



CONNECTED SOLUTIONS

FuseIT White Paper: Surviving the Recession with Better Information Technology

John Van der Burg,
Senior Business Consultant with FuseIT in Nelson
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Abstract:

Heading into a full blown recession most businesses will cut their IT expenses. However, to survive the recession it makes sense to invest in specific parts of your information system. These are: a price calculation module, a Customer Relationship Management system, tools to support digital marketing, software to collaborate electronically, a system to actively manage outstanding receivables and inventory, and an overall management information system. To fully benefit from new software applications it is recommended to review and selectively redesign core business processes.

When investing in an information system it is useful to take into account technology trends like cloud computing, on-demand software and applications that support personalised interaction with customers. Not only can these applications reduce upfront investment expenses significantly, they will also greatly enhance the accessibility and usability of information systems.

Spend your IT Budget Wisely

After the recent turmoil in the financial markets we are now clearly in a period of economic downturn. How long and deep the recession will be remains to be seen but current indicators point to a larger than expected contraction of economic activity. The New Zealand economy will not escape from the impact of the major economies in the world facing a serious downturn. Our economy is particularly vulnerable to dropping prices and volumes of exported commodities, a highly volatile currency and the willingness of foreign investors to fund our capital needs.

When faced with an inevitable recession most business start cutting expenses, Information Technology (IT) expenses included. Often this happens indiscriminately without a clear vision. However, a severe recession like this one warrants a fundamental rethinking of all business aspects. The outcome of such rethinking could be to completely stop spending on (potential) loss making activities and –to the contrary- to increase investment in activities that are critical to survive. IT spending should be no different.

This white paper describes where and how IT can contribute to mitigating the effects of an economic downturn. Let's first look at areas where the recession is likely to hit businesses if appropriate measures are not taken.

How the Recession may Affect your Business

Lagging **sales activity** is usually a first indicator of a slowing business environment. Customers reduce their spending and postpone purchasing big ticket items. Even loyal customers tend to shop around to get better deals. Most businesses make their sales force work harder as a response to shrinking revenues and sales margins. A number of them seem to have almost permanent season and clearance sales. Others increase their spending on advertising hoping to attract the attention of more customers. However, exploring possibilities of new technologies and leveraging a well developed digital marketing strategy is often a more cost efficient way to retain existing customers and find new ones.

During more prosperous times many companies see **inefficiencies** creeping into their organisations. This usually results in a gradual deterioration in **staff productivity**.

Have you ever assessed how you can make your core business processes more efficient? If you did you would most likely be amazed what efficiency improvements can already be made with minor

process changes inside your organisation. Electronic collaboration is another powerful way to increase productivity. Information Technology can effectively support collaboration including sharing knowledge and information, and enable a more structured and formalised communication process.

In times of financial stress your banker watches the use of **working capital** closely. Working capital is the part of your funding tied-up in short term assets like outstanding receivables and inventory that normally will be readily converted to cash. When business starts to slow down trade receivables and stock levels tend to quickly increase beyond your financing capabilities. Information Technology helps you to get on top of your debt collection process (starting with screening the credit worthiness of your customers) and provides tools for better managing your logistic processes and inventory build-up.

And last but not least **management information**. Having the right management information at your finger tips is essential to be in control of your organisation in recession times. Useful management information goes beyond what is usually found in financial reports. These figures reflect the past performance of the company. However, a balanced set of key performance indicators include actual and forward looking information. Steering your company through a recession requires swift and timely actions based on reliable information instead of actions based on assumptions.

How to deal with the impact of the recession on your business?

- *You can diminish the effects of the recession on your business by:*
- *Better targeting sales activities and increasing its effectiveness*
- *Making your organisation more efficient by improving business processes*
- *Increasing staff's productivity through electronic collaboration*
- *Actively managing working capital and reducing funding requirements*
- *Having up to date and reliable steering information available.*

Applying modern information technology can greatly help to achieve these objectives.

Is your Information System Ready to Tackle the Recession?

Depending on the type of business you have, your information system will most likely include a client database, a sales administration system, a production and inventory system and a financial accounting system. When looking to your current information systems it may be worthwhile to ask yourself the following questions:

- *Are the components of your information system integrated, i.e. your staff don't have to spend time re-entering data from one system to another?*
- *Does your system talk to the outside world? For example is your website equipped to handle information exchange with customers and suppliers and does it support electronic transactions? Can customers easily find the information they need on your website?*
- *Are your customers and suppliers actively involved with your business, i.e. can they specify their own customised products and services on your website? Do you foster open and shared electronic feedback from your customers?*
- *Is knowledge, probably your most valuable company asset, stored in your information system in an accessible way? Do your staff share knowledge and communicate electronically through a structured process?*
- *Do you have an overarching Management System measuring the real time heart beat of your organisation?*
- *Is your software automatically updated to the latest version without the need to buy and install new software? Is your company data accessible anywhere and anytime without logging-on to your own in-house system?*

If you have to answer 'no' to most of the questions you shouldn't get too worried because many of your competitors are in the same boat. To manage your company successfully through this economic downturn it is now time to make necessary changes to your information system.

In the following sections we will look at the parts of the information system to focus on.

Targeting Sales Activities

When market conditions get tough there are three important areas to focus your sales activities:

Pricing

Setting the right prices is one of the key aspects of managing your business through a recession. Your prices have to be set relative to competitors' prices and customers will make efforts to compare prices.

Interestingly, the Internet makes it easier for buyers to make price comparisons. When overpricing you will quickly lose customers as you are not competitive but too low prices will also lead to foregone revenue. So how to find an optimal price balance that at least covers your expenses?

Firstly, you need to include price information from your competitors in your own information system. You can access the same information sources as buyers and adapt your pricing swiftly if needed. Moreover, you can show your customers that your prices are competitive.

Secondly, your information systems should give you a good insight in your cost price. In financially stressful times it is useful to make a distinction between a price to cover all your expenses and a price that only covers your variable expenses like cost of materials and labour. Longer term you need to base your pricing on full costing to cover all investments in for example building and machines. Incidentally you may be forced to offer a sharper price to get an order. However, the variable cost price is your lower boundary for price setting to avoid out-of-the-pocket losses. Particularly when pricing is complex there is a need to have an excellent quote and pricing system in place that is regularly updated with new cost information (and can show you how cost reductions translate into better pricing).

Knowing your customers

Knowing your customers is important in normal economic conditions but gets crucial when the economy starts to slow down. Software to manage customer intelligence is called a Customer Relationship Management tool, abbreviated to CRM. A CRM tool is used to process and store all possible information about your (potential) customers. A CRM tool should tell you which of your customers are interested in what products or services, it should provide you with information to track sales leads (and conversion success rates), and it should be able to identify your most valuable customers (in terms of loyalty and profitability). All this information is useful input to developing effective marketing campaigns which target identified customers with the right messages and offers.

Interacting with your customers

Today the bulk of interaction with customers is through personal relationships maintained by sales people. Most people prefer to talk to a live person. If all your sales activities are handled by sales staff it can become very time consuming. Digital marketing is a way to promote products and services using digital distribution channels (the Internet, mobile phone technology) to reach customers. There are a large number of digital marketing techniques and technologies ranging from simple to sophisticated: electronic news letters and brochures, blogs, forums, wikis, RSS, web

shops, pod casts, web casts and conferences. Broadly these technologies can be divided in push technologies (the sender takes the initiative to communicate) or pull technologies (the receiver decides from whom and when to receive a message). Most technologies allow for one-to-one messaging, i.e. communication can be targeted to a specific customer and includes a personalised message.

Using digital marketing is a great cost saver and leverages traditional marketing and sales. Customers can register their profile and interests via the company's website and receive in return specific information and content. When sales people contact a sales lead they can expect to deal with an interested and informed potential customer thus saving precious time.

How can technology help you to better manage your sales activities?

Cost cutting is not the only way to survive a recession: actively managing your sales pipeline and sales margins are even more important. We have identified three important areas where technology can help you to improve your sales:

- 1. Pricing: include price information from competitors in your information system, automatically calculate your cost prices and update these regularly to know what your sales margin needs to be to stay profitable.*
- 2. Knowing your customers: collect as much information about your (potential) customers and use a Customer Relationship Management tool to manage and control this information.*
- 3. Interacting with your customers: use electronic and web-based tools to make your marketing campaigns and follow-up sales activities more effective and cost-efficient.*

Improving Organisational Efficiency

When it becomes obvious that the organisation is not performing well it is time to review business processes. The first step is to identify which are core processes. Traditionally many organisations define their core processes as: the sales and marketing process, an order fulfilment process, a production process and/or a service delivery process, and a logistic and procurement process. Often the finance and administration process is considered to be a core process too.

When reviewing these processes it is frequently observed that:

- Processes are not optimally aligned to the organisation (often the organisation has historically grown around specific employees);

- Processes are not well aligned to other related processes and have separate information systems that don't easily "talk" to each other ("silos");
- Processes are defined inside-out: internal requirements drive the process design more than customer needs;
- Employees are part of departments that are doing the same repetitive tasks instead of being member of a team responsible for a whole process.

Therefore a better way to understand the real core processes is to look at a process from a (group of) customer(s) point of view and define the steps necessary to deliver the best possible product or service.

In stressful financial times the organisation should not engage in a profound organisation redesign exercise that focuses the attention of staff on internal matters and protecting their own jobs. However, it is often amazing to see what impact a number of relatively quick fixes can have on the efficiency of an organisation. The challenge is to identify parts of core processes where potential benefits are largest. To identify these 'hot spots' it is useful to look at the following characteristics of core processes:

- Are people in the organisation aligned to business core processes as much as possible, i.e. are employees/teams made responsible for a complete process (by combing several jobs into one, performing steps in natural order and removing unnecessary steps)?
- Are processes designed front-end, i.e. does the organisation understand what activities need to be performed to add real value to a customer, does the organisation provide a single point of contact to a customer and are there multiple versions of a process based on different needs of customer groups?
- Are staff sufficiently empowered to make required decisions and can the number of checks and controls be reduced (or can these be build into systems)?
- Have processes been workflow based on the above principles and are process steps automated where possible?

If processes are properly designed the impact of new technology will be much larger.

Why is improving business processes important to optimally benefit from new technologies?

To successfully apply new technology core business processes of an organisation need to be reviewed. To identify areas where the impact of re-design will be large (without upsetting the whole organisation in stressful times) it is useful to look at:

- *Processes from a customer perspective and create teams around these core processes.*
- *Opportunities to combine jobs and eliminate unnecessary steps and parts of the process that don't deliver real added value to the customer.*
- *Work flows and the potential to automate process steps (and related checks and controls).*

Based on our own experience relatively minor changes to processes and organisations can already create huge benefits.

Increasing Staff Productivity

Have you noticed how much time your staff spend communicating and exchanging information? Remember all the meetings that didn't translate into appropriate actions? Important documents that weren't shared with all staff involved and got so well filed not to be retrieved easily?

Staff's productivity can be significantly increased by electronic collaboration. Electronic collaboration is a process through which your staff can contribute jointly to projects via tools like email, groupware and team collaboration portals. Two popular tools that include these features (and many more) are Microsoft Sharepoint and IBM's Lotus Notes. A key advantage of electronic collaboration is that people can work together as one team irrespective of their geographical locations. If we take this concept a step further it is not difficult to imagine how customers and suppliers can be included in electronic collaboration processes. This unleashes the true power of collaboration tools.

Although the benefits of electronic collaboration in large, geographical dispersed organisations are obvious, nowadays we see also small & medium businesses using these tools successfully. Any organisation that needs to share information in a structured way can already benefit from electronic team collaboration.

How can electronic collaboration increase productivity?

- *It is important to define appropriate collaboration processes and use the right tools which may include the following (integrated) features:*
- *Managing contact and project information*
- *Creating, editing and sharing information, content and knowledge*
- *Managing electronic documents and workflows*
- *Managing email and follow-up actions*
- *Calendar and (resource) scheduling functions*

Managing Working Capital

Working capital is the blood stream of your organisation. When blood is cut-off organs start to fail rapidly. Similarly with cash flow: a lack of working capital funding has an impact on many other business areas. Creditors can't be paid on time and may demand cash payment upon delivery, stocks are partly replenished, production is interrupted because of missing components and therefore orders have to be cancelled.

Banks are usually willing to fund additional working capital requirements when sales show a healthy growth pattern. In times of stalling sales revenues (or worst – declining sales) a need for additional working capital funding points to serious troubles. Two major causes of a need for additional working capital are: debtors paying later than anticipated and rising stock levels. Both issues can be addressed by a good working information system combined with strict procedures.

Managing accounts receivable starts with (online) checking the credit worthiness of your customers. This should be a regular process particularly in times of an economic downturn. A financially healthy company can get rapidly into financial difficulties. When the number of failing businesses is on the increase it is of vital importance to shield your own business from becoming financially infected.

Assuming your credit conditions are clearly communicated to your customers it is important to stay on top of accounts receivable collection. This means updating your list of outstanding receivables regularly and taking appropriate actions if payments are not received in time. What actions are appropriate depends on how far payments are behind. Starting with a letter that includes a statement or an email (faster), followed by a phone call and if not successful engaging a collection agency. Every follow-up step should be actioned in your information system. For example: if a customer is over time with payment then you may want to be more restrictive to deliver orders on the same credit conditions.

A large part of working capital tends to be absorbed by stock. The effect of slower sales is immediately visible in increasing stock levels and obsolete stock tends to rise too. A good inventory management system is based on an integrated supply chain, i.e. existing stock is checked when a customer order is placed and if the article is not available it is electronically ordered with a supplier. The aim of such systems is to reduce inventory levels to the lowest levels possible. Some companies even manage to run their business without stock at all.

The concept of an integrated supply chain requires information systems of all parties involved in the supply chain to be connected and to be able to exchange data.

Actively managing working capital and reducing funding requirements

Active working capital management is largely focused on two areas:

- *Debt and collection management: your information system should provide up to date information about credit worthiness of your customers, outstanding receivables and all follow-up actions to ensure payment*
- *Stock management: your information system should be capable of managing outgoing and incoming orders to reduce stock levels.*

In both cases the information system has to be able to electronically exchange information with external parties like customers, suppliers, banks and transporters.

Effective Management Information

In the previous paragraph we saw how important management information (in this case information about debtors and stocks) is to run a business. To manage all aspects of a business one obviously needs to have a broader set of information. The key question however is: what is effective information?

Let's start to describe what effective information is **not**:

- An overload of information including every detail of the business
- Only financial information (reports from the financial administration)
- Only historical information (figures from the past accounting period)
- Non timely information (that takes considerable time to prepare)
- Inconsistent information from different sources (e.g. sales in the sales administration and revenue in the financial administration)

Value creation is good starting point to ascertain what information is essential to manage a business. Where and how is value created, i.e. what are the most important value drivers in a business? A technique to assess value drivers is to look at the main items of the profit and loss account, both at the revenue and the cost side. Try then to establish what physical input and output factors are driving the main P&L items. A consulting business, for example, sells hours at various rates that depend on a skill set of a consultant and market demand. The major expense category in a consulting business is salaries. Therefore to run a consulting business useful management information would include:

- For each consultant the utilisation rate being billable hours as % of available hours
- Forecasted billable hours on the basis of signed engagements for each consultant
- A comparison of a consultant's average rate for billable hours and his hourly salary expenses as an indicator of profit margin.

Note the above key performance indicators relate output (billable hours) to input (available hours) and include a forward looking indicator.

Effective management information comprises of a set of key performance indicators that:

- *Measure the real value drivers of the company*
- *Include both financial and non-financial information*
- *Look at historic, actual and forecasted performance*
- *Is provided on a timely basis, ideally real time*
- *Is based on one data model that is consistently applied to all information systems.*

What Information Technology to Use?

To achieve all the objectives as mentioned in the previous sections it is advised to apply modern Information Technology principles and tools. This last section describes briefly recent trends in technology.

The IT landscape is undergoing profound changes. The two buzz words to remember are: "Cloud Computing" and "On-demand software". Traditional information systems consist of company owned (and often internally operated) servers, network and connected PCs. Software running on such information systems is typically deployed in-house.

An increasing number of companies are replacing their internal information systems with (web) applications running on external web servers, at least partially. Instead of running your own network

you are now part of a huge network using the Internet as a carrier. Applications are run and managed by one provider and simultaneously provided to many users. Your data is out there on external servers (protected by a high level of security!) accessible anytime from anywhere. "Cloud" is a metaphor for the Internet: that is why it is called Cloud Computing. The need to invest in expensive own infrastructure is greatly reduced.

Web applications allow you to automatically use the latest version of the software without the need to frequently upgrade. No upfront investments in applications are required because users pay an all-in usage fee. This is called "on-demand" software. On-demand software also referred to as Software as a Service (SaaS), is becoming rapidly popular. New Zealand based Xero for example launched in 2007 an online accounting system which has shown an impressive growth since.

On-demand applications are increasingly embracing the open source model which means that the software code is accessible by outside programmers. These programmers can then contribute to developing the core product or they can build applications as add-ons and extensions of a core product. Some products have even evolved to developer platforms allowing software engineers to build entirely new products from existing components. A number of developers have focused on integrating different core software products and linking web-based products with other software products, usually more traditional software or custom built legacy systems. On-line software provides excellent opportunities to create a cost efficient integrated information system.

If you are interested in topics outlined in this brochure please call us for an obligation free discussion at 03 547 8200 ext 25. For more information about FuseIT and our solutions and services please check our website www.fuseit.com or contact:

FuseIT New Zealand
7 Forests Road, Level 1
Stoke, Nelson 7011
New Zealand
+64 (3) 547 8200
nzsales@fuseit.com

You may have heard of Web 2.0 or the Social Web. Does this sound a bit woolly to you? Well, it is all about how to communicate with your customers. More and more Internet users are member of social networks like Facebook or participating in mass collaboration websites like Wikipedia. They like to exchange opinions, create content, contribute to discussions and provide knowledge on any topic you can think of. Sources that are considered knowledgeable and trustworthy by many Internet users can be very influential. Companies are now beginning to understand how they could become part of the Social Web trend. Key aspects are: communicating in an interactive and personalised way with your customers as well as providing reliable information and customised content.

How are new technologies affecting you?

You can use new technology to your benefit by understanding the following trends:

- *Cloud Computing: less investments in expensive hardware, accessibility of your applications and data through the Internet (anywhere, anytime)*
- *On demand software: no need for upfront investment in software packages or custom built applications, always an up to date software version*
- *Using technology to mass communicate with your customers in a personalised way and letting customers participate in your business processes*

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