

'ERP Plus' Aids In The Pursuit Of Profits



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Some would argue that the “process” industry has been invented by software companies. Companies in this category think of themselves as food & beverage, chemical, pharmaceutical, metal processing, or other related industries. Yet in terms of requirements for planning and manufacturing execution, they do have a lot in common. They deal with batch processes along with discrete packaging. Inexact quantities are prevalent where actual quality and characteristics vary by batch, variations must be defined by lot, and compliance requirements are defined by government agencies. Each of these industries place unique requirements on enterprise applications such as ERP and the complementary applications which extend core ERP functionality to make it "ERP Plus." Yet these companies face the same pressures to reduce costs and fuel growth as any other manufacturer.

They also share common goals. The third quarter 2010 Aberdeen Business Review found the top business goals of process manufacturers were profitability/margin growth and cost reduction, which obviously go hand-in-hand. Organic revenue growth also placed in the top three goals, but just behind profits and cost reduction, reinforcing the supposition that today companies cannot rely entirely on top line growth to fuel the growth of profits and they must also contain or reduce costs. This is particularly challenging in many of these industries as the cost of raw materials, as well as energy and transportation have increased and also become much more

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volatile and harder to predict.

Other variables may also introduce challenging complexities in the process world, including ingredients that can spoil, quality and compliance requirements, variability of ingredients and of the processes themselves and environmental issues. Dealing with contaminated product, which may ultimately result in a recall can be costly not only in terms of time, effort and dollars but also brand equity and safety. All of these factors combine to make cost reductions that much more challenging. Yet these businesses need to be mindful of keeping costs low. Lowered costs mean increased profit margins.

As the foundational system of record for the business, ERP can be one of the best tools process manufacturers can use to implement cost cutting measures and to achieve these goals.

Aligned with profitability and reducing costs being the top business goals in 2010, the top business driver impacting ERP strategies of process manufacturers is the need to reduce costs. ERP helps process manufacturers run more smoothly, eliminating waste. At the same time, ERP allows companies to get a full 360-degree view of their business which improves responsiveness to customers, improving the overall customer experience and also helping to manage growth expectations. Best-in-Class implementations combine the traditional planning, tracking, and reporting capabilities of ERP with specialized features to provide full lot traceability, shelf life management, recipe formulation, actual costing, and attribute based inventory.

What are some of the challenges faced in achieving desired performance levels? Process manufacturers face challenges in reducing costs, serving customers, and growing their businesses.

Aberdeen's recent survey of over 200 process manufacturers found their biggest challenge to reducing costs is the rising cost of raw materials. Yet the impact of poor quality (including non perfect orders as well as recalls) is also a major concern. For most discrete industries poor quality will result in rework, adding time and cost to the production process. However, in many process industries, poor quality, or contaminated product can result in the product having to be destroyed, resulting in even more damage to the organization and its profits.

The challenges to growing the business are closely related. Here the top two were the need to optimize equipment and capital assets while also dealing with rising input costs including energy and transportation. Unlike a discrete assembly process where capacity can be easily adjusted through overtime or adding shifts or workers on a production line, process industries tend to be capital intensive and therefore the capacity is not easily adjusted without the expenditure of capital.

And finally, the challenges associated with servicing the customer, an additional factor in determining actual growth rates: For years now, we have seen the balance of power shifting from the vendor to the customer. Even the 800-pound gorillas in any market must today listen closely to their customers. As customers become more demanding, inventory tends to be pushed back up stream. Many customers

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today are willing (and able) to carry less inventory. But in turn they expect a faster turnaround from their suppliers. This leaves fewer buffers all around, particularly in process industries where limited shelf life of products and vendor-specific requirements for lots are prevalent. This places additional requirements on these manufacturers to manage expiration dating, provide better forecasts and more reliable and accurate schedules. ERP plays a role on both sides of the buying and selling equation.

Many of these challenges are intertwined. The ability to control material and input costs is dependent on the ability to forecast demand and negotiate price. If a supplier is assured of a predictable flow of orders it is far more willing to negotiate on price. The planning functions may be supported directly by modules included with the ERP solution or may be handled by complementary solutions interfaced or fully integrated with ERP.

These planning processes are further complicated when product proliferation fragments demand and causes more frequent product changeovers. In continuous or batch processing, changeovers in production must be handled very carefully as they may require significant time, effort, and resources to clean out machines and prepare a line. Sequencing therefore is particularly important. In scheduling colors (of paint or coatings for example) through a line, it is important to go from light to dark. In processing chemicals, it is important to understand chemical reactions if prior materials are not completely flushed from the line. As consumers become more accustomed to choice, product options proliferate and cause an increase in the number and the complexity of product changeovers.

Further challenges to keeping costs low include the rising cost of energy impacting manufacturing operating costs and the complexity of outsourcing manufacturing processes. For asset intensive industries, energy consumed by machinery is simply a cost of doing business. The only way to reduce energy cost is to reduce consumption and reducing consumption means reducing output - not a desired outcome. Process manufacturers therefore are often forced to "eat" the difference between planned and actual costs. ERP can help predict demand and schedule production, but cannot have a direct impact on the price or cost of energy consumed. However other complementary solutions such as Enterprise Asset Management (EAM) and Manufacturing Execution Systems (MES) can have a direct impact. The better integrated these solutions are with ERP, the more effective cost controls can be.

In the words of the controller of one process manufacturer, "The main goal when selecting our ERP solution was to be able to communicate seamlessly across all departments with full integration. We found a solution that made it very simple to integrate with any other programs that we already had running. It was important that the software facilitated demand planning and capacity scheduling. With these criteria in mind, we have greatly enhanced the business' processes and profitability moving forward."

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For a more in depth view of this topic, take a look at Aberdeen's full report: ["ERP Plus" in Process Industries: Managing Compliance in the Pursuit of Profits.](#) [1]

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