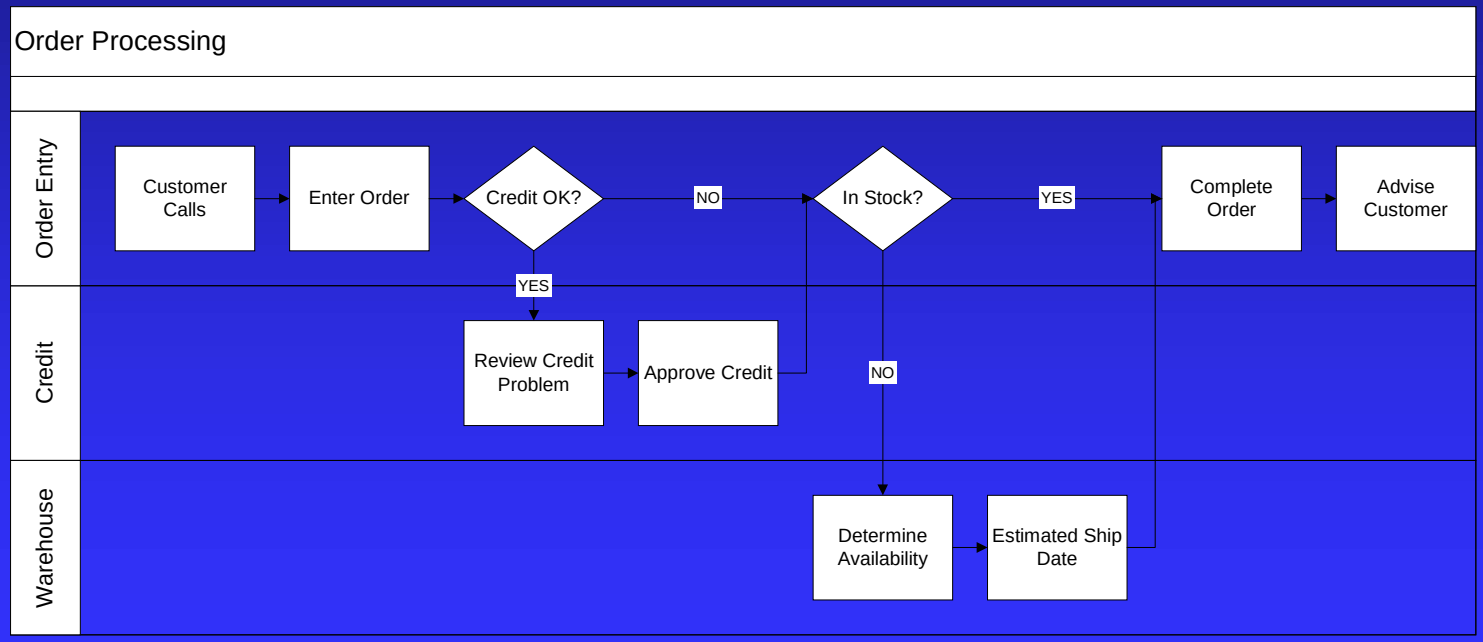


Step 3: As-Is Analysis

- Goals and Objectives of the Process:
  - What is wrong with the process?
  - What do our customers want?
- Roles and Responsibilities:
  - What are the departments?
  - What do they do in the process?
- Drivers and Variations:
  - What changes the process… e.g., “diamonds”
  - Examples = Customer Category or Product Group

Step 3: As-Is Analysis (continued)

- As-Is Flow-Chart or Maps
  - Use Visio "Cross-Functional" Flowchart
  - Define Interaction Between Departments



- Define Attributes
  - How Much, How Many, Percentages, etc.

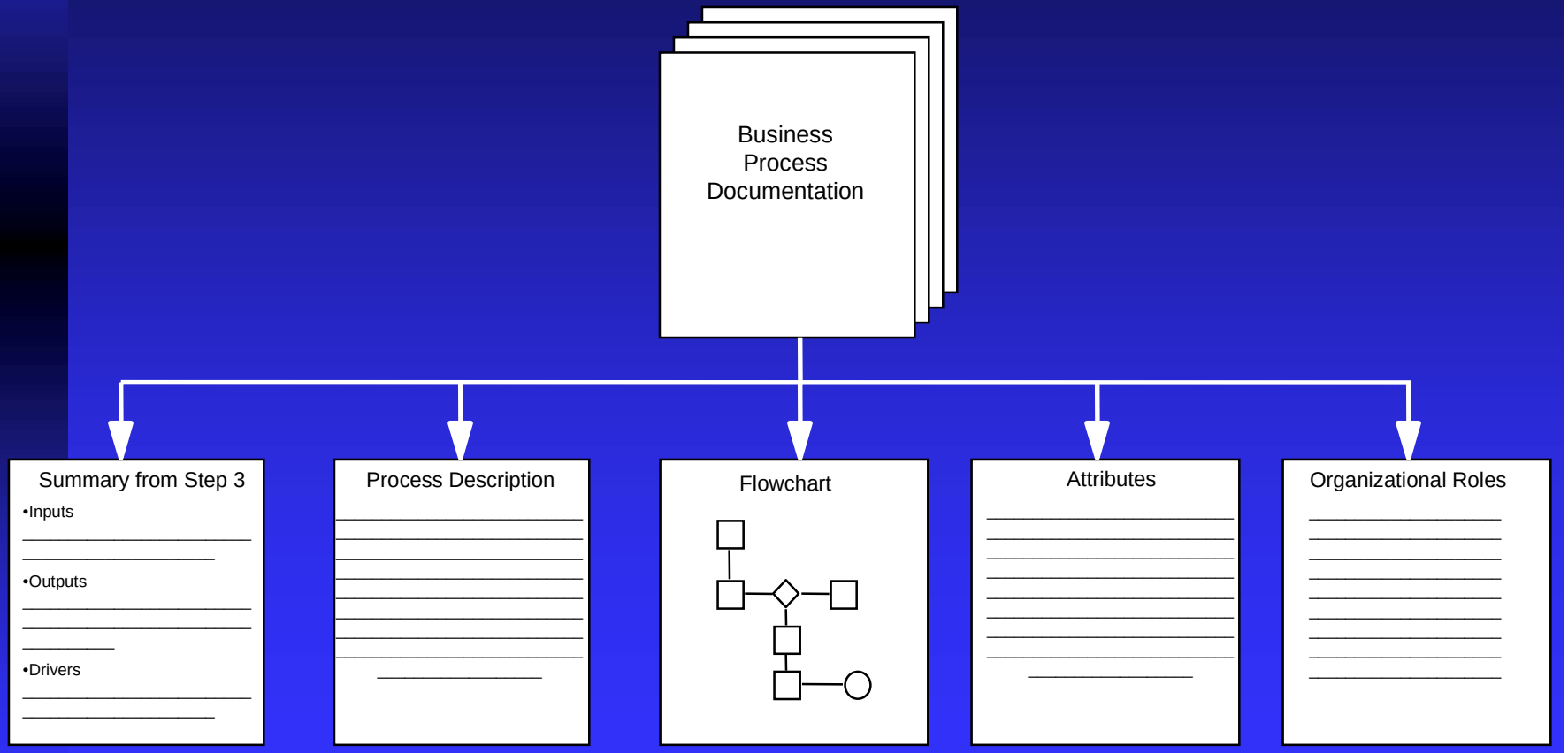
Step 4: To-Be Redesign

- Walk-through
  - Staple yourself to an order
  - Verify the as-is capabilities
- New Organizational Roles
  - Minimize handoffs between departments
- To-Be Maps and Attributes
  - Use industry best practices or standards
  - How to meet performance measures

Step 4: To-Be Redesign (continued)

- Technology Recommendations or Gap Analysis with Current Systems
  - Order Processing (Goal = input the order while on the phone with the customer).
    - Product Configuration
    - Advanced Pricing
    - Available to Promise
    - Capable to Promise
    - On-Line Credit Check and Workflow
    - Access to Information On-Line

BPI “Deliverables”



How to budget for new systems?

Simple “Rules of Thumb”

- Annual Budget for IT should be 1% of revenues in an organization which sees IT as a tool not a competitive advantage.
- Acquisition cost of a new system should be 1-3% of revenues.
  - Software
  - Hardware
  - Consulting
  - Education
- Cost Variable = Bolt-on’s (CRM, APS, etc.) and Existing Infrastructure

Acquisition Cost Projections

- Software Cost = $5,000 Per Concurrent User OR $3,000 Per Named User
- Implementation Consulting + Education =
  - Tier III = Software Cost x 0.75 - 1.0
  - Tier II = Software Cost x 1.0 - 2.0
  - Tier I = Software Cost x 1.5 - 3.0+
- Hardware Cost = Varies

How to develop an ROI for new systems?

Cost Savings

- Reduce People via Technology Based Process Improvements
  - Information Technology
    - If you have a mainframe you have too many people AND pay too much in maintenance.
  - New Technology Allows for Centralization
    - Accounting, Customer Service, Purchasing, Planning and Scheduling
  - Product Configuration = Less Customer Service and Engineering

Cost Avoidance

- If an organization is less than $50 million in revenues create organization charts for the current company and the future company with and without the new ERP system.

Softer Cost Savings

- From the BPI processes
  - Planning
    - Improve Inventory Turns
    - Less Stock Outs
  - Customer Service
    - Improve Order Cycle Time
    - Reduce Bad Debt
    - Reduce Returns (accurate order entry)
  - Maintenance and Repair
    - Improve Equipment Uptime
    - Reduce MRO Inventory

Increase Revenues

- Don’t bet on it unless it is true technology e.g., Internet, Direct Mail Database
- Customer Satisfaction
- Less Backorders and On-time Shipment (improves A/R)
- Better Understanding of the Pipeline (CRM)

Questions?