

How Well Does Your Company Take Orders? (Take Two)

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Order management was one of the first automated processes. Most companies do it poorly, though, which impacts working capital performance, according to AMR Research studies (see “How Well Does Your Company Take Orders?” from last year, our first take on this topic). This represents a lost opportunity to realize better financial performance and a failure to get the most out of significant enterprise application investments.

Consider that over 80% of manufacturing companies have invested in ERP systems. With each implementation—or reimplementation—of ERP, there’s a strong focus on order-to-cash cycles and order management process standardization. Despite this focus, most companies are still not good at taking orders. With increasing supply chain complexity and pressure on working capital, it’s time to get it right. This is especially true given the trends working against it:

- **Globalization**—As regional supply chains become more global, order processes become more complex, often exponentially. Mergers and acquisitions only increase this complexity.
- **Order density**—In emerging economies, companies are taking more orders to ship the same volume. Not only has the volume of orders increased, the terms for an order are more complex and there’s less automation.
- **System decay**—A successful ERP implementation can improve both order reliability and cycle time. However, processes decay and order processing discipline wanes over time. This requires constant focus and discipline, something most companies wish they were better at.
- **Proliferation of order types**—The number of ways an order can be processed has exploded, with many systems not keeping pace.

The time to act is now. AMR Research benchmarking data makes clear that perfect order performance is

directly proportional to earnings per share. In this context, working capital has never been more important. In this time of rising demand volatility, reliable order processing is foundational to delivering the perfect order. And in these times of tight working capital, the faster (and more reliably) companies take orders, the quicker they can turn capital.

The keys to working capital improvements

The question is how companies get to this point. To begin, start by studying order-to-cash cycles to identify opportunities for working capital improvements. Based on our recent survey of 150 manufacturing companies, we identified four key findings: 1) Some industries stand above others in this process, which presents an opportunity for laggard industries; 2) discrete processes are lacking in automated configuration; 3) strategic customers are often neglected; and 4) few orders are hands-free.

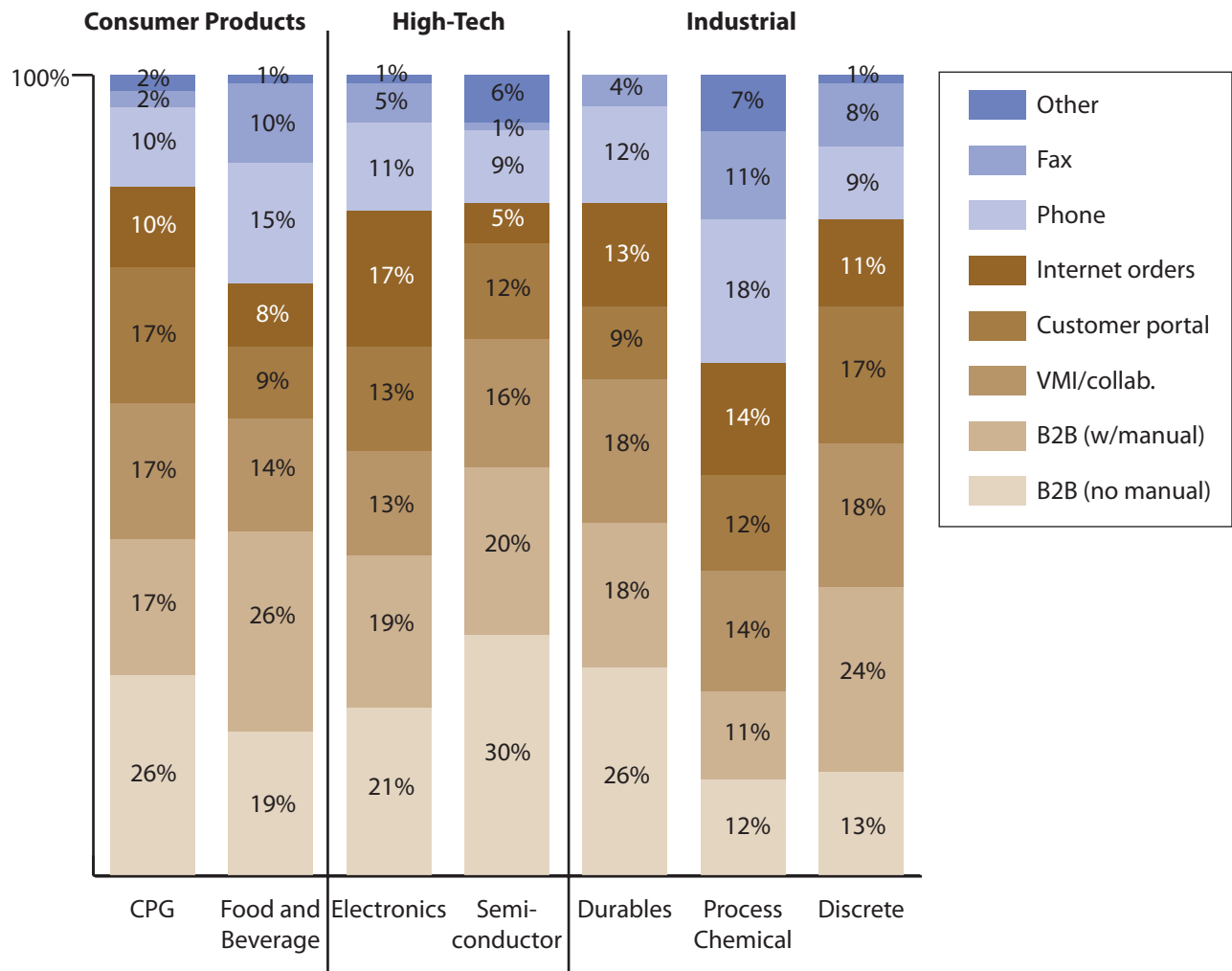
Variation by industry

The importance of order cycle time—consistency across order types, reliability in order processing, and shorter cycle times—has not been equal across all industries. Some of the variation is rational, but some is not. Regardless, laggard industries shouldn’t settle for less than leading industries. In fact, there’s an opportunity to benchmark against winning sectors and strive for quantum improvement. After all, is it logical for it to

take 40% longer to ship a food and beverage order than one in process chemical? Should order cycle times for consumer durable orders be three times longer than in high-tech and electronics? Despite the differences in make-to-order versus make-to-stock processes, why are discrete industrial companies outperforming consumer packaged goods companies?

Although there is some inherent variation because of supply chain processes, this shouldn't account for the large gaps in order performance. Instead, some industries have made this a focus area, forcing a rising tide. There's an opportunity for companies in laggard industries to gain a significant competitive advantage by trying to emulate the order performance of process chemical and high-tech and electronics companies.

Figure 1: Variation in order processing by industry



Q: Describe your order entry process. Roughly, what percentage of orders are processed in each format?

Source: AMR Research, 2009

The role of configuration

Discrete processes are still struggling with product configuration. As a result, they have a low percentage of B2B orders with no manual intervention and a need for greater integration for orders coming from portals, the Internet, fax, and phone. There's a need to rethink configuration and available-to-promise processes to drive quote to cash.

Strategic customers aren't getting the right priority

Too few industries have successfully mapped order processing against customer priorities for allocation and fulfillment. Consider these examples:

- **Integration of vendor-managed inventory (VMI)**—In consumer products (CP), 17% of the orders that represent 40% of the volume move through VMI relationships, but the time to ship these orders is 60% higher than the standard order.
- **Rush order processing**—Phone orders, which are often rush orders, can take twice as long to process (dependent on industry) as manual orders. Few companies have successfully conquered cross-channel order management.

- **Reliability**—The most reliable customer response (shipment time consistency across the various types of orders) is delivered by the consumer electronics and process chemical industries. For other verticals, the variation in cycle time by order collection method is high.

Companies need to think about order management from the outside in. Are customers getting the same response by order type, based on strategic importance? For most, the answer is no. This needs to be reversed.

Few orders are hands free

After analyzing this data, it was surprising to find out how few orders move through the system without manual intervention. Our pre-study hypothesis was that the percentage would be higher.

In B2B order processes, reducing manual intervention is important. When orders can move through the system without manual intervention, there is a 30% order cycle time improvement and a 5% to 10% higher customer service level. For most industries, this represents a day of working capital reduction and a 2% revenue improvement.

Table 1: Variation by order collection method

Method	CPG	Food and Beverage	Electronics	Semi-conductor	Durables	Process	Discrete
B2B (no manual)	2.3	3.4	2.3	11.7	7.1	1.5	3.0
B2B (w/manual)	3.1	3.3	2.5	11.0	5.4	1.5	5.9
VMI/other collaboration	5.5	3.3	2.4	5.0	4.2	1.9	4.1
Customer portal	10.0	3.6*	2.4	12.2	6.3	2.7	6.3
Internet orders	7.6	2.9	2.2	9.8*	5.8	2.7	2.3
Phone	4.8	3.5	1.8	16.4	5.0	2.5	5.4
Fax	2.7*	5.3	2.2	13.9*	5.4	2.5	2.6

Source: AMR Research, 2009

* Average was calculated using a base less than 10. Results are directional.

Q: On average, how long does it take you to ship the order from your dock to receipt of the order to shipment when using the following methods?

n = varies by the number of manufacturers using each format

Think about it: How does your organization take orders?

When we present this data to manufacturers, the dialog typically moves to one of three discussions: process erosion, globalization, or recessionary impacts. After all, the ability for companies to take hands-free orders has decreased, courtesy of the recession. The reasons for this are threefold:

- Upstream customers are becoming more reactive to demand, resulting in more frequent order changes.
- There's a greater need for credit checks.
- There's a lack of visibility of inventory and shipment status information because of globalization.

Now's a good time to regroup and focus on order management discipline, especially since staffing levels and order management processes are probably in need of some rethinking. With all the belt tightening and working capital reduction, ask yourself, "How well does my company take orders?" Learning from leaders and improving this process can make a material difference in your organization's financial performance going forward.