

Anglia Business Solutions

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ARE VAST DATA VOLUMES CREATING PROFIT MYOPIA?

The speed and complexity of doing business is increasing. This is generating huge volumes of data in supply chain businesses. Much of this data is unstructured as it arrives in various formats. These include Electronic Data Interchange (EDI), other file transfers, typed and handwritten paperwork, verbal instructions and spreadsheets.

Making sense of all of this takes a significant amount of resource. In many cases, senior management take on the job of analysing the trends within the business. Unfortunately, this data quickly becomes outdated, which diminishes the value of scenario planning. Apart from turning expensive management resources into highly paid administrators, it can result in flawed business planning which will damage the organisation.

But one of the most concerning aspects of this is a serious lack of visibility of profitability across business lines. Questions such as: which of my products generate most profit, which is my most profitable customer, which grower yields the best return – quickly fall into the “too difficult” category. After a period of intense activity, the task of gathering, checking and analysing the data becomes too onerous. Thereafter, the business hopes that the figures work out at month end.

In the good old days, gross margins within the food sector provided a buffer against nasty financial surprises. These are now pared to the bone as supermarkets battle for market share using price cutting and promotions as tools. In such a scenario, the lack of visibility where profits are concerned is becoming vital. Some years back, this lesson was brought home to us in a brutal way which has long resonated within the business.

The company in question had an old business management system, the replacement of which was long overdue. The business decided to invest in a replacement solution to provide them with the degree of visibility they needed to expand and compete. The project was successful with the system becoming fully operational within timescale and budget. However, it highlighted serious financial reporting differences between the new and old system. On investigation, it transpired that they had historically substantially overstated their profits. Let's just say that the discussion with the bank was interesting.

The reality is that once businesses get to a certain size, gut feel no longer works effectively as a management strategy. Without systems that link strategic, financial and operational planning to profitability and cost management, businesses will struggle to thrive in an increasingly competitive world.

Fortunately, such systems have evolved in recent years to become more useable and affordable. They help by turning vast data volumes into useful business information by removing profit myopia. The transparency provided can make the difference between success and failure. ■

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