ERP: Lean, Green Prosper

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During the early years of the decade, the adoption of green practices was a major concern for manufacturers and distributors. While government legislation did much to promote green initiatives, the overall consensus was that the responsibility to conserve the earth's resources and save the environment rested with the business community.

However, the recession of the past three years has seemingly put green on the back burner. Companies appear to have abandoned their green goals, concentrating instead on ways to survive the severe economic downturn and remain viable in the emerging "new normal" economy. The shift has been to lean rather than green. However, the two are not only compatible, they are sides of the same coin.

I'll explain how both lean and green are achievable via the judicious selection and implementation of an enterprise resource planning (ERP) software solution. Due to the savings that ERP software can produce, such software is also essential to prospering in the coming new normal economy.

Why is the new normal economy a concern? The severity of the current recession has dramatically brought one point to the forefront: The old spending patterns were never sustainable. They were based on an economy of cash-out refinancing in a world where the value of property only went up. To gain additional funds, owners had only to re-finance to draw equity out of their homes. Similarly, manufacturing

and distributing entities facing rising energy, labor and material costs had only to boost prices to maintain their profit margins. The simple fact is that in the new normal people and businesses are going to have to live within their means.

In the new normal economy, with a growth rate approximated at 2 percent or less, several certainties will follow. Business cannot be conducted in the same manner as before. The market today is highlighted by a new kind of consumer demand where cash is king, discounts are standard and consumers have an expectation of higher value at lower cost. This means that in the world of manufacturing, downward price pressures will continue, stabilizing at lower price points than in pre-recession years. Manufacturers may realize smaller profit margins, and economies of scale will not be as prevalent as they were in past years. Companies will be looking to technology to survive and prosper.

In the new normal economy, manufacturers and distributors will have to adopt lean environments where the focus shifts from individual supply chain elements to a holistic approach that emphasizes throughput of the entire supply chain. Companies will need a strategic intelligence that permeates enterprise-wide tactical and operational decision-making. Technology will be a necessity.

Lean ERP

According to AMR Research, “We are now seeing mid-market firms take the next step looking for additional cost savings and process efficiencies from business system improvements.” Results of a recent AMR survey also reveal that “cost reductions and efficiencies continue to rule the day as the primary driver.”

How can manufacturers and distributors live within their means? The first step is implementation of an ERP software solution that coordinates all resources, information, and activities needed to execute business processes and measure performance. Real-time enterprise software provides an operational business infrastructure in which an organization can formulate a strategic vision, establish operational guidelines throughout the supply chain, and provide the necessary real-time data to promote the most efficient and effective decision-making.

This is the very foundation of the lean/green manufacturing concept and a key requirement of the new normal economy. ERP software, encompassing sophisticated forecasting and inventory optimization tools, must be the foundation upon which manufacturers in the new normal economy can lean and green operations, shorten cycle times, enhance customer service levels and produce profits.

The biggest expenses manufacturing entities face today center on labor and inventories. The just-in-time (JIT), make-to-order concept so prevalent in American industry only a few years back has given way to a more costly make-to-stock model, where the value-add of labor results in significantly higher costs of maintaining inventories. This is what hurt the automobile industry.

The American manufacturer must now face the challenge of doing more with less.

Now’s not the time to capitalize assets but to capitalize on them. ERP solutions can aid manufacturers in returning to a more cost-effective, lean and green make-to-order manufacturing strategy, as opposed to maintaining large, costly inventories of finished product. By presenting real-time snapshots of business conditions, ERP software enables management to make the timelier, critical decisions that promote revenues and profits.

Functionality to Consider

The following functionalities available through many ERP software solutions help facilitate lean and green through energy savings, the reuse of resources, the reduction of waste, electronic data management, sophisticated forecasting, inventory optimization and numerous others means:

- Real-time alerts can be used to send replenishment information, internally or externally. Replenishment rules against each item can be used to initiate actions to further JIT processes.
- Document flow manager (DFM) and electronic data interchange (EDI) functions can be used to automatically process electronic documents and communications. Transactions can be sent and received digitally.
- Sophisticated ERP solutions can easily integrate disparate systems and create custom solutions to generate interoperability and streamline processes.
- Web facing modules facilitate direct communications and visibility, and provide transactional capability with trading partners.
- Forecasting functions facilitate demand-driven manufacturing by generating realistic forecasts using a variety of sophisticated algorithms. Some systems can automatically determine the best algorithm for each item based on historical usage.
- Some ERP systems feature inventory optimization and warehouse and quality management functionalities, which work together to take control over inventory spend and stock levels, and use the intelligent software to squeeze out unnecessary costs to better manage cash flow and service levels. They enable companies to eliminate all unnecessary expenses, including those associated with the production and storage of inventories. Inventory optimization reduces inventory obsolescence, identifies and manages excess stock to improve cash flow, decreases inventory holding costs, and increases inventory turns to improve profitability.
- ERP shortens lead times associated with warehouse transfers, supplier orders and order shipments to customers.
- Customer relationship management (CRM) within an ERP provides a 360-degree view of each customer relationship. CRM builds and maintains a powerful library of customer information, including credit limits, shipping addresses, order history and much more. In turn, these records help companies to speed up ordering and delivery cycles.
- Facilitate transfers between warehouses by issuing a supply chain transfer, a type of sales order that enables internal transfers to be reviewed and receipted in the same manner as external purchase orders. When the stock

in one warehouse is inadequate to satisfy demand, the system suggests inter-warehouse supply chain transfers as an alternative to new purchases.
- Return merchandise authorization (RMA) provides a highly efficient method of controlling the return or exchange of items sold to customers, ensuring the visibility and tracking of the item returned until the transaction is concluded. Instant on-screen access gives complete RMA information. Because the system maintains an unlimited history of RMAs, it also helps a company to identify recurring problems.

ERP software solutions enable small and medium enterprise manufacturers and distributors to enhance operational efficiencies with new architecture and modules, feature sets, workflow and customization capabilities. ERP enables mid-market manufacturers and distributors to gain all the benefits of a leading-edge software program, even though they may possess limited resources and skills.

ERP solutions can match software development with industry trends and customer needs. The ideal ERP software company will seek customer input at every level to ensure that ERP enhancements maximize customers' competitive advantages in their respective markets.

By making the right technology decisions now, businesses will be able to better compete, take advantage of market swings, lean and green their operations, promote sustainability, and prosper in the "new normal" economy and beyond.

For more information, please visit www.syspro.com *[1].*

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