The Three Pitfalls of Business Expansion—And How You Can Avoid Them

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EXECUTIVE BRIEF

Technology Evaluation Centers

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Expansion is often one of the most daunting challenges a successful business will face, whether its growth is organic, or via merger and acquisitions (M&As). Regardless of the form expansion takes, businesses can struggle with management and visibility issues across three areas in particular:

- business processes (including localization and compliance requirements)
- analytics
- information systems

This report explores these pitfalls—including warning signs and impacts—and identifies approaches you can take to avoid them.

Pitfall #1: Business Processes, Localization Requirements, and Compliance Requirements

Expanding companies typically look to consolidate activities such as accounting and customer service. Similarly, supply chain restructuring often goes hand in hand with business expansion. Regardless of your growth path, your business will face challenges in managing processes as well as the various compliance requirements that come along with doing business in multiple locations.

Warning Signs and Impacts

From the business process side, process gaps have a habit of becoming more pronounced as operations expand (this is especially true if local operations are centralizing around expertise or raw material proximity). For example, inaccurate inventory can cascade down to an inability to make accurate forecasts, while other difficulties can include failed quality control or shipment delays, ultimately leading to growing dissatisfaction among your customers.

How to Avoid This Pitfall

There's a lot that an integrated enterprise resource planning (ERP) system can do to help you manage the pitfalls associated with business processes affected by company expansion.

TEC data shows that the greater the size of the company, the more it requires systems that support collaborative processes and data integration. As companies grow they more frequently need functionality to support workflow, visibility into their operations, role-based system usage, and other features supporting the business process challenges outlined here.

For example, the frequency of respondents requiring workflow management functionality in their ERP system rises from 19.9% to 23.8% as company size grows from small to medium. If all ERP requirements for growing companies are aggregated, workflow management functionality is identified as a requirement 28 times more often than the average.*

Integrated ERP solutions offer tremendous support for defined business processes via workflows. They allow you to design best-practice processes spanning from the procurement of raw materials through to customer returns.

With integrated workflows, you can embed corporate governance into operational activities, such as automatic forwarding of supplier invoice approval requests to buyers (as opposed to cumbersome, error-prone e-mail–driven processes).

As for business processes, an integrated enterprise system can help you maintain overall visibility for all locations, and embed compliance requirements by, for instance, establishing automated safeguards to prevent materials from being shipped if they do not meet location-specific requirements.

You can also provide your various business units with better insight into their roles within the chain. With an integrated platform, production planners have complete access to all inventory and shipment information in all locations, and can adjust schedules as needed, when needed. In fact, TEC's data shows that demand frequency for advanced planning and scheduling (APS) functionality rises from 15.5% to 19.5% with business growth.

Pitfall #2: Analytics

With rapidly evolving markets and increasing end-user influence on product lifecycles, businesses are fighting to maintain market share. This challenge is even more serious when businesses enter new markets, whether through M&As or through joint ventures, since analyzing information from multiple systems requires a substantial investment of efforts and resources.

Warning Signs and Impacts

The first sign that your visibility is hampered is that you have limited or no access to the different systems under which your business units operate. This forces your various units to feed information back to you manually (e.g., via e-mail, phone calls, and spreadsheets) and essentially means you are working with only subsets of data from multiple disparate systems.

This can lead to information that is mismatched from one system to another. A metric such as "late deliveries" might in one system be calculated in days as opposed to hours, or inventory value might not factor in the day's sales while in another system value is calculated live. However appropriate the metrics may be locally, the decision process at higher levels is slowed by the additional efforts required to normalize the information.

As a result, timely decisions are impeded, since reconciling disparate data is time-consuming, and puts pressure on cost-control initiatives such as inventory management.

How to Avoid This Pitfall

As a corrective measure, your IT department can design a common portal from which all systems can be linked in order to share data and help you gain a certain level of visibility. However, this sort of project is time-consuming, costly, and conditional on the connectivity between the various systems.

It is much easier to work under a uniform platform across the board. A mature integrated ERP solution will offer advanced analytic tools, a centralized framework, and a uniform view of information that is fully accessible throughout the organization, thus saving precious data-processing time. Your various business units will also benefit from insight into other locations, which promotes better coordination.

Additionally, your metrics can be customized to match your business requirements, and propagated automatically throughout the organization. This will allow you to take action on data that would otherwise be unactionable.

Pitfall #3: Information Systems

Organizations that manage an expanding network of business units must take steps to ensure that the information circulating among them is accurate and readily integrated within all levels of the organization.

Warning Signs and Impacts

A typical sign that your information systems are not adequately integrated is lack of data quality. You may find that your data is not standardized or consistent from one report iteration to the next. Different systems often manage information validation differently depending on their level of maturity or on their operating standards.

For example, the date is often an entry field that is poorly standardized, varying according to local practices, which can result in conflicting information when it is imported for analysis or traceability. Such shortcomings may cause you to take action even though you don’t have a complete picture, or commit to a decision based on wrongfully validated information.

Put another way, the result of poor-quality data integration is information loss or mismanagement. With a diversity of systems, it is difficult to effectively support standardized user roles. Failure to reconcile this diversity can lead to noncompliant workarounds, and bad or mismatched data, which is especially risky in highly regulated environments or industries.

Consequently, the planning cycle will take longer than usual, as representatives from sales, production, and marketing struggle to obtain the relevant information (e.g., production capacity, warehousing allocation, or customer demand) from a variety of systems. As a result, your planning activities will progress at a slower pace than your market, which makes it difficult to focus on long-term planning.

How to Avoid This Pitfall

You can promote data quality by offering a standardized enterprise platform that simplifies data entry across the board and ensures that all necessary fields are available and populated by guided validation from the system.

Moreover, you will be able to centrally configure user roles and security access in alignment with corporate governance. Also, your ability to track down inconsistencies is greatly eased by a variety of traceability features, such as system logs and automated red flags. TEC data shows that the frequency of small-business respondents requiring "role-based and customizable" portal access to the system rises significantly (from 34.8% to 46.8%), with business growth.

With centralized and standardized data, you can also achieve faster and more effective planning: rather than propagating information manually through spreadsheets, you can proceed directly to analysis. You can also push information much faster to your business units, and reduce redundant communication (e.g., inventory or production lead times) between locations. This allows you to make decisions with the knowledge that your data is accurate.

Along these lines, 24.5% of small-business respondents stated a requirement for "collaborative sharing of system data, automatic processes, and workflow" from their ERP system, according to TEC data. When we look at medium-sized businesses, frequency rises to 29.1%, and it continues to grow to 30.5% for large businesses.

A Final Word: Managing the Transition

There's no question that an integrated ERP system offers expanding businesses a highly efficient platform to support their activities—and overcome the pitfalls of expansion. Bear in mind, though, that even the most thorough and best-planned of software implementations involve some degree of unexpected change.

The process of managing change begins long before implementation, since a key component of successful change management is user involvement and buy-in. A best-practice software selection methodology integrates user involvement into the process, and should therefore ease change management. You'll need to be receptive to user concerns, as well as being extremely vigilant and thorough when it comes to communicating the reasons for (and effects of) any unexpected changes.

Change management boils down to the practice of positioning and managing the expectations of stakeholders—the users of the new enterprise system. Ultimately, change management is about ensuring that the enterprise system is adopted by users who share a vision of how this solution will help them achieve organizational objectives.

About Technology Evaluation Centers

Technology Evaluation Centers (TEC) provides insight and expertise in offering impartial resources and services to minimize the costs, risks, and time associated with software selection. Over 3.5 million technology decision makers visit TEC's Web sites each month, to find information on hundreds of solutions, and to access articles, white papers, and podcasts.

TEC's decision support system (DSS) and analyst data assist with the evaluation, comparison, and selection of enterprise solutions and services. TEC's offerings include in-depth research, detailed product information, and software selection services for any industry or company size.

** TEC statistics in this report are based on aggregate data collected from over 80,400 software comparisons performed using the TEC Advisor software selection application. TEC Advisor contains detailed information about product capabilities for a wide variety of enterprise software solutions, including ERP solutions. Using TEC Advisor, business decision makers define their companies' high-level ERP software requirements in order to compare how, and how well, different solutions support their requirements.*

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