

# Executive Perspective

**Navigating the perfect storm:  
Strategies to Cut Costs without  
Disrupting your Supply Chain**

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*"In today's economy, even the highest functioning supply chain companies are being put to the test by volatile market conditions."*

### Summary

Industry leading companies have long employed smarter supply chains to cut costs, reduce cycle times, and achieve greater, sustainable growth. In today's uncertain economy, a continued focus on improving the physical supply chain is necessary but insufficient. Whether your primary business is manufacturing, distribution, or retail, there are additional steps you should take now to outsmart the recession.

This paper discusses the challenges and opportunities presented by current market conditions and the immediate results that can be achieved through critical focus in four strategic areas. Along the way, we highlight supply chain companies with best practices implementations and proven results. See how your company can benefit from these useful practices through improved people productivity, process performance, and business visibility.

### Challenges

In today's economy, even the highest functioning supply chain companies are being put to the test by volatile market conditions. Every aspect of the current supply chain environment is impacted. Tightening credit markets and rising commodity costs, mounting margin pressures and uncertainty in consumer spending patterns have combined to create a perfect storm. Navigating the waters to survive and then thrive as the economy improves will require a new way of thinking and well focused strategies.

Every decision your company makes in the following key challenge areas represents an opportunity to improve efficiency, raise effectiveness, and better compete for customers.

**Cashflow is a lifeline.** The supply chain is central to many a company's competitive advantage. When volatile market conditions come together as they currently have to create a perfect storm, that advantage is threatened.

Cash flow becomes a lifeline and focus must increase on the customer-to-cash



*PricewaterhouseCoopers found that "Organizations still spend on average \$20 to file a document, \$120 to find a lost document, and \$220 to replace a lost document, while losing 7.5% of their documents and misfiling 3%."*

conversion cycle. It becomes critical to have the same control and visibility over the financial supply chain -- those processes that drive the company's cash, accounts, net performance and working capital -- as you do over the physical movement of goods.

Except in recessions though, most companies don't pay enough attention to cash. As a result, many enterprises have solid opportunities to improve their processes that they are not necessarily fully equipped to leverage. For most companies, this "voyage" will require new process improvement strategies to weather the storm and co-requisite technology to implement for quick results.

**What is essential is invisible to the eye.** The story of "Le Petit Prince" in the novel by Antoine de Saint Exupéry teaches about a voyage of a different kind. A charming classic about a lonely little prince who sets off on a journey across the planets to see who he can find. Ostensibly a children's book, the story makes a profound point about life and human nature -- that the essential things in life are invisible to the eye and are seen only with the heart.

While far less profound, but no less insightful, in today's supply chain what is essential is often invisible - because the lens is imperfectly applied or only applied within the company. Companies are all facing increased complexity and risk in the supply chain. End-to-end visibility is critical to meeting the challenges in today's difficult markets. To meet the challenge, companies must gain visibility at the boundaries and touch points of the supply chain flow, and not only in their transaction stream, but also in the conversation stream that surrounds customer activities.

**All boats rise with a rising tide.** Companies need to be organizationally responsive across the supply chain to make improvements that have significant impact on operating results. Just as a rising tide lifts all boats, so do all boats drop with the ebb tide. Yet only recently have businesses truly begun to explore and manage the upstream impact on their performance from a downstream supply chain partner's working capital structure and related processes. Conversely,



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*Killen Associates*

isolated attempts to accelerate collection of accounts receivables by a supplier can adversely impact a buyer's source of cash and in doing so weaken the entire value chain.

How a company involves partners in process improvement determines its effectiveness in meeting customer demand. Firms that automate and streamline work flows across multiple sites, including suppliers and partners, produce better operating results. One Aberdeen Research study found that companies were able to improve DIFOT (delivered in-full, on-time) results by 18%, and increase profitability by 28% over the average across all participants.

**Drowning in paper.** With today's emphasis on sustainability, "too much paper" is recognized as a potential burden on the environment and a significant cost to the business. When combined with workflow concerns, paper represents one of the biggest challenges for a company. PricewaterhouseCoopers found that "Organizations still spend on average \$20 to file a document, \$120 to find a lost document, and \$220 to replace a lost document, while losing 7.5% of their documents and misfiling 3%."<sup>1</sup> Capturing paper at the source, getting it off the floor, and integrating it with the workflow and decision making processes of your business is becoming increasingly important and more challenging as costs rise.

**Treading water.** The war for talent continues through the recession, and companies must be creative in how they develop and support the workforce, both in quality and quantity. For the volatility of the market is perhaps most reflected in the volatility of the workforce - with mergers, layoffs, and continued seasonal peaks. Yet in many companies, the process of employee on-boarding and off-boarding is carried forward in inefficient, chaotic or ad hoc manners that negatively impact the business. Just treading water to keep above the manual burden inherent in employee lifecycle management is no longer acceptable during this time of market flux. Solutions that streamline key employee lifecycle management activities are required.

1. Reported in Conquer Information Chaos, October 29, 2008

## Strategies

At first blush, finding effective strategies may seem an impossible feat given the state of our economy and the complexity of the challenges. However, tough economic times are exactly the type of conditions that inspire organizations to become more focused and effective.

As we work with leading companies, Global 360 has found strategies and supporting technologies that help them effectively streamline their processes, optimize the utilization of personnel and systems, and increase efficiencies all around, resulting in substantial cost savings and an improved bottom line.

Here are four such useful practices and strategies.

### **1. Treat your financial supply chain like your product supply chain.**

Of the three elements of supply chain working capital – payables, receivables, and inventory – supply chain executives have a tendency to focus on inventory.

But as margins decrease, the cash to cash cycle becomes critical and must be shortened to offset these pressures. In fact, Deloitte challenges<sup>2</sup> that working capital is now becoming the company's primary constraint on inventory.

Attention they suggest must turn to back-office activities such as paying bills and turning receivables into cash that are often taken for granted under normal business conditions.

Taking simple steps, such as enforcing payment terms and sending bills early, can often add two to four days of sales to cash. McKinsey found that this can represent the equivalent of an additional \$100 million to \$200 million for a typical consumer goods manufacturer with \$20 billion in sales.<sup>3</sup>

Improvements in accounts payable and accounts receivable, and better integration across functions in the order-to-cash and procure-to-pay processes,

2. Deloitte: Breathing room. Ten ideas for squeezing more working capital from your supply chain

3. The McKinsey Quarterly: Freeing up cash from operations, December 2008

will help companies lower their costs, as well as achieve a much higher degree of reliability and confidence in sourcing and customer decisions.

### **2. Focus on visibility and process intelligence.**

According to management consultant Killen Associates, "A typical billion-dollar company spends approximately \$27 million annually on unnecessary working capital and inefficient processing functions because they lack visibility into the financial supply chain and receivables."

To be effective, improvements cannot take place unilaterally. In the 1990's European and US auto companies implemented Lean as a cost cutting measure but many largely paid lip service to the process changes that needed to take place. This was particularly true when it came to passing on the advantages of lean to the supplier base and the overall supply chain showed only marginal improvement. So too are today's businesses finding that in order to have an effective supply chain, and to be vertically aware of the impact finance has on the supply chain, they need to partner and promote visibility improvements across the boundaries.

This is a growing requirement because the results that must be achieved in a difficult economy require actionable information across supply chain participants.

Forrester Research defines supply chain visibility as "Capturing and analyzing supply chain data that informs decision-making, mitigates risk, and improves processes." The ability to see the problem is important, but then it is also necessary to route the problem to get it automatically addressed via a compliant process that includes human task and workflow progress. Process changes and exception handling that optimize across the supply chain and related financial processes will in the end win out.



### **3. Get the paper off the floor.**

In recent years, companies have responded to the goals of “going green” by removing paper from their physical supply chain, with new packaging and co-packing approaches.

The strategic opportunity in the financial supply chain to remove paper from the process and achieve “straight-through processing” should be of equal interest.

Reducing paper is essential both for improving “perfect order” performance – orders delivered in full, on time, every time - and for improved exception handling when inevitably orders encounter errors.

Despite the efforts by businesses to create electronic documents for efficient processing, paper remains a significant challenge and the supply chain and finance cash-to-cash cycle is no exception. Financial supply chain processes are complex, dynamic, and intertwined throughout an organization. Numerous hand offs, and mazes of paper-based approval processes and sign-offs, slow down productivity across the entire organization. Reducing those cycle times by getting paper off the floor and integrated for example with the procure-to-pay process means fewer late payment penalties and an ability to take advantage of early payment discounts.

Further, research reveals that around £64bn could be freed up by UK companies if they could reduce their days sales outstanding to 45 days, a realistic target with an automated and systematic approach to accounts receivable.<sup>4</sup> It is no wonder then that customer-to-cash management techniques that rely on improving document handling efficiencies have also become more important on the corporate agenda.

### **4. Streamline your employee lifecycle management.**

In this time of market flux, companies are focusing on strategies to streamline key employee lifecycle activities, and integrating employee documentation into the workflow to assure compliance.

4. Gtnews.com Document Management  
Automation Key to Efficiency in Finance  
- 17 Jun 2008

Manual processes can be expensive, slow, and error-prone. The typical employee on-boarding process, linking recruitment of new hires to productive roles within an organization, is a paper-intensive manual activity. Off-boarding is equally if not more ad hoc, and the need for compliance is as great if not greater. The critical player is often the HR individual who typically organizes and executes the tasks in a “top-of-the-stack” linear manner, transcribing data from paper or from source systems into multiple back-end systems to fulfill the requirements. When outsourcing is invoked there is still the issue of access to critical information and documents that might be caught in the paper chase or trapped in legacy systems.

The most successful strategies recognize that, in many companies, the process of employee on-boarding and off-boarding is carried forward in an inefficient, ad hoc, even chaotic manner. Even incremental improvements can have a significantly positive impact, especially those that can be quickly implemented.

### Role of Technology

With the emergence of Business Process Management (BPM) solutions as an accepted method for managing people, processes, and data, it is not surprising that the process-oriented supply chain sectors are looking to BPM to help gain new efficiencies, create a more consistent customer experience, and provide better data insights.

The disconnected ERP systems and home grown retailer systems are not well designed to withstand changing products, supplier costs and pressures, regulations, and customer demands that exist today; leaving companies to consider migrating to newer, flexible, and more open systems technology that can be deployed in a tactical manner to support strategic goals.

Companies deploying BPM technology to address specific processes such as procure-to-pay and customer service issues are uncovering opportunities to streamline and connect other processes as well. BPM effectively manages complex processes across multiple systems and throughout the extended



*In a tough economy, supply chain companies want to leverage BPM technology to save money through operational improvements, produce more work with fewer people, deliver higher financial performance from the fixed assets they already have, and gain a competitive advantage by innovating during the downturn.*

supply chain. The improved process control and visibility that BPM offers through its ability to proactively monitor process objectives and metrics known as Key Performance Indicators (KPIs), enables companies to rapidly prepare for, and react to, changing business conditions in real time.

Moreover, when presented to workers, these KPIs offer an opportunity to see how their efforts impact the success of the organization and in turn empower them to make real contributions. In cases like dispute resolution management, greater automation of processes using BPM technologies can help companies not only lower the time taken to process a request, but track the exact status of each request as it makes its way through the company systems, helping to ensure that the dispute is settled quickly and correctly and the customer relationship well maintained.

### **Best Practices in BPM are Lessons Learned for the Industry**

Global 360 is working with companies who have made outstanding progress in coordinating product and information across their physical supply chains.

Given current market conditions and opportunities, these leading businesses are beginning to target and emphasize the following key processes that provide enormous opportunity to increase productivity and provide a next source of competitive advantage:

- » Procure-to-pay including accounts payable automation
- » Order-to-cash including accounts receivable visibility
- » Employee lifecycle management

#### **Procure-to-Pay**

Companies seeking to improve the performance of their procure-to-pay process are fundamentally changing the role of their accounts payable

### **Results for Accounts Payable Processing:**

*With Global 360's BPM solution, hundreds of thousands of dollars in discounts can now be taken that might otherwise have been wasted.*

*In addition, staff can focus on quality, auditing, and exception handling versus repetitive clerical tasks, making the role of AP more strategic, and shifting it from transaction-oriented and reactive.*

department. While many organizations have negotiated favorable terms and prompt payment discounts from their vendors, they are unable to actually process the invoices within the designated time period and qualify for the discount. Most organizations are unable to systematically prioritize invoice processing to ensure those with favorable terms are processed first. Consider that 10% of supplier invoices are processed too late to be paid within discounting terms, and nearly 2% containing errors.<sup>5</sup>

BPM solutions are now allowing companies to automate paper-based, labor-intensive functions and improve accuracy so people can focus on quality assurance, compliance and process improvement analysis. With the Global 360 solution, companies are automating the distribution of the invoices to be processed as well as the order in which they are worked. Workflow tracking ensures the correct sequences of work steps are being followed and invoices can be routed and prioritized for payment based on invoice type, favorable terms negotiated, vendor, dollar amount, or any additional key criteria. Exception handling is also streamlined in the Global 360 solution—invoice anomalies are automatically identified and routed for additional auditing.

Both manufacturing and retail companies like 3M and Lowe's use Global 360 BPM to improve accounts payable, eliminating errors that cause delays and unnecessary adjustments, such as goods being received for which no invoice has been generated, or vice versa. Companies can avoid situations where the processor needs to track down the information, delaying the process and possibly missing time sensitive vendor discount terms.

Results include:

- » Increase "straight-through processing," so that processor staff and approvers can focus on more value-added tasks.
- » Improve prioritization of payables as well as tracking of organizational performance.

**Results for Order-to-Cash Visibility:**

*Global 360 process and document management enables real-time access to customer files, costs savings in credit and claims management, streamlined organization of work processes, reduced DSO (Days Sales Outstanding), and faster processing cycles. Global 360 process intelligence tools afford the ability to analyze exceptions and recommend alternative resolutions - with enough time to act.*

- » Achieve balance of workload and staffing for the human-intensive part of the process.
- » Simulate and execute optimal payment strategies for cash management, taking into account multiple factors like preferred vendor status, discount rates, and negotiated payment terms.

**Order-to-Cash**

Companies continually seek to achieve the “perfect order” - the right product delivered in full, on time, every time. There are any number of things that can go wrong and all companies need to improve the automation of order management and better managing the mistakes or order exceptions when they do inevitably happen. With economic uncertainty and the global credit crunch, companies are achieving good results by focusing on practical and prompt initiatives to improve order-to-cash financial performance through accounts receivable visibility and discipline.

For the majority of companies, the problem lies in inefficient processes and the lack of integration between systems. Consumer goods companies typically don't capture enough granular data in their order-to-cash cycle to manage dispute resolution or make proper decisions about customer deductions –or they can't access the data easily and effectively. Further, they lack the requisite dedicated staff in operations and systems, have not measured the extent of the problem to size the profit leakage or customer relationship opportunity or they simply don't know what steps to take to attack the problem. Global 360 business process management and process intelligence capabilities enable companies to address these shortcomings, control spending and cut costs, all while keeping pace with their peers and meeting their customer SLAs.

Global 360 capabilities enable consumer goods companies like Revlon with realtime access to customer files, costs savings in credit and claims management,

### **Results for Employee Lifecycle Management:**

*Global 360 process and document management helps balance staffing, reduce errors, and streamline processing time for on-boarding and off-boarding, while providing important process transparency for compliance and corporate governance.*

streamlined organization of work processes, and faster processing cycles. The first step is the removal of paper from the process, and then improving visibility to the workflow and integrated documents, leading to improved exception handling.

Results include:

- » Gain visibility and control to improve productivity and cash flow in the order-to-cash process and Accounts Receivable function.
- » Better customer service with a multiple department closed-loop solution that provides visibility to the many customer touch points.
- » Improve exception handling and reduce backlogs in the credit and claims departments with faster claim turnaround, greatly reduced write-offs, and a higher claim resolution percentage.
- » Decrease order management and claims processing times through ability to communicate quickly and easily find needed information for decision making.

### **Employee Lifecycle Management**

Companies are leveraging BPM solutions to reduce “time to productivity” for new employees and to dramatically remove the burden of paperwork and manual steps in both the on-boarding and off-boarding process. These processes are naturally complex and labor intensive, and there are redundant operations where process steps are unnecessarily duplicated. Frequent manual interventions introduce preventable process bottlenecks and inconsistencies in the process.

Working with leading companies like Target and Publix, Global 360 provides the ability to automate employee lifecycle management processes, track milestones, implement consistent workflows, and report on key metrics. Retail companies in particular can benefit from better control and productivity during seasonal cycles and store expansion and contraction.

Results include:

- » Productivity gains for the Human Resources staff, line managers and employees, with support for alerts, escalation, delegation and re-routing of work.
- » Better exception handling and issue resolution, based on access to critical applications and dispersed information.
- » Transparency for candidate status and distribution and tracking of key documents including policies and procedures.
- » Secure completion and distribution of key forms (e.g. I-9, W-4) for governance.
- » Out-of-the-box and customizable reports and dashboards for viewing and analyzing corporate performance.

## Next Steps

Leading companies rely heavily on business processes to provide the core efficiency that suppliers depend on and customers expect. Yet it is the people, the processes, and the data that must work together to execute those processes and deliver improved customer relations, reduced costs, and increased profits.

Global 360 has demonstrated through successful installations that it understands industry needs and more importantly how BPM provides a sustainable and competitive advantage. That is why we invite you to experience our unique viewPoint Assessment service. The viewPoint Assessment is designed to evaluate and understand the people, processes, and data your organization depends on to execute the critical processes that run your business.

With a viewPoint Assessment, your organization can:

- » Directly compare an existing process to an improved process to understand how process technologies, analysis and optimization can work in your environment



- » Learn how to work with process modeling tools and approaches to process design
- » Define the necessary data to explain how process technologies will work in your environment

Leveraging Global 360's viewPoint Assessment, we partner with you to develop a detailed analysis of your existing manual or automated applications to understand how process technology can improve and streamline your operation.

The viewPoint Assessment service is designed to clearly demonstrate how process technologies will improve your business, and provide you with a basis for demonstrated ROI to justify process improvement.

Contact us today to learn how your company can take the next steps to reduce operating costs and empower your staff for greater productivity.

### About Global 360

Global 360 helps organizations to better manage processes today and make improvements for tomorrow. Our process and document management solutions improve business performance by maximizing the productivity of all participants in a process. Building on our strength in financial services, government, insurance, manufacturing, telecommunication and the retail sector, Global 360 has helped more than 2,000 customers in 70 countries reduce paper, automate processes, and empower individuals to truly change how work gets done.

Global 360, Inc. is headquartered in Texas with operations in North America, Europe, and the Pacific Rim. For more information about Global 360's process and document management solutions, please call 1-214-520-1660 or visit the company web site at [www.global360.com](http://www.global360.com).

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Deb Miller is Director of Market Development for Global 360. Her work with the Global 360 solutions team focuses on the supply chain and industry strategies for business process improvement. Her career includes more than 20 years of global industry experience with GE. Since 2002, she has been a study group contributor to the President's National Infrastructure Advisory Council. Ms. Miller is a Phi Beta Kappa graduate of Syracuse University with a degree in Mathematics and a dual Masters in Education and Mathematics. She has attended GE's Management Development Institute and is a Six Sigma Green Belt.

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