Survive The Economy By Getting Leaner With ERP

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Under today's conditions of stagnant demand and tight credit, many mid-market manufacturers and distributors face intense competition for dwindling markets and increasing pressure on their bottom line. With recovery still "around the corner" at an uncertain date, how can they continue to survive, let alone thrive?

Essentially, the same way they compete in prosperous times — by increasing the efficiency of their planning, administration, production, sales, distribution, service, and other essentials of their particular business. The only difference is that now, heightened efficiency is imperative.

The need for ERP

But how? A good place to start is with your company's IT. You want make sure that you have efficient systems in place *and* you want to find every way possible to employ such systems to increase efficiency to enhance (or at least protect) your bottom line. Many dynamic and innovative mid-market companies have been so busy growing in the past that they never stopped to implement a comprehensive Enterprise Resource Planning (ERP) solution. Hence, they are often constrained by the piecemeal systems they had adopted in the past — standalone solutions to manage payroll, accounting, inventory, sales, ordering, customer service, and so on. There are serious limitations to this piecemeal approach:

- Multiple systems require multiple skill sets, and multiple training.
- Particular systems are often critically dependent one or two individuals for data entry, maintenance, and reporting.
- The same data is often entered in multiple systems in multiple ways, creating redundant tasks and leading to errors and inconsistencies.
- Multiple systems create multiple paths to data vulnerability.
- There are multiple systems to upgrade and maintain.
- It becomes difficult or impossible to provide centralized technical support.

ERP solution providers reject this piecemeal approach with integrated software solutions that provide complete control over the planning and management of all facets of a business, including accounting, manufacturing, and distribution. Some vendors offer mid-market companies a “single source” solution that does not require external applications to run the business. Such an integrated ERP approach provides a common underlying structure and simplified processing.

How to make it through the recession with ERP

While the implementation of ERP is an essential first step, you must exploit the potential of various ERP modules you employ to achieve optimal efficiencies. Here are six ERP ways to cut costs and make it through the recession:

1. "Inventory still kills"

Other than lenders, nobody makes money from your inventory. Effective inventory management is one of the surest ways to cutting financial costs. You can create seasonally adjusted forecasts employing a variety of algorithms, and aggregate items by sales turnover, profits, unit movement, and other user selectable attributes. You can then optimize your inventory by setting safety stock levels, modeling inventory, projecting future inventory, tracking inventory performance, providing lead time tracking, and generating supplier scorecards.

2. Tune up your planning and scheduling

Many mid-market companies are still doing their forecasting, material planning, capacity planning, and factory scheduling based on "gut feel and experience.” In a recession, this can lead to disastrous results, since you can no longer assume that the future will be anything like the past. One of the best investments you can make is to train your planners to make the most of the advantages of integrated ERP. Depending on your business, key areas to address can include master production scheduling, rough cut capacity planning and load balancing, and MRP pegging and automated order creation. Advanced ERP planning and scheduling features can help you to optimize plant throughput, balance multiple resource constraints, improve productivity, and reduce waste.

3. Time to go lean

Lean manufacturing has lowers operating costs by as much as 30 percent. Managers and employees can advantage of the recession by employing idle time for training, process redesign, and plant layout changes. Modern ERP systems support lean manufacturing with features such as value stream mapping, visual management, batch size reduction, cellular manufacturing, and production leveling.

4. Cost accounting — a cost cutters best friend

ERP systems have powerful cost accounting capabilities that many companies underutilize or ignore. For example, activity based costing (ABC) is one of the newer tools to analyze product profitability and allocate overhead costs. You can also use inventory costing to revalue inventory to reflect recession-driven changes in material, labor, and overhead. Work in process costing and variance analysis can enhance manufacturing operations by identifying unrealistic or obsolete time and cost standards, highlighting scrap and yield variances, and uncovering hidden material usage or labor rate variances that drive up manufacturing costs.

5. Improve purchasing effectiveness and efficiency

Purchasing is a critical area to address with ERP since 50-80 percent of most manufacturer costs are purchased material and services. For example, take advantage of your ERP system to institute automated bi-directional transfer of

Electronic Data Interchange (EDI) and XML documents with suppliers, to eliminate manual data entry and improve accuracy. For imported goods, you can use ERP “landed cost tracking” to capture and analyze all their associated costs. You can also use Material Requirements Planning (MRP) purchase order generation to improve purchasing efficiency. On the cautionary side, ERP authorization workflow prevents "maverick buying," and careful management of return to vendor (RTV) processing ensures proper inventory control and financial credit.

6. Financial savings

ERP systems with integrated financials provide numerous cost-saving opportunities. Accounts receivable features can help improve credit management and customer collections, reduce days sales outstanding, and analyze customer profitability. Accounts Payable modules provide a goldmine of opportunities to analyze vendors, control purchase price variance, and take advantage of all available discounts.

Jim Shepherd brings more than 30 years of manufacturing, operations, and software industry experience to his role as senior vice president of research for AMR Research. His coverage area includes ERP systems, supply chain management, and the governance of global IT operations. Jim also leads AMR Research’s team of analysts covering enterprise applications.

Jim helped to develop AMR Research’s coverage of Enterprise Resource Planning (ERP) and led the company’s effort to establish the Supply Chain Council and define the SCOR Model. He was also the first analyst named as an AMR Research Fellow.

Jim is frequently quoted in leading business publications, including BusinessWeek, The New York Times, and The Wall Street Journal. He has also appeared on CNBC and has been interviewed on National Public Radio. He speaks frequently at industry trade conferences, user group meetings, and executive conferences.