New ways to boost profits

At a recent seminar, the CIO of Lufthansa challenged his audience. How can we boost profits in these more difficult economic times? All this talk of new technologies/ internet investment to improve productivity and performance, could that deliver? He was sceptical. As were others. But a few disagreed. Managers from the likes of Goodyear Dunlop and Aventis gave detailed war stories. They suggested things *could* be done. It wasn't easy but they described how they were getting a very attractive profit boost.

Likewise, how has BP reduced its purchasing costs by £100m in under 12 months? How has Oracle saved $1bn and built a platform to save $2bn in 2002. What's Cisco planning when it reckons it can improve margins by 7 points over the next 3 years? These and a growing number of others are in the vanguard of a new movement. They're finding ways to unlock significant gains to profits and they're doing this despite the early decade slowdown and readjustments.

These companies are "streamlining". They have developed a programme of "enabling, automating and innovating". They are cutting through complexity, duplication and inefficiency. They are instead building an organisation that's slicker, more productive and responsive, that gets things to market on time, that's lower cost, that leverages key skills and that has renewed commitment and energy in its workforce.

They've abandoned 'e' but not forgotten its underlying disciplines and insights. They've focussed instead on the power of the Internet, and also wireless. They understand new technologies. They appreciate their power and potential. They can see how the tools have now matured. They work. They're proven. It's no longer about 'gold rush pioneering', no need to bet the farm. The payback is there, the risk is being reduced and it's now onto the challenge of exploiting the new tools and capturing their potential.

While Oracle, Dell and other 'vanguard' companies have been steaming ahead, most organisations have been tinkering around the edges. They've dabbled. They've invested a bit. They've got an e-procurement team, there's a bit of knowledge management (but too many e-mails!), they've linked with some suppliers over the Net and one of the business units is piloting CRM. They've got scores of various internet projects, but it's all largely uncoordinated. A random, opportunistic spread of initiatives but no systematic, cross-company approach, no senior management pull, no top down commitment, no clear strategy for what can be achieved.

It's a "stage one" approach and the vanguard is calling. Time to move to stage 2. Time to learn the lessons, understand the best practices and begin to realise just what can be achieved. Time to embrace the underlying fundamentals of the new economy and to review the opportunities to streamline made available by the new technologies.

Evidence shows that there are 4 main "chunks", 4 key places of leverage. They are in (i) Procurement, (ii) across the Supply Chain, (iii) in Knowledge Management and (iv) in CRM, in improving the whole customer interface and relationship. The challenge in each of these areas is to look at their role in the current value chain. How can the basic process be improved? How can an enabling, automating and innovation process change something that's otherwise prosaic and a commodity into something that can drive value-added and competitive advantage? How can the Net, or wireless, or in the CRM area iTV (interactive TV) rewrite the rules of the game and significantly boost performance and profits?

To capture the potential companies must look to best practice. Where are they on this internet-enabling journey and what targets and goals should they be realistically aspiring to?

In Procurement, vanguard companies like Motorola, Hewlett Packard and Fedex are delivering up to 5% savings within 6 to 12 months, with a target of 10 to 15% after 2 years. Gartner group in their research estimate that this is realistic and achievable in most organisations. Companies are implementing desktop procurement for all employees to buy non-core inputs (“MRO”) in automated routines, governing what can be spent and determining which supplier to use. Orders are being consolidated across the whole company with chosen suppliers. Suppliers have been rationalised, often by two-thirds. Supplier contact has migrated beyond EDI billing routines. Now all suppliers are networked and pricing routines established. Furthermore reverse auctions are being employed selectively to identify new sources and challenge budgets.

Across the Supply Chain there are considerable opportunities from networked collaboration and partner innovation. Most companies according to Forrester research still operate ‘communication’ silos, but the leaders are active on many fronts. They’re using the new technologies in four key areas: in inventory management, in transportation and tracking, in order processing and in customised build to order. Here it’s not just about the Net. It’s also about products “on the move”, so wireless technology is also beginning to impact. UPS, PolyOne and Hewlett Packard are all innovators here. UPS provides 24/7/365 track n’ trace, HP links sales people to its inventory so they can tell customers real time what’s available, PolyOne has installed sensors in its customers’ chemical tanks: when the level drops to a certain point, the system sends an automatic order to Polyone’s “SupplyNet” to trigger replenishment!

In Knowledge Management (KM), best practice is demonstrating it *is* possible to cut through the information and data overload. It *is* possible to achieve a productive and mutually reinforcing knowledge sharing environment. And it *is* possible to get revenue and cost benefits out to payback the investment. IBM reckons it now takes 5 minutes to extract intellectual capital for new projects when it used to take 5 days. BP are enthusiastic advocates. Led by their CEO they see themselves as a “knowledge-based company” and can point to a number of $m savings on projects by sharing, accessing experts and capturing their own best practices. Ford, BT and smaller organisations like Nantucket Nectars are on a KM journey to turn “knowledge conscripts into knowledge volunteers”.

In CRM, while most initiatives to date are struggling, vanguard streamliners have worked out the options and are busily capturing the benefits. Hi-tech companies like Cisco have migrated a significant proportion of their business to the Web. But rather than cut sales people they’ve redeployed them to target new customers, they’ve enabled them to spend more time in customer service by automating routines, by cutting out complexity. And other smaller companies are pushing hard on the new software tools, from hi-functional solutions like Siebel to low cost, pay as you go options from Salesforce.com. They’re driving to a coordinated and single view of their customers and developing leveraged 1 to 1 communication plans.

In all these cases, the distinguishing feature, what marks out these vanguard companies, is their 100% commitment. They’ve seen how the Net and other tools *can* dramatically improve their business. It's not just a few random opportunistic projects. It's a coordinated and mobilised approach across the company. They've taken streamlining to heart. It's become, like at Dell, part of the core value set of the organisation.