AUTOMATING THE SALES ORDER ENTRY PROCESS

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Real-World, Pressing Support for a Cogent Business Case







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EXECUTIVE SUMMARY

The trifecta of process improvement is *better, faster, and cheaper*. What processes can be made more efficient and effective without increasing costs? As automation capabilities mature, the sales order process has become a prime candidate for revamping — with potentially significant savings.

Enterprise Resource Planning (ERP) information management systems have become a pervasive means to manage data and integrate processes. And some organizations have fully integrated Electronic Data Interchange (EDI), which allows order information to be quickly captured and sent to manufacturing to build out or logistics to ship an order. Yet even with these tools in place, gaps still exist for manual entry that can significantly impair efficiency and effectiveness. At these points in the sales order entry process, automation can improve delivery time and reduce errors and costs.

Despite proven gains from the first generation of automation adopters and vetted tech options in the marketplace, some organizations still process orders manually, with some even requesting orders via fax. But why?

Upfront automation investments provide a road block to some, and implementation considerations provide at least a speed bump to most. Organizations that still have manual order entry processes want to know:

- What are the primary strategic drivers for automating the sales order process?
- Will automation affect customer satisfaction?
- How will automation affect employee allocation?
- How do we draw a relationship to organizational outcomes such as customer experience?
- Can we quantify key indicators for order management performance after automation?
- How will increasing automation ultimately affect costs?

This APQC report sheds insight on how early adopters answered such questions. APQC surveyed organizations with high transactional volumes or just-in-time inventory strategies on the ability of automation in the sales order process to lower transaction labor costs, improve the customer experience, and directly/indirectly increase revenue. By examining strategic and organizational concerns, enabling technology, and automation measures, APQC's research confirms that

APQC's Process Definition and Steps

Manage sales orders: Taking, receiving, processing, and acknowledging new customer orders or amendments to outstanding customer orders. Monitoring status from order receipt to customer delivery/customer invoicing.

- Accept and validate sales orders
- Collect and maintain customer account information
- Determine availability
- Determine fulfillment process
- Enter orders into system and identify/perform cross-sell/up-sell activity
- Process back orders and updates
- Handle order inquiries including postorder fulfillment transactions

automating the order entry process cuts costs and reduces cycle times, as well as indicates how automation delivers surprising customer benefits and employment outcomes.

The key findings in this report make for a compelling business case and present automation as a pressing need among the remaining late adopters (Figure 1). These organizations could reap the benefits of precedents set by earlier adopters by referencing their successes (and building an implementation plan from vetted practices and popular technology solutions). From their successes, the business case is clear: Automated sales order processes are cheaper — **\$5.00 to \$15.00 cheaper** *per sales order;* automated sales order processes are faster — reducing cycle time over 46 percent; and, automated sales order processes consistently lead to improved customer satisfaction.



Key Findings

Figure 1

BUSINESS CASE SURVEY RESULTS

APQC surveyed 167 representatives from organizations with high-transaction volumes or just-intime inventory strategies, primarily within the following industries: life sciences, manufacturing, wholesale distribution, and retail. Respondents include global supply chain directors, customer service directors, customer experience directors, and order management/fulfillment directors. (More details on survey demographics are in this report's appendix.) APQC combined these survey results with its secondary research and analysis of existing Open Standard Benchmarking[®] data in these report findings.

ADOPTION STATUS AMONG RESPONDENTS

It appears the adoption curve for sales order automation has reached a point of mass adoption, with the "late majority" currently implementing solutions. Almost half of the study's survey respondents have implemented a sales order automation solution (Figure 2). Another 37 percent are in the process of implementing a sales order automation solution.



Status of Automating Sales Orders Process



Only 14 percent of participants are either just considering or not considering an automation solution. In looking at the barriers to automation, many of the laggards are still evaluating the best technology solutions for automation (39 percent) or evaluating the business case for investing in automation (33 percent).

A sales order is any request to deliver goods or services to a customer. A sales order may come from any channel in any format (e.g., PDF, fax, phone, Word document, and email). Such barriers can be easily overcome at this point. Among those respondents that have fully adopted or are currently implementing an automated process, more than two-thirds considered just one or two options for sales order entry automation. (Nearly half of participants are using SAP to manage the sales order, and another 30 percent use an Oracle product such as PeopleSoft and JD Edwards.)

Although automation may not make sense for all organizations (e.g., where order entry is a key customer touchpoint), most remaining skeptics could reap the benefits of precedents set by earlier adopters in terms of building a business case on verifiable outcomes and building an implementation plan from vetted practices and popular technology solutions.

THE WELL-TESTED BUSINESS CASE

About one-third of the survey respondents described product/market innovation as the overall strategy for

Consider not only the time and cost required to collect and label a fax or phone order, enter data into a system, initiate workflows that lead to order fulfillment, and communicate with the customer about the status of the order but also the time and cost of an order when part of an order is lost, data entry errors are made, or an order changes. Beyond measuring the direct labor cost, consider the opportunity cost incurred of having staff performing repetitive, transactionoriented chores when they could be spending time in more valuable ways.

their unit/division, followed closely by customer service. The remaining third of respondents were evenly split between a focus on cost leadership or being "all things to all people." Currentyear objectives largely reflected these strategies.

So how can the business case for automating order entry support such strategies and objectives? A cheaper and faster process, for most respondents, led to improved customer satisfaction.

Cutting Costs Through Automation

It's reasonable to assume: The greater the degree of automation, the greater the cost savings. And APQC's research confirms that sales orders automation does reduce costs.

The survey results show a significant correlation between automating this process and reducing its costs. Once automation is fully implemented, the total cost to perform the process of managing sales orders per \$1,000 revenue drops (Figure 3). The average savings is \$530,000 per \$1 billion in revenue for total costs to manage the sales orders process. And the average savings for personnel

Sales order steps to automate:

- Reception routing orders
- Extraction pulling data for the ERP system
- Verification detecting exceptions
- Management approving exceptions
- Archival integrating order data
- Analysis rolling data into metrics
- Access providing access to order status and contacts

costs to manage the sales orders process is \$410,000 per \$1 billion in revenue.

In taking a wider perspective by looking at APQC's Open Standards Benchmarking[®] data in sales and order management, we find further confirmation that there are savings to be gained. When dividing the total cost to manage the sales order process by the number of sales orders placed, APQC calculated the average cost per sales order using paper-based protocols vs. electronic solutions. Top performers using digital channels incur an average cost of \$2.00 per sales order, whereas top performers using paper-laden methods spend \$7.00. And bottom performers using digital channels spend \$6.00 per sales order, whereas bottom performers using paper-based methods spend an astounding \$21.00. So the savings for automating a previously manual sales order process could be \$5.00 to \$15.00 *per sales order.*





Personnel Cost to Perform the Process "Manage Sales Orders Per \$1,000 in Revenue"



Figure 3

Quite simply, an automated process needs fewer orders processing staff and delivers faster cycle times. Looking at staffing, labor is the most significant cost driver in the sales order process, and the automated sales orders process requires almost four fewer full-time equivalent employees (FTEs) than the manual process (Figure 4). Looking at cycle times, automation quickly digitalizes orders for delivery, which respondents report reduces the cycle time over 46 percent (from the time a sales order is received until the time manufacturing/logistics is notified) from 8.6 hours to 4.6 hours.



Number of FTEs That Perform the Process "Manage Sales Orders" Per \$1 Billion in Revenue

Ultimately, respondents with an automated sales order process reported having a lower total cost as a percentage of selling, general, and administration (SG&A) costs.

Although these lower costs are typically a primary concern in business cases and one of the most anticipated bapafits (along with the drivers for

most anticipated benefits (along with the drivers for reduced costs such as process efficiency), the reality is that improved customer service is the most prevalent outcome of sales order automation.

Unexpected Customer Satisfaction Benefits

APQC suggests placing potential cost savings in a realworld context. Despite initial expectations for increased accuracy and efficiency, the top *realized* benefit of automating order entry actually is improved customer satisfaction. Process Improvement Opportunity: Sales order processing is an area that continues to defy innovations such as Optical Character Recognition (OCR), work-flow automation, electronic data consolidation, and cloud-based software solutions.

Among survey respondents, the top three *anticipated* benefits of sales order automation were improved order accuracy, operational efficiency and workforce efficiency — all drivers of reduced costs (Figure 5).



Top 10 Anticipated Benefits from Sales Order Automation



Although improved order accuracy and operational efficiency do drive improved customer service, the realized benefits in Figure 6 show how expectations and results differ. The top three realized benefits were improved customer service, improved data capture for analytics purposes, and improved operational efficiency. Reduced costs and improved order accuracy are not even listed in the top 10 realized benefits. This may be attributed to the tendency for organizations looking internally for improvements and not anticipate external impacts.



Top 10 Realized Benefits from Sales Order Automation

In fact, 96 percent of respondents agree or strongly agree that automation improves customer satisfaction. And a similar amount concur that automation improves the customer experience. Order accuracy and faster fulfillment predictably affect the customer's experiences. But those are only minor pieces to the bigger picture of delivering customer satisfaction. Operational efficiency improvement was the second most realized benefit, which suggests that the interaction and time customers spend placing orders decreased, which bolsters their satisfaction. Automation makes it easier, quicker, and essentially painless for the customer.

These results can shift perceptions from the common assumption that automation is solely a means to reduce costs and headcount.



Displaced Employees

34% of respondents relocated employees who were displaced by the automation of sales orders to customer facing positions.

TALENT ALLOCATION SURVEY RESULTS

AUTOMATION DOESN'T FORCE LAYOFFS

APQC's research finds that automation significantly reduces the full-time equivalent employees (FTEs) required in the order entry process. For most of the survey respondents, this does not equate to a headcount reduction.

Although it's commonly believed that automation leads to layoffs, this is not the case among the survey respondents. Most respondents reported that once their sales order process was automated, employees were reallocated to more value-added positions (Figure 7). In fact, only 1.9 percent of respondents had laid off employees after automation.



Where Organizations Reposition Employees After Automation

This suggests that it may be beneficial both to employee buy-in and to the bottom line to move surplus order processing staff to more value-added positions, which will ultimately bolster customer satisfaction. This allows organizations to more strategically utilize the workforce on customer-focused processes.

Ensuring Employees Have the Skills to Succeed

Automation frees employees from mundane tasks in order to serve a more strategic role, such as a customer-facing position. And that is exactly what the survey respondents are ensuring.

Forty-two percent of respondents said their employees receive a combination of soft and technical skills training. And 67 percent of respondents said their employees received customer service training after automating the processing of sales orders. This is followed by a majority of respondents indicating they provide training in: effective collaboration, clear communication, ethics and integrity, collaborative problem solving, building business relationships, flexibility, and the effective delegation of responsibility.

IMPACT AND IMPLICATIONS

At this point, most organizations are automating their sales order processes or have already done so. For early adopters, order entry performance has improved. APQC has found that

automation reduces costs and improves the customer experience. These outcomes provide the means for increased customer satisfaction and revenue.

NEAR-UNIVERSAL POSITIVE IMPACT

In terms of the implementation process for automation, perspectives among survey respondents were evenly distributed across the board. One-third of respondents considered automation disruptive to the sales order process, one-third did not consider adoption disruptive, and a final third was neutral on the actual installation of automation.

In terms of automation outcomes, the results are much more consistently positive.

The sales order process is the key entry point into the organization's revenue accounting cycle. Managing incoming sales orders is a highly critical element in the revenue accounting cycle. Errors and slow cycle times can have an extremely detrimental effect on overall customer satisfaction. Organizations must be able to perform these processes quickly, accurately, and with a keen eye on the cost and labor required.

More than 90 percent of respondents reported being satisfied or very satisfied with their order automation. And 95 percent of respondents reported their automation efforts were very or extremely effective.

Among the respondents with automated order entry processes, almost 90 percent reported that their order management has been very or extremely effective in improving order fill rates and on-time delivery. And 90 percent of respondents agree or strongly agree that order automation has improved the customer experience for their division/unit.

IMPLICATIONS FOR LATE ADOPTERS

From these survey results, we can see the drivers for automating the sales order process. Organizations may attain a competitive advantage through reduced costs, increased customer satisfaction, better talent utilization, and improved efficiency and effectiveness. (And in some industries, automation just may be a factor in keeping up with the competition in these terms.)

The ROI for automating the order entry process can stand alone as an appealing prospect for dispensing with paper-based processes. These survey results provide a fuller context by revealing the realized benefits and real-world outcomes for talent. The results reinforce previous findings from APQC that an automated sales order process delivers faster cycle times, increased data entry accuracy, greater process visibility and control, improved staff productivity, and ultimately, a better customer experience.

Organizations can no longer wait for proof that automation will improve performance. Consider these four bottom-line arguments.

- 1. Automation allows for engagement. Employees freed from manually entering and processing sales orders can engage with customers in more meaningful ways. With 34 percent of respondents moving their employees into customer-facing positions, this trend can further bolster existing customer satisfaction gains from automation.
- 2. Automation has become a cost of entry. For most industries, it's no longer an advantage over other organizations to implement sales order automation. Most competitors have already done so. Automation is a matter of keeping up with the competition.
- 3. The path to automation is well-worn and proven. The overwhelming majority of all survey respondents, especially those considering or not considering automating sales order entry, are utilizing enterprise resource planning (ERP) systems from SAP and Oracle, among other support programs. So the implementation barriers to automation are minimal.
- 4. **Finally, it's all about costs.** Automation reduces the total cost of the sales order process. As the level of automation increases, the total cost will decrease.

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ABOUT APQC

APQC helps organizations work smarter, faster, and with greater confidence. It is the world's foremost authority in benchmarking, best practices, process and performance improvement, and knowledge management. APQC's unique structure as a member-based nonprofit makes it a differentiator in the marketplace. APQC partners with more than 500 member organizations worldwide in all industries. With more than 40 years of experience, APQC remains the world's leader in transforming organizations. Visit us at <u>www.apqc.org</u>, and learn how you can make best practices your practices.

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THE BUSINESS CASE FOR AUTOMATION

There are many reasons for companies to implement order management automation, from reducing processing errors to hastening fulfillment to lowering operating costs. Although these are important benefits, automation's most significant added value is its ability to turn ground-level efficiencies into more strategic, big picture business benefits. By taking manual bottlenecks and low-value administrative tasks out of order management, employees get more time to focus on customer-facing activities, customers get a more engaged and satisfying experience, and the company gets more opportunities for new and/or recurring business.

HOW A BEST-IN-CLASS SOLUTION WORKS

Every order that comes through a business — no matter how it arrives (fax, email, EDI, etc.) — goes through an automated order processing solution, from document arrival to fulfillment. The entire process is completed without any manual data entry and offers full visibility throughout.



CUSTOMER FEEDBACK

"The solution is enabling our customer service department to work smarter, better, and faster. We're able to be more responsive to our customers. It's been a wonderful tool." —Director of Global Customer Support, MEDRAD Inc.

"Thanks to the increased visibility, I can quickly identify critical issues and correct any inefficiencies. This lets me improve processes every day based on precise metrics." —Customer Service Manager, Sanofi Spain

"Our people now have the ability to provide quicker answers. One of our mottos is 'one call, one answer,' and automation contributes to that."

-Director of Customer Advocacy, Pentair Inc.

APPENDIX: DEMOGRAPHICS OF RESEARCH PARTICIPANTS

APQC sought a cross section of organizations with high-transaction volumes or just-in-time inventory strategies for this research study. The 167 survey respondents include directors for the supply chain, customer service, and order management/fulfillment. More than two-thirds of the organizations represented report between \$500 million and \$5 billion in annual revenue (Figure 8). More than half of the participating organizations have between 1,000 and 5,000 employees (Figure 9). The primary industries represented are life sciences, manufacturing, wholesale distribution, and retail (Figure 10).



Participating Organizations: Total Annual Revenue

Participating Organizations: Number of Employees



Figure 9



Participating Organizations: Industries

A final consideration in breaking down the demographics of the participating organizations is their position in the supply chain, which determines if their relations are B2B or consumerfacing. An overwhelming majority of organizations participating in our study are at the beginning or middle of the supply chain. About 34 percent of organizations report a manufacturer as their primary customer in the supply chain, suggesting raw materials suppliers or component parts that feed a manufacturing operation (Figure 11).



Organizations Participating: Primary Customer in the Supply Chain



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