Cost-cutting Paves Way for Faster ROI Generation with an ERP Solution

Introduction

In today's competitive business environment, cutting down on unnecessary costs is just as important as increasing sales, or earning money. Most companies adopt a judicious approach to total cost reduction, with a focus on sustained efficiency and long-term growth. These specific strategies help them reduce their annual spend anywhere between 10% and 35%. This is huge! Think this way: these savings per category can add the equivalent of around 2% of the company's annual revenue to the bottom-line figure every year. Not only this, cost-cutting even paves way for faster Return on Investment (ROI) generation with the help of an Enterprise Resource Planning (ERP) solution.

Meet **Sam**, who recently got an ERP solution for his company. The implementation is done and the project has gone live. Sam is curious to know when he will be able to reap his share of ROI. Just like Sam, many of us are unaware of the stats that lie behind in deriving the ROI after deploying an ERP. So, let's have a look at hows and whens of ROI generation after ERP implementation.

First things first, Sam doesn't know what ROI exactly is

In simple terms, **'Return on Investment'** is the benefit derived from the business investment either in terms of money or resources. ROI can be called as a performance measure used to evaluate the efficiency of an investment in a given period of time.

- Time is one important factor to analyze ROI.
- The earlier you start receiving returns, the better it is.

Undoubtedly, ROI is all about figures in business but the important thing to note here is ROI benefits can also be measured as quantifiable and non-quantifiable. Quantifiable returns are the monetary benefits received on an investment over a period of time. Whereas, non-quantifiable returns cannot be quantified in monetary terms, but as business benefits like smoother operational flow, managed inventory, and tighter control over the supply chain.

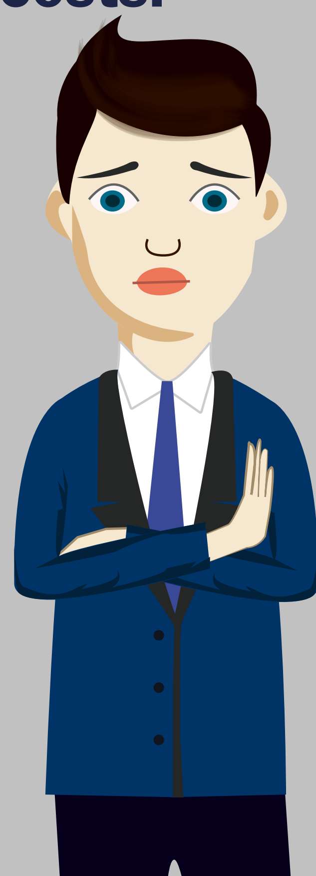
In order to have timely returns, businesses these days adopt ERP solutions to be a forerunner amongst their competitors. ERP directly works on standardization of processes and improved visibility, which ultimately result in cost cutting, eventually improving ROI.

Cost-cutting has been running around in Sam's mind for quite long. He wanted to know where all along the supply chain he can cut the costs:

Going with the basics, cost cutting is the process adopted by most of the companies to put a check on the additional expenditure incurred due to wastage and lack of proper management. The extra and unnecessary expenditure can be in the face of a number of reasons. Surely, cost-cutting is a way to boost profit margins, but it should be conducted in such a way that the quality of the products is not compromised.

After this information, Sam realized various factors that come in the way of cost cutting:

- Over-stocking of both raw materials & finished goods blocks money and warehouse space
- Unused material, that spoils in due course of time, leads to bulk wastage
- Poor techniques in production
- Improper utilization of man, machine and other resources
- Interest paid due to flaws and lack of visibility in cash flow
- Cost incurred in managing the waste or waste disposal
- Electricity and labour cost incurred in extra production
- Charges of quality tests applied on extra lot of production, that is only stored in a warehouse



Sam is a curious businessman. Now, he wants to know if his ERP is contributing towards cutting costs and improving ROI

Sam calls for a meeting with managers of all the departments to know what and how they feel after the ERP has been implemented and is up and running smoothly across the length and breadth of the organization.

Post meeting, Sam's secretary created a Minutes-of-Meeting specifying the highlights of the inputs from each department's head.

- Time, resources, and money are being optimally used at the production plant
- Inventory and resource wastage due to lack of information flow are saved to a great extent in the warehouse
- With enhanced synchronization, delays and defects are being minimized
- It is assisting in eliminating wastage in business by offering excellent inventory management; a step towards cost cutting
- Its rigorous R&D helps to bring innovative products faster and cheaper to the market helping build brand position
- Efficient and effective Quality Control is leading to defect-free production, thereby reducing rework and returns
- Due to monitored logistics operations like, purchase, sale, orders, receiving and dispatching; over-production and unnecessary inventory are prevented from stocking up
- In-depth visibility into finance has resulted in rise in cash-in-hand, keeping us financially prepared for many things which earlier required fire-fighting

Sam is glad to receive these inputs. Sam surely has understood the concept of ROI now, and he is clear that he is getting non-quantifiable ROIs soon after his ERP went live. Although he is satisfied with the returns he is getting in the initial phases of investing in an ERP, he is waiting to see its direct impact on the balance sheet. ERP helps in various ways that boost ROI after a considerable amount of time and they are:

- Advanced visibility into manufacturing processes bounces up the production capacity significantly; therefore sales rise and product captures the market fast.
- More sales results in more revenues.
- Periodic quality checks ensure defect-free production and eliminate chances of recalls during audits; hence contributing towards the revenue bank indirectly.
- Consistent quality products build brand image and enhance the share value of the company.
- Automated production, planning, and supply-chain management lead to accurate just-in-time production that results in superior customer satisfaction, and brand loyalty brings consistent revenues.

Sam is really happy seeing the growth graph of his company. He recommends ERP for every business and even has a set of points to share with friends that result in a low ROI.
Here they go:

- Inefficient processes due to data mismanagement
- Inaccuracy in inventory management
- Bulk wastage in the form of over-production and stocking
- Unsatisfactory organizational scalability
- Haphazard management due to lack of information exchange
- Neglecting the ways to cut cost
- Low customer satisfaction and hence retention

Sam goes on to explain that one and only way to cope up with all the above factors is adopting the path of cost-cutting to boost ROI. Certainly, ERP helps in it to a great extent.

Do you want to know which ERP Sam is using?

Sam is using **BatchMaster ERP**.
A product from the range of solutions provided by BatchMaster Software.

Who we are:

BatchMaster Software is one of the market leaders in offering enterprise software solutions for the process manufacturing industries. With an in-depth industry analysis, we clearly understand the unique industry challenges and help them address those challenges through our industry-specific ERP solution.

more than **2500** Implementations	more than **40000** Users	more than **3000** Happy Customers
more than 30 Years of Experience	more than **500** Employees	7 Offices Worldwide

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