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## INNOVATION: Finding new answers

By **Steve Epner**

Friday, May 21, 2010



One of the challenges in business today is staying on top. The world around us is changing at an ever increasing speed. Sometimes it is hard to keep up, let alone stay ahead of the curve. Successful businesses will require two things to compete and thrive. They must be able to anticipate (innovate) and they must execute on their ideas.

Anyone who does not think things are changing fast is kidding themselves. My grandson came to me and while poking his finger in the air asked: "Papa, why do we call pushing buttons dialing?"

Similar stories are repeated every day. Young people think the "cc" in email stands for "copy copy" there are two letter cees to represent making a copy. They have never heard of (let alone seen) carbon paper. (For younger readers, cc used to stand for "carbon copy" when that was the primary means of creating an exact duplicate without using an offset printing method.)

Business processes are also moving at lightning speed. New methods of selling on the internet are considered old hat – even though public access and acceptance of the World Wide Web was just getting started 20 years ago.

The possibilities for using data stored in computers are even more amazing. There is a whole new science called Business Intelligence. Of course, that sounds like an oxymoron joke, but it is a real capability making a real difference.

Take the old concept of Activity Based Costing (ABC). The idea was to calculate what it really costs to execute some task in business. Prior to the new, relatively easy to use tools, it was a difficult process. The amount of manual time required to do anything often exceeded the value that might be expected.

Now it is easy to do and the rewards for companies willing to use the tools are amazing. According to David Winkler, manager, business intelligence practice at Brown Smith Wallace, "The amount of valuable, but unused data in computer systems today is a shame. Companies should be using much more accurate information to make decisions and to change processes. In most cases, there are answers waiting to be discovered."

What might be one of the simple answers? Consider the cost of invoicing a customer for a purchase. Most credible management science people will tell you the number is around \$50. This includes everything necessary to create the transaction, accumulate it until the billing date, send it out (email, fax, or snail mail), a follow up call when the payment is not received on time, the cost of money, and the cost of applying the cash when received.

Yet, businesses invoice customers all of the time for small orders. If the business operates on a 20% margin – which is very good in many industries, although average in others – it takes a \$250 order just to cover the processing costs. This means most companies will lose money on many of their orders. There are always exceptions, for example, the "A" customer who

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needs a small part quickly.

In the majority of the cases, there is no good excuse not to force the use of a credit card. Many companies when presented with this alternative first tell me they cannot afford the 3% charge. Then we do the math. 3 percent of a \$200 order is only \$6. That means that \$44 is left in the business compared to an invoiced order.

The BI tools will allow every company to better understand their costs, but more importantly, it will track the impact on the bottom line. "Given the proper metrics, clients will find that by eliminating invoicing on orders under \$300, except for their best customers, will improve cash flow, reduce borrowing costs, and free up personnel to do more important things" says Winkler.

Step back and take a look at what operations cost you. Find ones that can be modified. Use the tools to calculate the affect on the bottom line and then execute on those that will have a positive impact. It may have been considered rocket science a few years ago, but not today.

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