

Simplify Your Finances With ERP

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Continuous Improvement (Kaizen) is the process of eliminating non-value-adding activities to reduce waste. It focuses on building quality into the process, rather than fixing bad quality after the fact, to achieve a high-quality output. Incremental changes made over time can yield significant improvements in efficiency, productivity and profitability.

Manufacturing companies tend to focus on production processes such as material handling, setup time, and inventory management. However, continuous improvement should not be limited to just operations. Rather, it should be integral to the entire organization's DNA. When conducted within a fully integrated Enterprise Resource Planning (ERP) system, the financial and administrative processes can be simplified and re-focused to deliver operational efficiencies and eliminate waste.

Continually improving the finance function starts with getting people to think differently about the role of finance. In addition, the finance team needs to get more involved with the wider activities of the organization in order to:

- Understand the challenges engineering faces in developing new products and enhancing current ones
- Acquaint themselves with how production makes these products
- Assist purchasing with the management of supplier relationships
- Support sales with costing, pricing and quotations
- Better understand the figures they are dealing with

The following activities represent areas of “low-hanging fruit” to create continuous improvement.

Eliminating Unnecessary Paper Documents

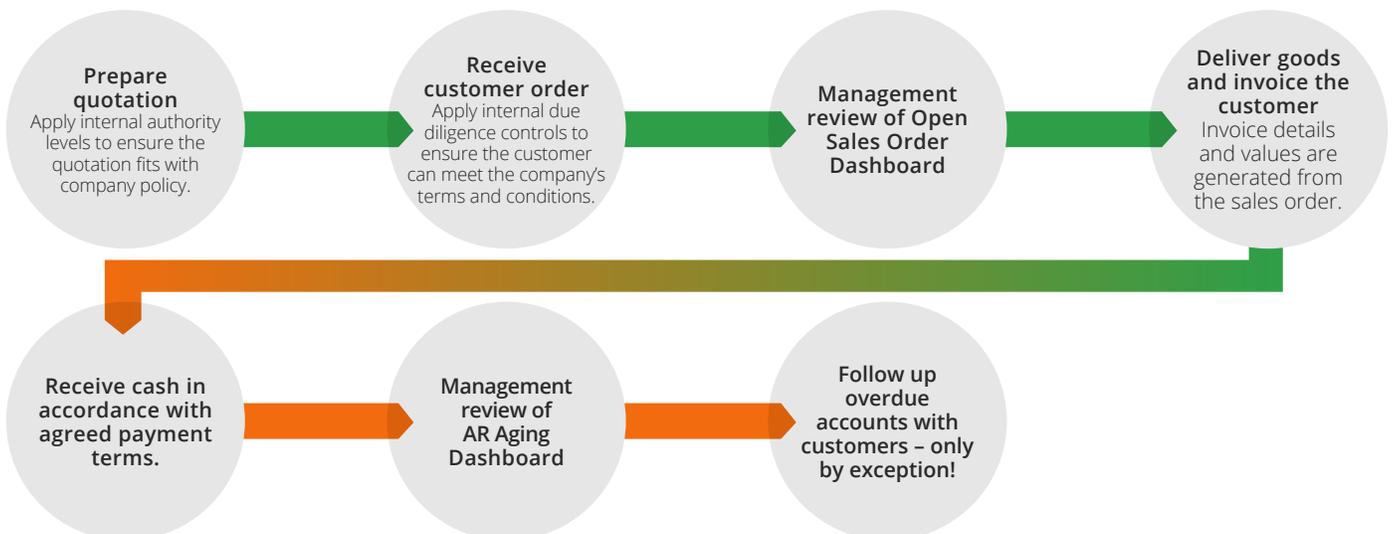
Filing. Despite the trend toward [paperless offices](#), many organizations continue to maintain physical copies of invoices and other financial documents to preserve the evidence and support an audit trail. This stockpiling of paper carries hidden cost in administrative effort and office rental while adding no value to the business. Combining the power of digital filing with its vast inexpensive storage capacity can produce significant time and cost savings. A [Document Control application](#) in ERP systems provides a perfect conduit for this activity, eliminating the need for holding physical records.



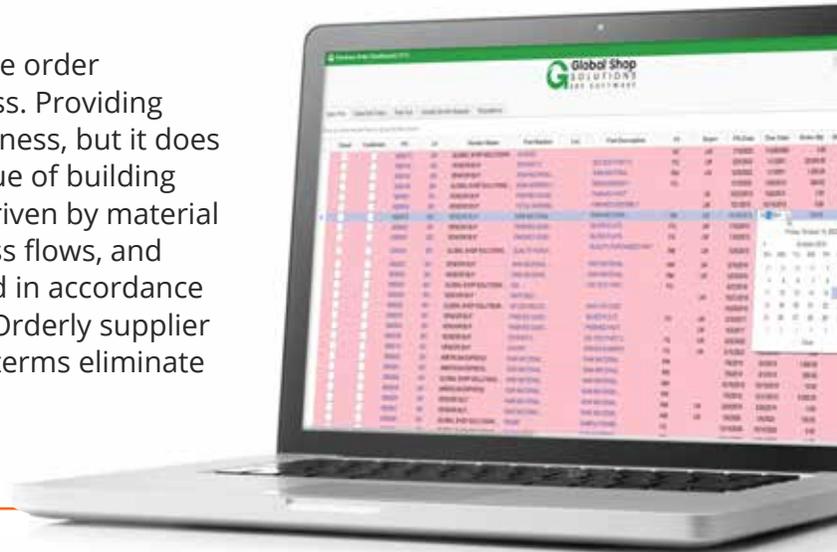
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Document Handling. Current technology provides many opportunities to reduce the administrative burden of delivering and receiving documents ranging from quotes, sales order acknowledgments, purchase orders, invoices to customer receipts, supplier payments, management reports and statutory reporting. ERP automatically produces these documents as part of sales order and purchase order processing, and can be electronically delivered and received in seconds, providing waste reduction opportunities for both sender and receiver.

Producing Customer Statements. When every part of customer order fulfillment is done correctly, there shouldn't be any need to produce customer statements; the final sales invoice should be enough. Breaking down the sales order process identifies various control points that help safeguard the organization's cash position.



Processing Supplier Statements. The purchase order processing (POP) mirrors the sales order process. Providing supplier statements is of little worth to the business, but it does expose potential failings and reinforces the value of building quality into the process. Purchase orders are driven by material requirements created by the sales order process flows, and the resulting supplier invoices can be processed in accordance with internal purchasing policies and controls. Orderly supplier payments in accordance with agreed payment terms eliminate the need for statement processing.



Integrated Transaction Processing.

Modern ERP systems create automatic financial transaction flows that reflect the physical activities generated by the sales order process, POP and production processes, thereby eliminating time-consuming manual accounting ledger entries. This significantly reduces the time and effort expended on recording accounting transactions by using automated inventory control and production activities to automatically create the financial transactions. Inventory records contain various inventory management parameters that help automatically control:

- Re-order points
- Minimum order quantities
- Purchasing lead times
- Stocking unit of measure
- Purchasing unit of measure
- Purchase cost
- Preferred supplier

Bills of Materials (BOMs). BOMs prescribe the components or raw material quantities used in the manufacture of finished products. Financial control is driven from the front end of the system by setting up control switches that apply to company options regarding the above inventory details. Each operational event is mapped to a financial transaction in the General Ledger, ensuring that operations and finance records reconcile. The vast array of available options enables customers to ensure the system can accommodate the operational characteristics specific to their businesses while also satisfying compliance and audit needs.

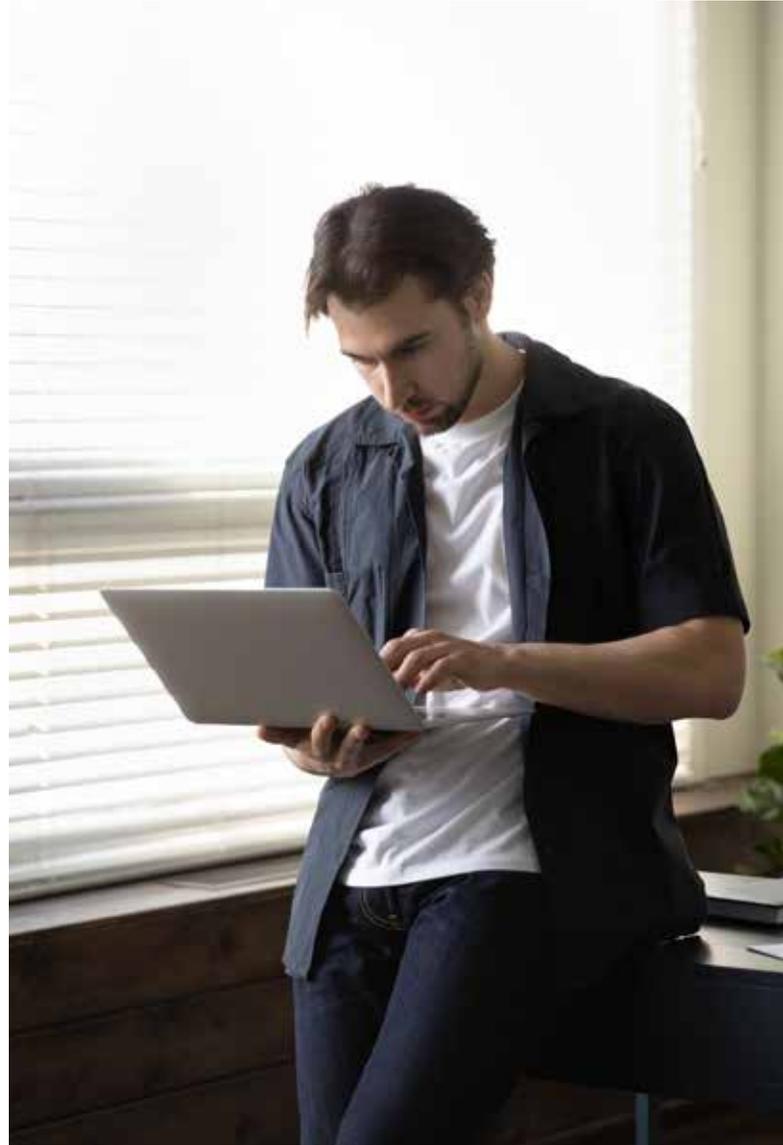
As with all successful systems, quality is built into the process to provide financial accounting accuracy and administrative efficiencies. This gives management robust and reliable performance measurement data to assist with tactical and strategic decision-making, thereby removing the mystique of accountancy that can typically hamstring businesses.

Simplifying Compliance & Control (C&C)

The C&C process is vital to the organization's legal responsibilities to protect stakeholders and prevent fraud and therefore requires systems designed to minimize the time and effort to satisfy this requirement.

The finance function carries the responsibility for the company's compliance with International Financial Reporting Standards and regulation. Fully integrated ERP systems are designed to accommodate these requirements, and the necessary audit trails are automatically produced to support this, eliminating the need for laborious manual record-keeping. Storing this information digitally also reduces the administrative filing burden.

To ensure the overall integrity of the system, a significant amount of reconciliation is undertaken within the system. Previously, finance teams would run manual reconciliations between the General Ledger and the Accounts Receivable and Accounts Payable sub-ledgers. With ERP, they use digital tools to ensure all ledgers are reconciled on a daily basis. ERP includes bank account reconciliation, drawing on the automated cash transactions within the Accounts Payable and Accounts Receivable processes, and automatically links with Internet banking platforms. Statutory reporting such as tax return submissions is driven by links to government portals that reduce the manual burden of preparing these requirements.



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Simplifying Management Reporting with Tailored Dashboards

Financial controllers and accountants are often looked upon as “spreadsheet jockeys” who can interrogate large transactional data files to provide detailed analysis of business performance. With ERP, multiple Dashboards augment performance measurement by enabling users to keep their fingers on the pulse of what is going on in the business.

Dashboards can also relieve the financial planning and analysis teams of some of the backward-facing analysis. Without compromising compliance requirements, they enable users to focus more on the forecasting and planning process to help drive the business forward. We can only manage the future, and too much emphasis on reporting past events can lead to analysis paralysis that hampers forward progress. Of course, analyzing past performance is a vital part of reporting, particularly the identification of poor margin performance. Exception reporting, incorporating pareto analysis, can help focus on the key areas of under-performance and enable management to take corrective action.

ERP Dashboards provide a strong platform for relevant and meaningful KPI management to guide business planning. This is where finance teams can develop into more of a business partnering function rather than just a historical analysis and reporting service. The following ERP Dashboards can be developed into a tool kit to help finance teams and operational managers manage day-to-day activities, highlighting areas of concern while providing a forward view of future performance:

- Open Sales Order Review Dashboard
 - Identify SO status and overdue orders
 - Provide warning signal for production bottlenecks
 - Provide the basis of a sales forecast
- Open Quote Dashboard
 - Support the sales forecast
 - Provide platform for sales funnel management
- Sales History Dashboard
 - Analyze sales and profitability performance
 - Support budget/forecast gap-analysis
 - Identify under-performers
 - Support sales forecast
- Work Order Dashboard
 - Identify WO status and overdue orders
 - Provide warning signal for bottlenecks in purchasing
 - Provide warning signal for labor efficiency/utilization
- Labor Performance Dashboard
 - Identify labor efficiency/utilization issues
 - Challenge labor times calculations
- Open Purchase Order Dashboard
 - Identify PO status and overdue orders
 - Identify potential material shortages – account on hold
 - Support supplier performance measurement
- Inventory Extended Status Dashboard
 - Support material shortages – current and future
 - Help to explain overdue sales orders
 - Identify slow-moving and redundant inventory
- AR Aging Dashboard
 - Support cash flow forecast
 - Identify customer payment issues
- AP Aging Dashboard
 - Support cash flow forecast

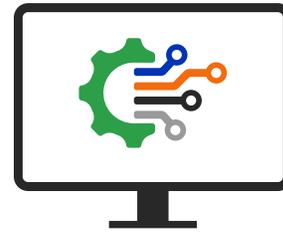
These tools help provide a complete picture of the company’s status and performance and assist in early identification of operational issues that need urgent corrective action.

Changing the Mindset

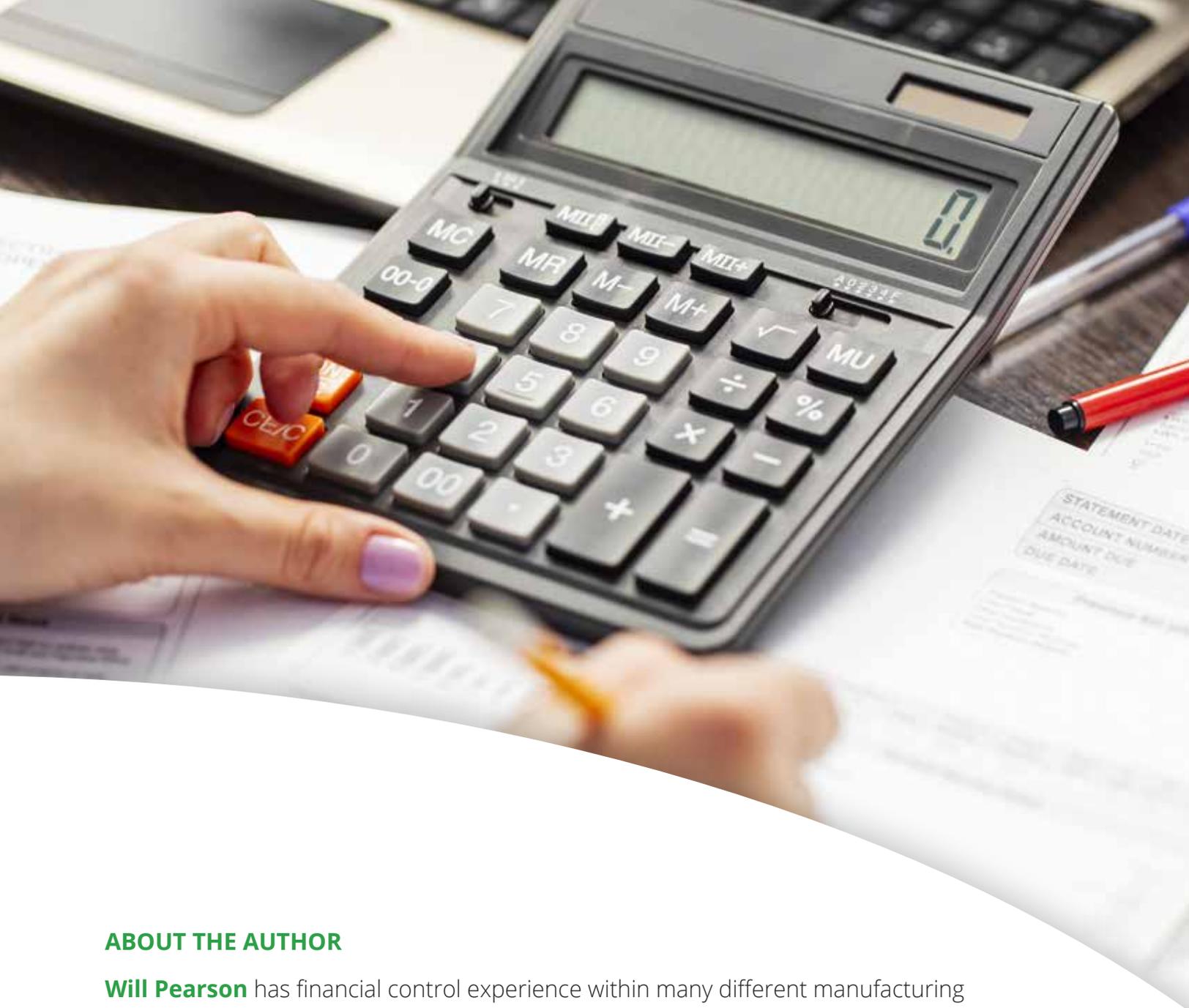
Finance and accounting efficiencies generated by ERP create the opportunity for a paradigm shift in the management accounts reporting process. Traditionally, finance prepares and issues a “Month-End Accounts Pack” a few days into the following month, which management reviews shortly afterwards. Considering the Accounts Pack reflects transactions that occurred 30 days ago, it could be argued that the timetable renders some of the information out of date.

With the ERP system constantly tracking real-time data on operational events and financial transactions, the organization can begin moving toward a concept of continuous management reporting. The breadth and depth of management information held within ERP Dashboards, together with built-in reports such as Income Statement and Balance Sheet, provide the opportunity to automatically produce management accounts at any time, helping to identify and correct financial issues. This doesn't represent new thinking, but it brings attention to areas within organizations that are often overlooked in the pursuit of competitive advantage. It also helps provide a wider perspective for business administration.

In today's tumultuous economic landscape organizations must strive for continuous improvement, seeking every opportunity to achieve efficiency. The finance function is a vital part of a successful organization and should become an integral team member in the day-to-day activities, providing support to other functions as they strive for business performance improvement and seek the aggregation of marginal gains.



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ABOUT THE AUTHOR

Will Pearson has financial control experience within many different manufacturing industries such as automotive at tier-one suppliers to European car manufacturers. In Pearson's role of Financial Consultant at Global Shop Solutions, he works closely with customers to help them adopt a smarter approach to financial management.

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