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It's a Matter of Survival: Use BPM to Drive Out Costs

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For struggling companies, business process management is a lifeline that helps them survive by reducing and avoiding costs in this volatile and turbulent economy.

Overview

In a troubled economy, struggling companies often cut costs broadly and blindly without understanding whether those cuts further compromise their survival. This research presents a series of real-life examples in which business process management (BPM) has helped organizations survive by identifying ways to improve business processes and cut costs at the same time. BPM gives companies visibility into processes that are key to cost management. BPM is a lifeline in this troubled economy. It helps companies find and avoid hidden costs — to keep companies in business.

Key Findings

- Companies that use BPM create business process models that identify process redundancies, hidden costs and avoidable risks. Companies survive by using cost savings from BPM efforts to fund critical business operations.
- Applying BPM enables process visibility, allowing better collaboration among the activities being performed.
- For struggling companies, compliance is often another burden. BPM is well-suited to drive costs out of compliance and regulatory work.
- Simplifying the administrative work of your employees can increase morale and enable them to spend time on high-value work. It can also help companies in survival mode do more with less.

Recommendations

- Gain a competency in BPM now.
- Before you wield the cost-cutting axe, construct a high-level business process model to understand the impact of head count and resource cuts across the enterprise so that you do not decrease process

- efficiency and inadvertently drive up costs.
- Use BPM to manage your business case justification and measurement processes.
- Identify processes where costs may be high and there is not a focus on measurement. Target one of these processes for your first or next BPM project, and demonstrate tangible results.

Analysis

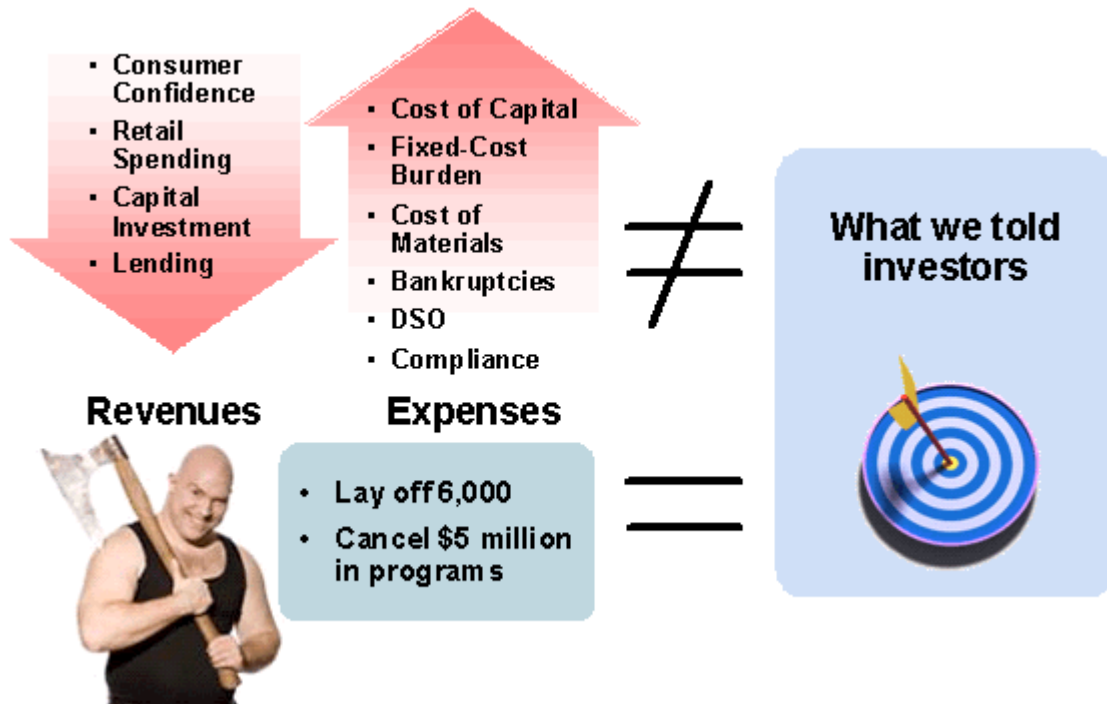
Introduction

The daily headlines bring more bad news about the economy. Depending on which economist you want to believe, this recession will last a few quarters or perhaps longer. The typical reaction of most companies in an economic downturn is to cut costs. The CFO looks at the publicly disclosed earnings targets for the upcoming quarter or year, projects lower revenue numbers, and then figures out how much cost cutting is needed to make the original earnings target. Someone else, perhaps the COO, decides how many jobs need to be cut and how many programs need to be canceled to meet the cost-cutting goal. From a mathematical perspective, this makes perfect sense. However, the company officers have essentially taken an axe and hacked away at resources that support business processes, with some unforeseen consequences about what they have created. The streamlined organization may not be able to reach the original revenue targets or deliver on its strategic objectives.

This "ax man" approach is likely to leave gaping holes in your business processes. So, how can you fight the ills of the economy without killing your business? At Gartner, we believe that one of the methods to do this is to look to BPM. BPM provides the management disciplines and the tools to surgically target problem processes and put them on the path to recovery. Importantly, this is done in the context of the organization as a whole. This research highlights how several companies have used BPM to "keep the lights on" and ensure an enterprise's survival. These companies used BPM to cut costs, identify redundant programs prior to being funded, reduce the amount of rework in their processes, and comply with regulatory requirements in a timely, cost-effective fashion.

The research conducted with these companies was gathered by performing interviews with each company in late 4Q08 and 1Q09. Because many organizations consider these BPM projects key to their survival and competitive advantage, the interviews have been blinded to keep the company names anonymous (see Figure 1).

Figure 1. Surviving Requires Making the Tough Decisions; BPM Can Be a Powerful Tool to Achieve Your Objectives



Source: Gartner (March 2009)

Discover Expenses That Can Be Avoided

BPM solutions enable you to make better decisions and bring visibility about where money is spent and the consequences of work activities and dependent actions. These three examples demonstrate how cost-savvy enterprises used BPM to avoid costs:

- A financial services company used process modeling as a means to validate project benefits and avoid funding proposed projects that would not deliver the projected outcome. In one division, it began to delve deeper into these business cases to prove the benefits at a more-granular level. It is finding that these benefits are often not justified and approximately one-third of the projects are not approved, resulting in avoiding expenditures for projects that are not of high value.
- A provider of employee spending management services used BPM to increase internal governance and standardization, and reduce the time for internal IT support and customer implementation processes. It started out with quick-win projects and continued to take on more impactful projects. The 65 projects it has undertaken have resulted in a cost avoidance of \$700,000 and the earlier recognition of customer revenue. Another benefit is that, by driving out manual work, such as filling in spreadsheets and creating reports, it has increased employee job satisfaction and morale.
- A developer of long-term-care pharmacy systems used BPM to validate and cross-check a complicated maze to determine prescription insurance coverage. Before implementing the solution, prescriptions were being shipped to customers in good faith — in some cases, before these validations could be performed. Sometimes these prescriptions are not covered. If a claim for a drug is rejected, and the pharmacy ships it but doesn't get paid, that is a 100% loss. Checking if the prescription is covered first eliminates this loss of cash and is a big survival issue in this current environment.

Bring Visibility to Hidden Costs and Take Action

What you don't know about your processes may be costing you money. Gaining visibility can help to coordinate the work being performed and enable better coordination of activities. Two organizations delved into examining work that occurs in and around visible processes. By creating simple ways to collaborate and create visibility,

impressive results were delivered:

- A telecommunications company increased the visibility into its sales pipeline and shortened the "quote to cash" cycle time by 10 days, resulting in decreased expenses and a reduction in errors and rework. The business process management suite (BPMS) solution it deployed provided management with full visibility into its sales pipeline for the first time, enabling it to build the capability to orchestrate dependent activities. The solution enables clear management control and reporting that drive the business direction with facts, not assumptions. It also enabled a reduction in sales head count, while maintaining and increasing sales and profitability. This shortened cycle equates to a €3 million net per annum. In 2009, with further rollout, the estimate is €50 million. In addition, the solution enables the organization to monitor the processes with Six Sigma methodologies.
- An industrial equipment manufacturer saw impressive results in record time. Using a collaborative approach to designing the new process, it went from a blank piece of paper to an implementation process in 15 days. Prior to the project, the product development group had a very manual engineering change-notice process. Missed reviews and a lack of visibility enabled design changes to get into the production line at a significant cost per unit. The ease of use and process visibility enabled by the BPMS solution have brought better collaboration and scrutiny to design changes, ensuring that all changes have engineering sign-offs. The results are significant — prior to implementation, changes were averaging \$2,000 per unit. Since the process change was implemented, changes are averaging \$50 per unit, a cost savings of \$1,950 per unit. With tens of thousands of units produced a year, the cost savings are substantial. In addition, BPM has received recognition as an important strategy by its top executives.

Reduce Costs and Errors Associated With Compliance Requirements

Ensuring compliance with regulations can be tedious and time-consuming. Using BPM techniques to define a streamlined process that provides the necessary audit trails can pay off with more than just savings in money. Simplifying the administrative work of your employees can increase morale and enable them to spend more time on high-value work.

- An entertainment company needed to better manage Sarbanes-Oxley compliance and make the audit trail visible. This was being performed manually, with information scattered in multiple sources and was very labor-intensive. It started with a small application and used a BPMS, which enabled it to make this activity more visible. It has defined all the steps, is able to flag items requiring attention and has created one centralized data repository. A valuable byproduct is that the company feels this improvement has made employees' lives better, and the solution will enable improved efficiency. The work helped the company standardize, streamline and achieve compliance. The manager of the project predicts that continuing to do this will help free up employee time that can be refocused on more value-added activities.
- A federal agency streamlined compliance requirements — saving time and expenses associated with regulator travel. Each time an airplane is serviced, it requires an approval. The "before" process involved inspector travel to the aircraft site and a manual sign-off of the records. Until this approval is obtained and filed, the plane cannot fly. In some cases, it was taking days to get to the location. Additionally, each plane must have its own aircraft record in the plane, and this record must be registered locally and tracked. The new process uses BPMS to automate this process, enabling electronic signatures, and has, at times, decreased the amount of time to get a plane back into service from days to hours. In one case, a valuable rescue helicopter was put back in service in hours. The inspectors no longer travel to the location to physically sign off.
- To comply with the USA Patriot Act, a financial services institution must perform due diligence with the customer. This company used a BPMS to automate data collection, quality control, exception handling and reporting of new customer loans. The company estimates that deploying the BPMS solution cost 30% less than the cost of using traditional technologies and also reduced personnel costs associated with manual compliance processing by 40% — all while giving them the visibility they needed for compliance.

In the Battle for Survival, BPM Is Thriving

During the past few months, Gartner's BPM analysts have asked customers on reference calls or on inquiries, "Are you being pressured to reduce your BPM budget or disband your BPM initiative as a result of economic pressures?" So far, 95% of the customers say that their BPM projects have escaped the ax. In fact, most have reported that there is even more management support for BPM than ever. These results are further supported by a recent poll conducted during a webinar that indicated that 93% of respondents stated that their BPM budgets were "increasing or staying the same," with only 7% answering that they were decreasing.

Survival Actions

Put BPM to work immediately:

- Identify your most-valuable business processes.
- Select from that set the business processes necessary for survival and where money may be wasted.
- Target one of these processes for your first or next BPM project.

BPM can be a powerful tool that plays a critical role in the survival of your company — it can reduce costs, ensure compliance, avoid mistakes and create the visibility needed to manage processes as assets to your enterprise. Initial projects can produce impressive results. You cannot, however, simply focus on one-off projects. You will need to assess the impact of cuts to the process overall, not just isolation in one area. To scale and integrate BPM into the fabric of your organization requires attending to the discipline of BPM and putting the constructs in place to support the practice of BPM. Although much of the survival work will focus on projects that generate significant results, resources must also be allocated to communicating and making BPM repeatable and scalable. For step-by-step information about building an effective BPM program.

When building a BPM program, be sure to pay attention to some critical elements:

1. Build communication into your BPM work to address the cultural and political implications that will arise.
2. Start up the business process competency center to ensure that your efforts will scale.
3. Prove the results by doing several short-duration, high-impact projects.
4. Educate your organization about BPM — build the skill set, and strive to embed continuous process improvement into everyone's job.

Laying the groundwork for BPM and proving results are powerful and can become a platform to elevate BPM to its true potential — BPM as one of the strategic management disciplines — and enable your organization to move from using BPM to survive to helping your organization to thrive.

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