

# TRANSFORMING YOUR COMPANY INTO A PROFIT MACHINE

REENGINEERING AND INFORMATION

INTEGRATION IS DRAMATICALLY

CHANGING THE FUNDAMENTALS OF

BUSINESS OPERATIONS, HAVING A

PROFOUND AND FAR REACHING IMPACT

IN THE WAY WE DO BUSINESS.

By Candido Segarra

## Rethinking the Enterprise

The Internet is still perceived by many as a giant marketplace to buy and sell products and services, as well as a massive encyclopedia to research everything imaginable.

Many business leaders still think of the Internet as a sales and marketing tool; an electronic space where people can look for information about companies, showcase products and services and disseminate other relevant sales information.

Although all of this holds true, a growing amount of executives are now starting to grasp the real promise and value of the Internet as an instrument to enable drastic productivity increases and reduce operating costs, in order to radically improve the way we do business.

The main story in the media in 1999 was the Y2K "bug". Companies spent billions of dollars in fixes and technology updates to avoid a catastrophe. Subsequently, in year 2000 many people turned their attention to the astounding raise (and fall) of the Dot-coms. The story many missed last year (as it was hidden beneath the Dot-com hoopla), which is now starting to catch up, was the potential the Internet is offering

to brick-and-mortar companies for radically boosting their efficiencies. The consensus is that the Business-to-Business (B2B), E-commerce revolution has just begun.

Nevertheless, Internet technologies by themselves are not a silver bullet for efficiency. To enable companies to operate faster, more efficiently and to maximize the use of any technology, it is imperative that executives start by being open to totally rethinking the way their business operates.

In order to transform themselves into a model of maximum efficiency, they must redesign their organizations around their core processes.

The rethinking and radical revamping of business processes, in order to achieve dramatic improvements in performance is called Reengineering.

Reengineering is a real thinking revolution, a paradigm shift on how companies are traditionally organized; it has to do with creating and cultivating innovative procedural strategies to run the business in a way that radically defies and improves all prior conventions.

In addition to reengineering, the next level to achieve efficiencies comes from the implementation of Supply Chain integration.

My colleague Michael Hammer, author of the book "Reengineering the Corporation"<sup>1</sup> rightly defines Supply Chain as "the inter-company processes and relationships-how pairs of companies, or even larger groups of companies, coordinate their individual activities to make things better for everybody". He says: "That's phenomenally important because there is a limit to how much you can achieve within your own four walls. The next big wave of opportunity lies in knocking down the walls between you and your customers, and between you and your suppliers and employees".

Why is the combined implementation of Process Reengineering and Supply Chains causing so much impact on businesses this year and for years to come? Reengineering transforms the way you do business, while Internet technologies on demand enable the automation of newly created business processes, thus making information available to employees, customers and suppliers, far more inexpensively and collectively than any other previous technology. The combination is powerful and far-reaching.

Processes such as scheduling, pricing, customer servicing, billings, customer management, order tracking, intelligence and documents sharing, business planning, employee relations, financial dealings, project management, procurement, inventory management, production planning, shipping logistics and many more, can be streamlined, consolidated, automated and moved to the Internet for fast information sharing by authorized trading partners and employees.

A study by the Center for Research in Electronic Commerce<sup>2</sup> revealed that large companies who have implemented Process Reengineering and Supply Chains are already realizing improvements of 13% to 21% in financial performance measures.

They are also reporting drastic quality and customer service improvements, faster delivery of products and services, reduced operating costs and radical increases in the overall operating efficiencies of their companies.

According to the Center, small and medium size companies can achieve even greater improvements in financial performance (as much as 50%) by applying Process Reengineering and Supply Chains.



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## The New Business Paradigm and the Expanded Role of the CEO

The use of Internet technologies to integrate newly reengineered processes with supply chains will be the key element which may determine the competitive position of your company in the immediate future.

Your ability to compete in this New Digital Economy will greatly depend on your capacity to provide superior customer service, which could be the differentiating factor between you and your competitors.

Since in the New Digital Economy the business strategy drives the technology strategy, and not the other way around, CEO's (and not the technologists) are required nowadays to have a more active leadership role in the corporate-wide strategic business planning, as well as in the implementation of Process Reengineering and Supply Chain initiatives.

As reengineering changes the way a traditional business operate, the CEO must have a primary leading role in all aspects of its implementation.

The CEO must be the main transformation architect and chief cheerleader in the reengineering team. His active leadership role will determine the degree of success or failure of such an important initiative.

As CEO's takes a more active role, the Information Technology departments are now becoming service centers, helping the management team facilitate organizational change. They are playing a broader role as catalysts to automate the new business processes.

Thus, internal Information Technologists are becoming change agents for the overall company transformation efforts.

The successful implementation of an effective Process Reengineering and Supply Chain initiative in the New Digital Economy is based not in technology alone (or first), but on the understanding and radical redesign of traditional business processes, first.

Here are some fundamental points to consider in the implementation of Process Reengineering and Supply Chains:

**1. Assemble Your Reengineering Team** - The hardest part of a reengineering program is changing



attitudes and behaviors of employees, due to their rooted assumptions and habits connected to the "old way of doing things". Therefore, the people assigned to the reengineering team must have a good overall understanding of how the business works end to end. They must have problem solving, problem analysis, decision-making, and team building skills. They must have a "can do" attitude, be self-starters, customer focused and results oriented.

**2. Understand Your Present Business Processes** - This is not an in-depth analysis of the process itself, but a general understanding of why you do what you do. In other words, do not over analyze the process, but rather understand it. Ask the question why, rather than how.

**3. Map Your Present Processes** - Outline step by step, what you do in terms of processes and what your customers do. Look for the redundancies in the processes and eliminate them without affecting the ultimate objective.

**4. Rethink and Redesign Your Current Processes** - The objective in rethinking every core process is to simplify it, radically change it (not just modify it), consolidate processes, or eliminate redundant steps between processes. Therefore, the new process must be a complete reinvention of how the work is presently done.

At this point, it is of key importance that you start visualizing, not only new ways of doing things, but to envision what technologies are available that can automate the newly redesigned process and enable the smoother integration of the supply chain.

**5. Implement Your Newly Redesigned Processes** - The longer you stay in the creative thinking phase in reengineering, thus dragging the implementation of the new process, the stronger your resistance will grow from change-averse team members. For that reason, (a) understand your current processes, (b) map them out, (c) rethink creatively your new process and (d) just move right away into implementation.

**6. Design Technological Solutions to Automate the Newly Created Processes** - After revamping your processes, the key is to automate them as much as possible for maximum efficiency. Always design with proven technologies, as this is not the moment to be early adopters.

**7. Plan the Technological Solutions Implementation** - Analyze your present hardware and software capabilities and assess the upgrades you may need on your information system.

We strongly recommend upgrading your current software applications with Enterprise Resource Planning (ERP) software, which integrates every core process throughout your enterprise by sharing a common database. ERP software has dramatically come down in price since its initial popularity among Fortune 1000 companies five years ago, due to a growing amount of reliable players entering the arena of ERP solutions, targeting small and medium size businesses.

**8. Implement Your Technological Solutions** - If you don't have enough internal resources with the necessary expertise to implement your various selected technologies, make sure that you outsource and evaluate only experienced, highly skilled professionals for the design and technological implementation of your system.

## The Next Level of Integration

For the past five years, the Web initiative budgets were controlled by the sales and marketing staffs, which emphasized in the design and development of Websites to create information dissemination and sales systems.

Now the budgets are shifting to the process managers to develop automated systems, thus the emphasis on Web-page design is taking a back seat to the design of enterprise systems and supply chains.

Companies are now rapidly moving to redesign their present Websites, adding the functional interactivity and integration necessary to simplify and run their processes and manage their supply chains, moving them toward the next level of full integration.

## Some Typical Business-to-Business Supply Chain Applications:

**Supply Chain Management** - Through SCM, a company can electronically order from its suppliers. Customers can fulfill orders on-line and manufacturing companies can plan the production requirements with its suppliers, creating an automated just-in-time fulfillment system. Specifications and product information can be exchanged with key trading partners. B2B can help companies achieve significant cost savings and productivity enhancements by reducing cycle times, lowering inventories and reducing error rates, through the real-time exchange of information, thus eliminating repeated manual entries of redundant data.

**Human Resources** - Through scanning, tons of papers and records can be eliminated, by moving them into secured, self-service Websites, or corporate Intranets. Trainings can be conducted on-line and employee benefits can be self-administered. Work schedules can be published and memoranda distributed. B2B can help automate and significantly increase the Human Resource departments, through automating and designing self-serve processes to quickly and efficiently serve your employee's needs.

**Sales Automation** - Sales people can check on inventories and order status, seek for credit and price authorizations, file reports and sales orders, make travel accommodations, receive leads from the home office, attend sales training, conduct online conferences with the home office, manage client's contacts, etc. Also, product presentations can be arranged on-line to any part of the world. B2B enables companies to increase market share by allowing them to bring products/services to market quicker, design tools to increase sales productivity and by providing value-added services to their customers.

**Inventory Management** - Companies can manage their inventory databases and share them with their business partners. Marketing activities can be efficiently planned and inventories forecasted. Businesses can dramatically improve the accuracy and reduce the cost of maintaining and operating warehouses through the automation of the "point of entry" and wireless inventory locators. Point of-sale can become more coherent through the establishment of a real time inventory information and replenishment systems. Interaction with suppliers, customers, sales force and distributors can be significantly simplified.

**Document Imaging/Management** - Scanning of documents to store them in secure databases, in-house, or on remote secured Web sites for a paper-less office.

Designing of electronic signature privileges can be established for distant transactions.

**Financial Reporting** - The establishment of special investor's sites containing financial reporting and analysis, graphs, interactive financial presentations, business plans and corporate annual reporting.

**Knowledge Dissemination** - Rate cards, formulas, technical drawings, technical manuals, instruction sheets, catalogs, glossary of terms and industry dictionaries, warranty information, etc. can be quickly and efficiently shared to and from any part of the world.

**Customer Support/Satisfaction** - The management of customer relationships, service calls, customer history, sales information, warranties, sales history, delivery and dispatching, shipping information and many other customer relationship management tools can be established.

## The New "Breed" of Reengineers and Solutions Integrators

With the rapid Internet and information technology explosion, we have seen the emergence of a number of service providers whom have helped to build the New Digital Economy to what it is today. Let's analyze some of them:

**1. National Consulting Firms** - The large, high-level prestige management-consulting firms: McKinsey & Co., Bain, Anderson Consulting, Boston Consulting Group, Arthur D. Little, etc. are essentially generalists who take their name brand management consulting into specialty areas, such as technology.

Their weakness lies in their management structure, which has the partners selling new jobs, and lower level, inexperienced associates delivering the work.

**2. In House Developers** - These are comprised by in-house IT technicians from companies who have the internal technical resources to do their own development. Internal employees will perform these functions as part of their regular responsibilities. The down side of in-house development is that managers are already overloaded with maintenance work, thus, they don't have time for additional new projects or do not have the expertise in specific high-end technologies.

### **3. Specialized Consulting And Development Companies**

- These are companies such as Razorfish, Cambridge Technologies, Accenture and others. These technology-specialized companies are highly skilled in information technology and Internet development, but weaker in reengineering skills. Their fees are very high and they are generally overloaded with work from their (mainly) "Fortune 1000" client-companies.

**4. Small Independent Value Added Resellers** - Generally speaking, they are formidable service providers for network design and deployment, but they can not provide the kind of high-level consulting which integrates the understanding of business processes with knowledge of high-end technology applications.

### **5. The New Breed: Reengineers and Solutions Integrators**

- Pioneered by McKenzie Consulting Group in Miami, FL, this emerging business model is organized around teams of experienced (a) process reengineers (working hand-in-hand with the CEO and the management team), (b) project managers (designing the technical solutions and over viewing its implementation) and (c) high-end solutions technicians (executing the technological solutions implementation).

These teams work together as an extension of the customer's management team to successfully implement process reengineering and supply chains. The reengineering consultants must be experienced seasoned businessmen, which understand the operational, financial and customer interactions of a business.

## Examples of Reengineering Initiatives

A classic example of a successful reengineering implementation initiative is Ford Motor Co. They used to process their accounts payable by getting a purchase order and matching it to a receiving document from the receiving dock, along with the invoice from the vendor. If all documents matched, they will issue a check.

The new process called for the person at the receiving dock to verify the received goods to see if it matches the purchase order; if so, he/she authorizes payment, which is automatically issued, thirty days after goods are received. If the shipment does not match, the shipment is not accepted.

This process is simpler, cuts on labor and saved the company a significant amount of money.



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Another example comes from a leading National leasing company. Under the traditional process, once a lease application was received it would go to a clerk to assure that the form was fully filled out. The clerk transferred the form to another clerk, which pulled a credit report and opened a file. The file would go to an underwriter, which would review the application against the company's established financing criteria and issue a lease offer with its correspondent rate to the client.

This task used to take three to four days to accomplish. The reengineered process called for a retraining of the clerk to accomplish all three tasks, assisted by a software application, which analyzes the financial criteria and automatically issues an approval and a lease offer to the client. Again, this new process eliminated steps, people, and shortened the approval process from three to four days to three hours. Reengineering must break down old rooted assumptions, biases, routines and other attitudes that get in the way of thinking from out of the box. Reengineering is not simple, but when done correctly and combined with supply chain initiatives, it can radically change and transform the efficiencies in a company.

Allan Greenspan, Chairman of the Federal Reserve, in his semiannual report on the economy and monetary policy on February 17, 2003 stated: "the spread of our newer technologies have been at the root of our extraordinary productivity improvement". He was and continues to be right on target, as this has been the case with the implementation of reengineering initiatives and supply chain technologies.

Change may be scary to some, but status quo can and will significantly and gradually erode your competitive edge. As it was with the invention of the word processor, the desktop computer, or the spreadsheet, once you implement it, you won't be able to believe how you lived without it. ■

Candido Segarra is an author and senior consultant with thirty years of general management and business development experience. He is President, CEO of McKenzie Consulting Group in Miami Lakes, FL and Atlanta, GA, which specializes in reengineering and supply chain management implementation services for medium size companies.

1 By Michael Hammer and Steven A. Stanton. Harper Business, editor

2 Editor's Note: Communication News-February 2001  
McKenzie-Management Review - May 2001

3 [www.federalreserve.gov/boarddocs/hh/2000/February/Testimony.htm](http://www.federalreserve.gov/boarddocs/hh/2000/February/Testimony.htm)