



Making technology pay!

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IT Return on Investment - Myth or Reality?

Enterprise Resource Planning (ERP) systems by their very nature impact on all parts of a business. They can be complex and difficult to deploy and time consuming in resource terms. They can also be expensive to fund. For this reason, not many companies volunteer to go through the exercise too many times in a management team's lifetime. The computer industry counters this by making claims on the returns that can be made on the investment. In this article, I will be examining these claims from a fresh produce perspective to test whether they are myth or reality.

The fresh produce sector is a fast moving and dynamic industry. It is also driven by massive changes caused by consolidation and higher demands on quality and delivery. It is also subject to severely curtailed margins as retail outlets battle for market share.

In addition, the move to more conveniently packed products means that companies which have built their business on trading now have to consider the costs of adding value to the raw product. This move towards manufacturing means that companies have to learn new processes while recording much more data. And it is not going to get any easier with issues such as product traceability scares [Sudan 1] and changing government regulations [such as the concerning gang and casual labour]. In such an environment, companies respond either by investing in more people to cope with the demands or by using information technology to assist by automating more of their data processes.

So where can IT be seen to help in generating a return on investment? In a normal, non produce supply chain arena, it is relatively easy to define ways in which costs can be reduced or efficiency improved to justify the capital and running costs of a new business management solution. These typically consist of improved stock utilisation leading to improved lead times as well as a reduction in working capital. Improved visibility of stock movements have been known to reduce stock holdings by up to 20%. If you have a



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stock holding £1 million funded mainly on borrowings, it is easy to achieve annual savings of £10,000 per annum in interest charges alone.

Another major area where cost savings can be achieved is in the purchasing of goods. A typical manufacturing outfit will spend about 60% of its turnover on raw materials. Therefore a company with a turnover of £10 million will spend £6 million on purchases. With improved forecasting information coupled with improved access to purchasing trends, it is not difficult to shave up to 5% off purchasing costs on an annual basis. In the manufacturing company's case, this could reduce running costs by £300,000 per annum. With the possible savings on just the two areas stock and purchasing, it is possible to justify the costs of a significant system and still make a profit.

However, neither of these circumstances applies to the fresh produce industry. Stock is rarely held in store for long and the producers rarely know the price they will get for their goods until they are shipped to the retail outlets. In such circumstances, the justification for the investment has to be sought in other areas of the business. These focus on the unique business issues faced by the industry and the difficulties of tackling these with inadequate IT solutions. Let's look at a typical scenario that we frequently encounter in the fresh produce sector.

A fresh produce company has earned an excellent trading reputation for sourcing and delivering high quality goods efficiently and cost effectively. As a result it has been appointed as a category manager for a leading supermarket. Turnover has grown rapidly and the business has doubled in size over the last three years. However, costs have risen even more rapidly as headcount has increased to cope with sheer volume of transactions.

The company's IT systems that have worked well for the organisation in the past now struggle to cope with the demands of the enlarged business. Their lack of functionality and agility has meant that a number of subsidiary systems have sprung up throughout the organisation to meet the needs of the business. Occasionally based on Access databases but more frequently on Excel spreadsheets, these systems have now become mission critical to the organisation. Moreover, the knowledge on how they work resides in the heads of one or two people.



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The company is now in what we call the islands of data syndrome where key information is held in various places throughout the business. As a result, it is difficult if not impossible for senior managers to have access to the up to date key performance indicators that drive the business. In such a scenario, it is not uncommon to find that the senior managers spend a large proportion of their time trying to extract meaningful management information relating to financial and customer service levels. They have in effect become the most expensive administrators within the organisation.

It is not therefore difficult to see how a modern integrated business management solution could rapidly justify the investment in a number of ways. However in order to do so, it is necessary for the organisation to examine and quantify the current costs of doing business. In simple terms, this means assessing the amount of data duplication taking place within the business and the numbers of people involved. It also means quantifying the costs of errors caused by the lack of up to date information i.e. shipments going astray or rejected, product stored incorrectly or additional consignment costs unknowingly incurred.

People costs are usually the most expensive resources within an organisation. Any financial survey will confirm that the personnel costs to the business work out at twice the basic salary. It is sobering to consider that on this basis, if your net profit is 2% of turnover, you will have to ship an additional £1 million of product to cover the costs of just one employee on a basic salary of £10,000.

With an integrated business management system, the concept is that the data is entered once and used many times, providing one version of the truth throughout the organisation. This removes the data duplication burden and reduces the unproductive administrative costs within the business. If your growth plans mean that you would have to take on three further £10,000p.a. administrators to cope with the business expansion and this could be deferred for a year by the introduction of a modern integrated solution, this amounts to a £60,000 annual cost reduction that impacts the bottom line. If instances where one or two shipments that in the past were incorrectly stored, were rejected or went missing could be prevented, you can work out the cost savings yourself. These aspects alone could justify the investment in a substantial solution.



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However, the bigger picture is that a modern fully integrated business management system will become a key future requirement of any organisation wishing to exploit their market position. The major retailers are moving towards an even greater integrated supply chain scenario. This is to reduce their costs of doing business with you while facilitating the product traceability requirements of new legislation. In such a scenario, operating with older outdated technologies can represent a serious threat to the long term future of the business.

Given these circumstances, doing nothing on the IT front is not a viable option to those businesses with future ambitions in the industry. The return on investment in terms of securing the future of the business therefore becomes a reality.

For further information contact linkfresh@angliabs.com