MorganFranklin

Q&A

ENTERPRISE RESOURCE PLANNING

Using an ERP System to Cut Operational Costs

In these trying times, most organizations are asked to "do more for less." Enterprise Resource Planning (ERP) can certainly help in that goal, however, focus tends to rest on the "for less" part of this request. In reality, organizations focusing solely on saving money will have to make sacrifices in terms of quality, service, and operations that will impact internal and external customers and ultimately the business.

MorganFranklin provides guidance on how to increase productivity and decrease costs by optimizing ERP application support teams and processes. By developing a plan to improve productivity via your ERP and decrease the cost necessary to support business processes and systems, your ERP can help meet your company's goals of minimizing costs while keeping quality, service, and operations in check.

Challenges of ERP Optimization:

- **High total cost of ownership**
- **Hard and laborious to maintain**
- **High vendor maintenance costs**
- **Difficult to staff—a wide array of skills are required**
- **Augmentation of staff is expensive**
- **Expensive to evolve (upgrades/enhancements)**

Q How can I increase productivity and the effectiveness of my ERP system without increasing costs or funding a large project?

The process of streamlining and optimizing a business process consists of three mantras: 1. Eliminate 2. Automate 3. Standardize (EAS). The theory of EAS is to look for ways to eliminate transactions from a business process flow or, if you cannot eliminate them, use technology to automate as much of the process as possible. Finally, if you cannot eliminate or automate transactions, you should standardize them to ensure that your manual efforts require the least amount of work possible to complete the process.

As an example, consider an accounts receivable department. If you have four accounts receivable processors who manually enter deposits and apply cash payments to receivables on a daily basis, this is a potential area for improvement.

Step 1: Eliminate
Ask customers to set up an automatic direct debit/payment plan. You can offer them incentives such as a small discount, include it in the contracts of new customers or customer renewals, or champion the benefits of direct debit/electronic payment (i.e., accuracy, processing cost savings for both sides, etc.). As a result of the direct debit plan, you can eliminate the process of gathering the deposit information from the bank on a daily basis, entering the cash payments into your accounts receivable system, and offsetting them from invoices. You have to set up and maintain the bank account information and handle exceptions, but it requires far less effort than the work associated with manual payment processing.

Step 2: Automate
If customers refuse to switch to direct debit, try to automate as much of the transaction as possible. Inquire if your bank can set up a lockbox for you to process checks and provide deposit information in an electronic format. This eliminates the deposit entry process, as most ERPs can accept information from a bank directly or in a file. After the deposit is entered in the system, most ERP packages are capable of automatically applying the payment based on rules that you define regarding how to match the payment to the receivable.

Step 3: Standardize
After eliminating and automating the majority of the transactions, you will probably still need to process some of them manually. It is extremely important to establish detailed process documentation that is standard for all of your employees. You want everyone to complete the process the same way, using the same tools and utilizing the same best practices for that business process.

If you follow the EAS approach for applying cash, you will find that you can reduce the number of staff required to perform this function—either shrinking costs or reallocating that cost to a more value-added business function like collections. In addition, you will find that your application accuracy rate has improved, providing management with better information, enabling a more efficient collection process, and reducing the number of inquiries from your customers regarding cash application on their invoices. You just provided more for your business—for less.

Q How can I determine which processes are targets for EAS streamlining, and how can my ERP help?

Step 1: Gather your business process steps—answer the following:
What processes does my staff complete on a daily, weekly, monthly, quarterly, and annual basis?

For each process, what are the steps, who is involved, and how much time is spent completing the tasks?

What is the error rate for processing these transactions?

What are the current issues associated with this business process?

What are the skill sets of the individuals working on each process?

Step 2: Gain an understanding of what your ERP package can do
When you implemented your ERP system, you probably performed an end-to-end review of the software's capabilities and determined which parts you wanted to use. If you are like most organizations, you are probably only using a small percentage (30%–40%) of the software and left other functionality "on the shelf" because:

- It didn't fit your business process
- You didn't have the resources to implement it
- You were not aware of the software's capabilities

Over time, however, these factors may change and functionality that is sitting on the shelf may become a perfect solution to your problem. The challenge is relearning what your ERP package can do.

At MorganFranklin, we conduct module discovery workshops. During these workshops, we ask many of the questions identified in Step 1 and then guide you through an end-to-end review of the product to capture what functionality you use, what you don't use, and what areas you are interested in exploring further. As ERP experts in Deltek, Oracle EBS, and PeopleSoft, we know what the software is capable of doing based on our experience with these products and their implementations in other organizations. We quickly help you map EAS opportunities to your software. At the end of the workshop, you will receive:

- A catalog of functionality included in your existing software and what you are using
- Metrics on how much of the application you are using by module
- Immediate opportunities to improve your business process
- A prioritized list of mid- and long-term projects to help improve your productivity/reduce operational cost

It is important to remember that this applies not only to the software modules you have in production, but also to what you have bought licenses for but have not yet implemented. Many organizations have complete modules on the shelf that would require a minimal investment to implement, providing significant productivity and cost-saving returns.

Q What is the best way to determine if my support team is optimized?

Implementing an ERP system is an expensive proposition, and supporting it requires a significant ongoing team of professionals. Unfortunately, many organizations view support as a "keep the lights on" function, as opposed to a way to streamline costs and provide value to the organization. Just like any other project or business area in the company, your support team should be managed at the stakeholder level to ensure that individuals are working on the right tasks in the most efficient manner. If you have an inefficient support team, this means lost opportunities and more cost. Answer the following questions to determine if you are optimized:

What does my support team look like?
How many individuals comprise the support team?
What roles do they play?
What is the overall cost of support?
What types of vendor support fees do I pay?
What is the turnover in my support team?

How many users do we support and where are they located?

How many modules are in production?

What is our customization level?

How many issues do we process on a monthly basis and how quickly do we process them?

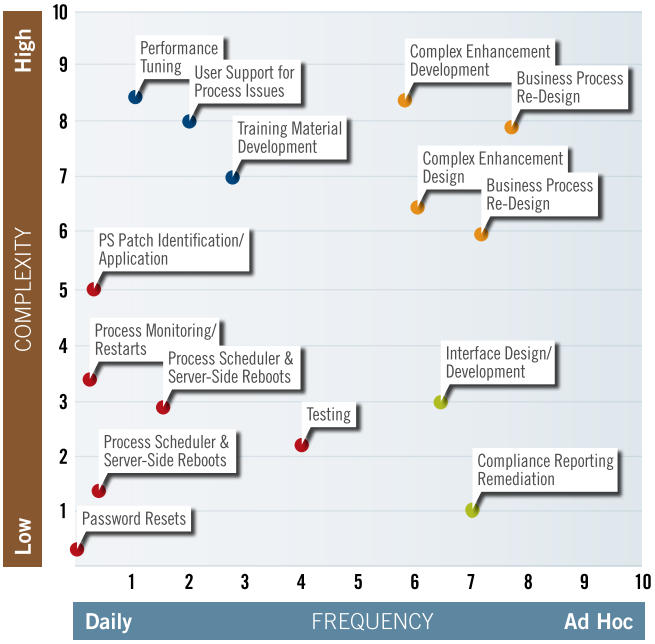
In addition, you should rank each of the tasks your support team works on according to:

- Percentage of time spent completing this type of task
- Complexity level (1–low complexity to 10–extremely complex)
- Frequency (1–every day to 10–ad hoc/special project)

Once you have ranked the percentage of time spent on each task, you can plot where your team spends its time. This will provide a readout of your support organization compared to other "best practice" support shops.

The following sample assessment illustrates how a support team might be spending its time on an organization's tasks, as they are related to both complexity and frequency.

SAMPLE ASSESSMENT



If you're like most organizations, you are probably focusing your time on low-complexity, non-value-added tasks.

Q How do I optimize my support team?

Determine ways to move time from the low-complexity, everyday tasks to those that actually provide value to your organization, such as enhancements and support. Once you are truly optimized, you can also size your team to maintain optimal support costs.

You should compare your organization-based metrics and view them through the prism of automation tools, process standardization, and organizational and task structure.

By leveraging best practices in each of these areas, you can see significant cost savings. Some examples of best practices for each area include:

Automation Tools
- Change control software
- Performance monitoring tools
- Project team portals
- Computer-based training
- Testing automation software
- Sarbanes-Oxley/audit compliance tools
- Data integrity/issue identification robots
- Self-help/FAQ and password reset guides
- Application tuning tools

Process Standardization
- Stakeholder-level project governance (customizations, reports, issues, etc.)
- Release management
- Developments standards/methodology
- Migration request process and forms
- Peer/Q&A reviews
- Change control boards
- Business user/ROI-based customization justification
- Standardized issue triage, prioritization, and routing
- Standard requirement, design, and testing documentation
- Standardized procedure and training guides

Organizational and Task Structure
- Automation and/or outsourcing of low-complexity/non-value-added tasks
- Allocation of internal employees to high-value projects
- Separation of duties between functional and technical

In order to optimize your support team, you need to look for ways to deploy these best practices over time to increase productivity, improve support quality, and minimize support costs.

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