



## What's Top of Mind for Supply Chain Executives? **Research Reveals Five Priorities for Order-to-Cash Performance**

**Deb Miller**  
Director, Manufacturing & Retail Strategy  
Software AG

# CONTENTS

INTRODUCTION	3
THE QUEST FOR THE “PERFECT ORDER”	3
PROFILE OF RESPONDENTS	3
PARTICIPANT PROFILE: VERTICAL INDUSTRY	4
PARTICIPANT PROFILE: BUSINESS VS. IT	4
TOP PRIORITIES FOR ORDER-TO-CASH PROCESS	5
1. Customer delivery time is the top improvement area.	5
2. Accommodating new product introduction is the top business challenge.	7
3. Visibility is a top priority but challenges remain with IT and business alignment around visibility.	8
4. Unifying the supply chain environment is the top goal for IT.	9
5. Ability to monitor and respond to customer order changes needs improvement.	9
ABOUT THE AUTHOR	10
APPENDIX	11

## INTRODUCTION

What are the key challenges for optimizing performance in the order-to-cash process? Are business and information technology executives' priorities aligned?

Software AG recently sponsored a series of independent research interviews to explore this question and discover the key priorities of supply chain executives. Our interviews uncovered five shared priorities in the quest for the "perfect order" and found that words matter when it comes to aligning business and information technology executives' views.

## The quest for the “perfect order”

Strategies for optimizing order fulfillment are top of mind for today’s supply chain executives who realize that achieving the “perfect order” -- in full, on time and on spec -- translates to improved results for their business. BusinessWeek’s report on the world’s most innovative companies found that companies, competing on the basis of process, product, and business model innovation outperformed the S&P for margin growth and stock return. Software AG has helped such supply chain leaders achieve impressive results by refining their order entry and booking process:

- Motorola refined its order-entry-to-order-booking process to ensure a high percentage of on-time order fulfillment. In one of their key business lines, they achieved dramatic results with 85% improvement in problem discovery and resolution time and a 75% reduction in the number of problem orders.
- Avnet saw their software distribution business grow from tens of millions to hundreds of millions of dollars over a two-month period. They achieved new, incremental profitable revenue and exceptional productivity gains (30-45%) with relatively minor investment in improving their order-to-cash process.
- Johnson & Johnson was able to create an automated approach for monitoring real-time supply chain performance. By one estimate, problem resolution times were improved by 75%, providing significant value to the business operation.

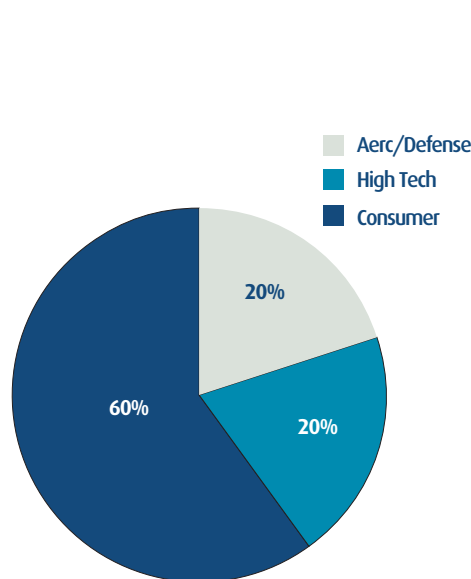
With the power of these order-to-cash improvements in mind, Software AG recently sponsored a series of interviews with ten experienced sup-

ply chain executives to better understand the current and desired state of their order-to-cash process.

During these conversations, a number of interesting themes emerged about their order-to-cash results, goals, and challenges. This report highlights their responses in five key priority areas.

### Profile of respondents

The Software AG-sponsored interview<sup>1</sup> series was conducted by an independent research firm with Line of Business (LOB) and IT executives focused on the supply chain in the high tech, consumer products and services, and aerospace and defense sectors.



<sup>1</sup> Interviews were conducted from December 2006 through March of 2007. The results are presented as qualitative observations that could be useful in understanding the priorities of companies with similar profiles.

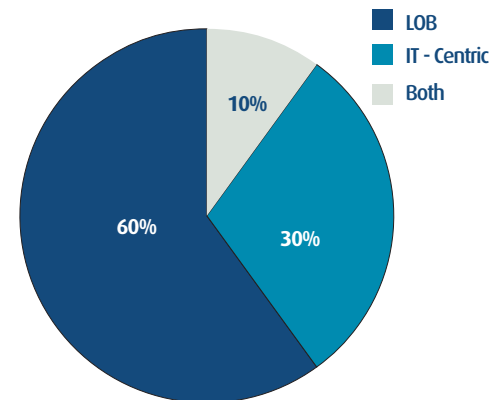
### Participant Profile: Vertical Industry

The executives were selected from large U.S.-based companies that extend beyond Software AG’s current customer community.

Titles ranged from CFO to EVP Global Ops and Supply Chain, to VP Product Supply, Executive Director of Logistics, and CIO.

The participating executives were asked to characterize their supply chain role, identify their primary perspective as business or IT-centric, and answer a series of questions about their company’s supply chain priorities.

### Participant Profile: Business vs. IT



## Top Priorities for Order-to-Cash Process

Five shared priorities emerged from our interviews with IT and line of business supply chain executives about their order-to-cash process:

1. Customer service is a priority; customer delivery time is the top improvement area.
2. Accommodating new product introduction in the order-to-cash cycle is the top business challenge.
3. Visibility is a top priority, but challenges remain with IT and business alignment around visibility.
4. Unifying the supply chain environment is the top goal for IT.
5. The ability to monitor and respond to customer order changes needs improvement.

### 1. Customer delivery time is the top improvement area.

#### We asked:

**What were your organization's top improvements to customer order fulfillment and the order-to-cash process during the last year?**

**Single view of customer and customer orders**

**Higher percentage of automated B2B integration with customers**

**Expanded options for customer self-service**

**Shorter delivery times**

**Shorter order-to-cash cycle times**

**Higher on-time delivery rate / fill rate**

**Fewer returns**

**Greater responsiveness and flexibility in dealing with changes to orders**

The old adage that “the customer is king” remains true today, and technology is providing new, more effective ways to ensure that the customer is well served. The basic mantra for supply executives in the past few years has been to focus on being lean, agile, demand-driven companies. But agility can come with a cost. Companies may unwittingly let margin erode as they expedite more, incur premium freight charges, or change production schedules at the last minute, all in the name of being more responsive. Not surprisingly then, our interview discussions found that supply chain executives are focusing on ways to streamline their response to the customer while maintaining margins.

When asked about their organization's process improvements over the past year, the supply chain executives' top three responses were:

- Higher on-time delivery rate/fill rate
- Higher percentage of B2B integration with customers
- Shorter delivery times

While all of the executives were focused on improving customer delivery for competitive differentiation, the words the line of business and IT executives used most often to describe the key drivers for optimization were different. During the interviews, the line of business executives consistently identified “customer satisfaction” as the key driver for order-to-cash optimization while IT participants talked most often about “productivity.”

#### We asked:

**What key performance indicators (KPIs) are you using; what KPI is the most important to customers/to you?**

During our interviews, on-time delivery was the most often mentioned KPI used to monitor and measure progress toward organizational goals. While our interview participants did not have service-level agreements (SLAs) in place with all of their customers, they did all have metrics around their performance against their customer on-time delivery expectations.

The interview participant responses as to how their performance rated against customer “perfect order” expectations ranged from 80% to 99.6%.

#### We asked:

**What are the expectations of your key customers with regard to order taking, sourcing, fulfillment, and invoicing; and how are you performing against these expectations?**

How does this compare to other larger studies that have been done? According to AMR Research<sup>2</sup>, a perfect order metric of 95% or better is achievable, yet the average perfect order performance among discrete manufacturers in AMR benchmarking studies is closer to 80%. And there is a lot of variation within this. For example, automotive suppliers tend to be in the very high 90% range, whereas consumer electronics suppliers are around 70%. Industrial or electronic equipment is in the middle. Another recent study cited by AMR found that “respondents only shipped perfect orders – complete, on time, and damage free, with correct documentation and pricing – 85.7% of the time. Some quick math shows that at that rate 143,000 orders out of every million fail to meet the specifications set out by the customer.”

Closing this gap can be one of the most impor-

<sup>2</sup> DDSN for Discrete Organizations, March 2007

tant steps to improve company performance. Results of a survey that appeared several years ago in the International Journal of Production Economics found that effort focused on carefully managing supply chains produced financial benefits for participating firms. Notably, how customers of these firms perceived supply chain performance was considered the top priority in increasing the firms' competitiveness. Customer response time was identified as the most important order planning metric.

Supply chain experts agree that manufacturing quality, a long-time competitive differentiator, is approaching parity. According to The Supply Chain Council<sup>3</sup>, meeting customers' specific demands for product delivery has emerged as the next critical opportunity for competitive advantage, and companies are focusing on effectively meeting customer demands for options/styles/features, quick order fulfillment, and fast delivery. It is widely recognized that there are significant cost advantages for organizations that exhibit best-in-class supply chain performance over those with average performance. For example, benchmarking studies indicate decreasing supply chain costs by 1% can lead to a 20% improvement in profit margin.

<sup>3</sup> The Supply-Chain Council, authors of the Supply-Chain Operations Reference-model (SCOR), was organized in 1996 by PRTM and AMR Research and has 1,000 corporate members world-wide with practitioners representing a broad cross-section of industries, including manufacturers, services, distributors, and retailers. <http://www.supply-chain.org/page.wv?name=Home&section=root>

## 2. Accommodating new product introduction is the top business challenge.

**We asked:**

**What business challenges do you face in the order-to-cash area?**

**Mergers and acquisitions**

**Industry regulation/deregulation/re-regulation/compliance requirements**

**New product introduction / product lifecycle management**

**Market expansion: entering new geographies**

**Extended lead times**

Our supply chain executives identified new product introduction (NPI) as the top business challenge in the order-to-cash area:

- New product introduction and lifecycle management
- Mergers and acquisitions
- Industry deregulation/compliance

After NPI, industry issues such as responding to regulation changes and growth through M&A were seen as the key challenges.

New product introduction is a longstanding challenge for the order-to-cash process, especially when the pace is high for product innovation. Harvard Business Review found that although innovation can enable a company to achieve higher profit margins, the very newness of innovative products makes demand for them unpredictable; and the nature of product innovation requires the ability for the order-to-cash process to respond to shorter lifecycles.

The true challenge here is the ability to balance a cost-efficient supply chain with one that is op-

timized for market responsiveness. This demands a degree of integration and visibility across the supply chain. Interestingly, these are the same demands made by regulatory and M&A business challenges.

## 3. Visibility is a top priority but challenges remain with IT and business alignment around visibility.

Virtually every one of Software AG's supply chain customers has said that increased supply chain visibility is key to success. This is echoed by the supply chain executives in our latest interviews. The importance of visibility was consistent across all the participants in order to achieve:

- Improved customer automation
- Timely delivery assurance
- Order accuracy

While anecdotal, the interview results on the importance of visibility are congruent with Aberdeen Group findings. Their November 2006 supply chain roadmap report highlighted that visibility was considered important to enhance the customer experience, improve operational efficiency and agility, and ease regulatory compliance and oversight.

**We asked:**

**Do you feel you have sufficient end-to-end visibility of orders in your process?**

When asked if they felt that had sufficient end-to-end visibility of orders in their process, seven of our ten interview participants said that they did. Perhaps most interesting was that all the LOB participants answered "yes" and all the IT participants responded "no."

The interviews revealed that while priorities can be similar for LOB and IT execs, clearly the way in which they interpret the state of current capabilities can differ. Although this split between IT and the line of business may simply be a coincidence because ten unique companies were involved, it is also possible that IT and business participants have differing views of “end-to-end” visibility and how to achieve it.

For example, when line-of-business executives were asked whether they have sufficient end-to-end visibility, even if they originally said “yes”, only 50% continued to say “yes” when asked specifically about their outsourced manufacturing process. And, although the line of business executives said they can check status at any point in the order-to-cash process, when probed further, only half said orders spanning multiple systems have a single view.

Group	Visibility = YES	Visibility= NO
Line of Business	7	0
IT	0	3

These distinctions are significant because of the results that can be achieved through visibility across multiple sites and supply chain participants. Aberdeen Research found that firms that automate and streamline workflows across multiple sites (including suppliers, partners, and manufacturing sites) produce better operating results. These companies were able to beat the average reduction in manufacturing costs by almost 22%, improve complete and on-time delivery by 18%, and increase profitability by 28% over the average across all participants. The most impressive differentiation came from comparing reduction in total time from order to delivery, where “Best in Class” produced a 66%

improvement.

**4. Unifying the supply chain environment is the top goal for IT.**

When the IT survey participants were asked about their goals for the coming year, their responses all focused on unifying the supply chain environment. The top responses were:

- Move to common platform
- Implement SAP across operating units
- Increase B2B connectivity
- Improve single customer view

The IT goals all reflect the need for business process integration in the supply chain, providing automation and real-time management of processes across departments, systems, customers, and suppliers. For example, the majority of the executives said [the lack of] integration with outsourced logistics

posed a risk to on-time delivery. They said that as a result of limited flexibility and lack of visibility, freight was held at ports longer, causing premium freight charges.

**5. Ability to monitor and respond to customer order changes needs improvement.**

**We asked:**  
**Do you use any type of business process management or monitoring tools to actively monitor the order-to-cash process?**

Only six out of the ten interview participants use any type of business process management or monitoring tools to actively monitor their order-to-cash process.

Those that did have capabilities in this area discussed how it enabled them to better understand and respond to customer changes, for

The ability to automate, monitor, and respond to supply chain exceptions in general is an area of particular concern because the impact on

Level of Understanding		# of Responses	Percentage
Yes	Clearly understand.	4	40%
Yes	Understand somewhat	4	40%
No	I don't have any understanding	2	20%
<b>Total Responses</b>		<b>10</b>	<b>100%</b>

example. That group was in turn better able to see how often their customers changed lead times, order content, or delivery dates and to discuss the resulting impact on their business.

In addition, those same executives indicated that they clearly understood the margin implications when their order-to-cash process did not execute properly.

business results can be significant. Case in point, a 2006 article in the *Journal of Business Logistics* found that effectively addressing supply chain problems such as order changes by customers as well as product shortages and roll-out problems could cause up to a 10% improvement in shareholder value.

**We asked:**

**What are some cost implications when your order-to-cash process does not execute properly? Do you feel you understand the margin implication(s) of these issues?**

#### ABOUT THE AUTHOR

Deb Miller is with the Software AG Industry Solutions team, focused on the supply chain. Her career includes more than 20 years of global industry experience with GE. Since 2002, she has been a study group contributor to the President's National Infrastructure Advisory Council. Ms. Miller is a Phi Beta Kappa graduate of Syracuse University with a degree in Mathematics and a dual Masters in Education and Mathematics. She has attended GE's Management Development Institute and is a Six Sigma Green Belt.

## APPENDIX

Here are the questions we asked our supply chain executive participants. See how your priorities compare.

- What were your organization's top improvements to customer order fulfillment and the order-to-cash process during the last year? (Check all that apply)
  - Single view of customer and customer orders
  - Higher percentage of automated B2B integration with customers
  - Expanded options for customer self-service
  - Shorter delivery times
  - Shorter order-to-cash cycle times
  - Higher on-time delivery rate/fill rate
  - Fewer returns
  - Greater responsiveness and flexibility in dealing with changes to orders
- What key performance indicators (KPIs) are you using; what KPI is the most important to customers/to you?
- What are the expectations of your key customers with regard to order taking, sourcing, fulfillment, and invoicing; and how are you performing against these expectations?
- What business challenges do you face in the order-to-cash area? (Check all that apply)
  - Mergers and acquisitions
  - Industry regulation/deregulation/re-regulation/compliance requirements
  - NPI (New product introductions) / product lifecycle management
  - Market expansion: entering new geographies
  - Extended lead times
- Do you feel you have sufficient end-to-end visibility of orders in your process? When outsourcing is involved? When multiple systems are involved?
- Relative to supply chain, what are your goals in IT selection and implementation for the coming year?
- Do you use any type of business process management or monitoring tools to actively monitor the order-to cash process?
- What are some cost implications when your order-to-cash process does not execute properly? Do you feel you understand the margin implication(s) of these issues?



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