

Pharosinformatics

Case study

Using BPR found a £60m profit improvement opportunity

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Case study – Using BPR found a £60m profit improvement opportunity

A food and drinks company manufacturing and distributing its own and other branded products was threatened by changes in market structure imposed by the Monopolies & Mergers Commission. Unless the organisation took preventive action, nearly 80% of current profit would be wiped off the bottom line within three years.

Crude overhead cost reductions had already been implemented which, though significant, did not address the scale of recovery required. The directors were unable to suggest further cuts in their functional budgets without, it seemed, putting the core business at serious risk. Income had been rising, but further growth was dependent on capturing market share from competitors through keener pricing and improvements to customer service.

The directors knew that radical solutions had to be found. Yet despite the wealth of data in their monthly account packs, they had little insight into some fundamental questions:

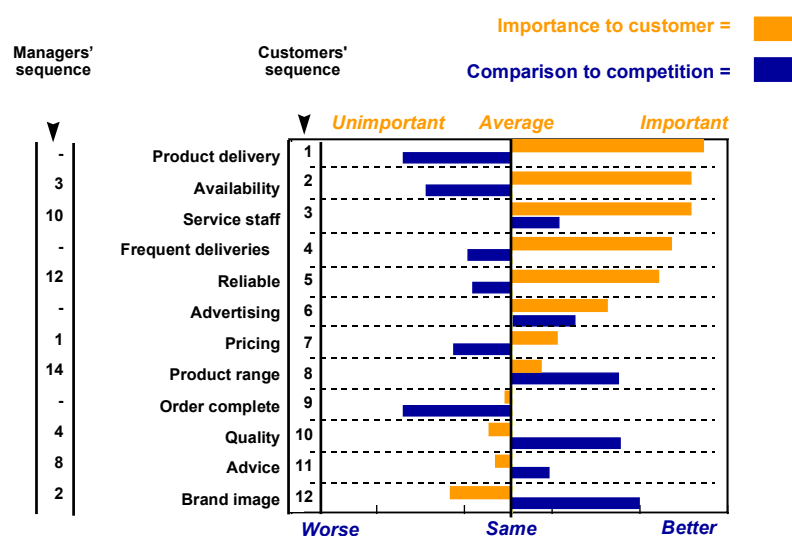
- What do our customers really think of us?
- Are further cost savings possible without harming the business?
- How can we grow the business and sustain margins?
- How cost-effective are our key business processes?
- How well do they meet customer needs?

The turning point came when they realised they had to look at the business in a completely new way. A project was set up to expose the key issues from a *process* perspective.

Customers' views made visible

The company's main customers were retailers. Right from the start, it was agreed that radical change had to be based on a full understanding of how the retail trade viewed the company. The project's first output - a customer survey - analysed features of customer service by their importance to customers and by the company's performance relative to the competition (Figure 1).

What customers thought



There were two main findings. The first was a significant mismatch between what customers and the company's managers perceived as important. Managers thought that *price* was the top priority for customers. But customers disagreed: *product delivery* and *availability* outweighed price, since lack of product, even a low price product, meant they had nothing to sell.

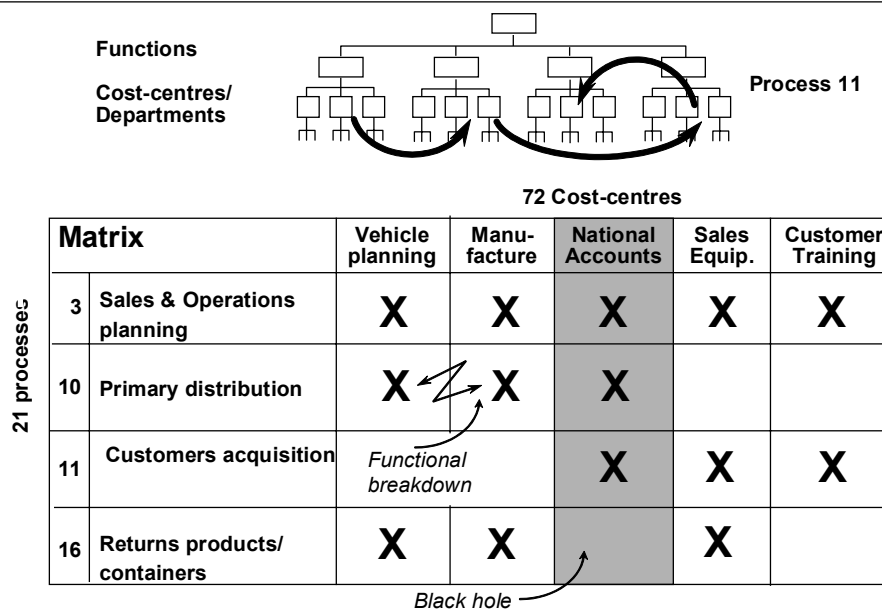
Secondly, customers believed that the competition provided a better service on both *product delivery* and *availability*. Even on *service staff*, where the company outperformed the competition, managers found little comfort: the main task of service staff was to handle complaints, a role which could be instantly reduced if only delivery and availability were improved.

The survey provided incontrovertible evidence that the business had to improve service as well as cut costs.

Process versus functional perspective

The project constructed a process view of the business with customer priorities in mind. 21 business processes were identified and an analysis completed, showing which of the 72 cost centres were involved in each process (Figure 2).

Black holes and functional breakdowns



A perspective on the business emerged which had been invisible to functional managers. They realised that where several functions were involved in a single process everyone worked in ignorance of each others' needs. Not surprisingly, there were regular process breakdowns that hampered output and damaged service to the customer.

Take the Sales & Operations Planning process. It was bedeviled with multiple iterations of the monthly production plan, to which functions in both Sales and Operations contributed. Each would attempt to second-guess the other, resulting either in stock-outs or in vast quantities of slow-moving stock. Mutual recrimination was common practice. The sour relationship and underlying distrust guaranteed that the problem would never be solved.

Some functions, such as National Accounts, were involved in many processes and as a result, were constantly struggling with competing priorities. They were termed 'black-holes': things went in and hardly ever came out!

The process of signing-up a new customer account was complex, resulting in a two-week turnaround on approval, compared with the one-day turnaround achieved by competitors. It took so long to get the discount structure onto the mainframe that the first two invoices to a new account required credit notes to be raised later. A poor start to a new relationship!

The management accounts were functionally structured with a plethora of cost codes. By allocating costs to processes rather than to functions, some surprising information came to light. For example, the cost of the Customer Development process was far higher than the budget for the Customer Development function. Investigation revealed that some customers were given a higher level of service than planned, to stop them becoming bad debts. Such customers would never have been signed up in the first place, had the target system in Sales not encouraged the sales force to take poorly calculated risks.

Finding the prizes in the gaps between functions

When functional representatives were invited to process meetings, they were often struck by the fact that, although they had spoken to each other (and not always too kindly when things were going wrong), they had never before met as a group to understand the entire process and how the functions linked together within it.

Not surprisingly, the meetings were a revelation. It was clear that the people working in the processes were doing their best: the problems lay in poor process design and a lack of 'process awareness' among the functions involved.

Participants in the Forecasting & Scheduling process were so divorced from each other that they had been unaware of a glaring hole in the process through which was pouring £6 million a year! The result of using the forecasting system incorrectly!

The problem had lain hidden in a communication gulf between the main functions in the process. Both groups had complained about the other, but had never got together to solve the problem from a corporate perspective. As the two functional directors concerned were often at odds with each other, it was hardly surprising that their respective staff, deep in the hierarchy, did not co-operate either.

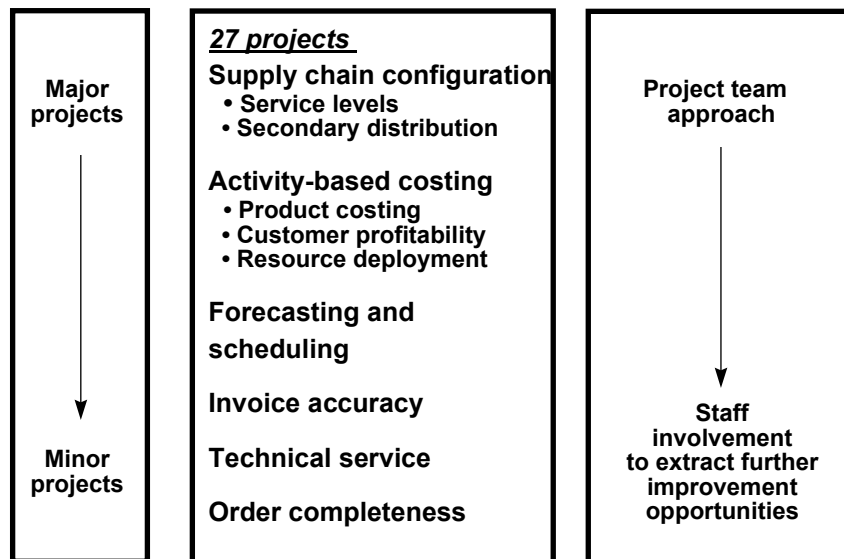
One by one, the issues in each key process were thrashed out. The opportunities were identified and quantified in terms of their impact on profit: cost reductions, higher volume throughputs and better margins. In total, they delivered a staggering additional £60 million profit.

Finally, a workshop of Board members considered each process in turn and set the focus and direction for implementation.

27 projects were identified (*Figure 3*). The major opportunities required a project approach and an internal team of specialists. Re-configuring the whole supply chain fell into this category. Other opportunities, such as eliminating the annual £5 million loss in the Returns process, were better addressed directly by the staff involved: a cultural change signal demonstrating the company's faith in their employees' knowledge and judgment.

The Board's endorsement of the projects ensured that everyone got the message that major business changes had to happen.

Key process improvement opportunities



In the course of the next year, the company tackled all the projects. Through staff involvement, further savings were uncovered. Most importantly, the loss of margin predicted from the changes in market structure was averted.

About Develin & Partners

Develin & Partners specialises in identifying cost reduction opportunities through a range of approaches, including the use of business process and activity-based management techniques.

Our approaches all feature strong client participation. Senior and middle management are actively involved and work with us to develop proposals for improvement. As a result, the client owns the recommendations, is committed to change and pursues rapid and effective implementation.

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