



Insight key to profits in logistics sector

Organisations are beginning to realise the value of understanding every variable in their business. Dynamic approaches to costing, budgeting and planning are required to truly capture the variable nature of each element that impacts on the business and its profitability. ERNEST GLAD, director of Cortell International in New Zealand and South Africa, says that by understanding all these business variables, and by applying dynamic approaches to business processes, organisations can now define and control their profitability.

Being the CEO or financial director of a large organisation requires a deep understanding of the business, the market dynamics, and the customers.

If your night shift factory manager phones you at 3am to tell you that production has come to a standstill, you need to understand what the impact of this will be on your business and which of your contractors will also be affected by this problem so that you can inform them immediately.

Or, if an auditing company needs to

know what procedures are followed to ensure safety of staff and quality of product, or needs to know what has been produced over the past week, you need to be able to provide them with the required reports as soon as possible.

Ideally, providing any business information to interested parties should be relatively easy, but through no fault of their own, most financial directors and CEOs of large organisations spend a great deal of their time looking at their whole forest, and pay less than enough attention to the individual trees.

However, by taking each individual tree in that forest into account, management would be more able to understand why the forest is not a healthy deep green; why only certain sections of the forest are healthy; and why particular parts of the forest seem starved or on death's door. By understanding each tree and its impact on the whole forest, an organisation has the power to control the forest's growth, save the parts that are dying, and learn from those parts that are thriving so that those positive lessons can be applied to the rest

of the forest.

If management understands every element that contributes towards day-to-day operations; understands which elements are incurring a loss; which are subsidising others; what market forces are influencing different elements and how; and what the impact of each element is on the business, they would be able to monitor and control the things that influence their profit, and so define their profitability.

Facilities, premises, staff, products, raw materials, branding, marketing, delivery, customers, distributors, equipment, customer satisfaction, customer management, crisis management, transport; all of these impact on an organisation's ability to operate effectively and its ability to stay viable as a business.

Enhancing corporate IQ

In essence, an organisation's ability to define its profitability is determined by the level of its corporate IQ.

Organisations (hopefully) have a pool of customers that enable the business to

attain a certain level of profitability. Every organisation has a potential profit margin that is higher than its current margin. Organisations can push towards this higher margin by focusing on what is going right in the business, understanding the business, and servicing already profitable customers.

However, the unprofitable customers that every organisation has to deal with bring the organisation's profit margins down, making the potential profit nothing more than a distant dream.

The gap between current and potential profit can be reduced by understanding the business; by paying attention to each individual tree. By dynamically ensuring that every aspect of the business is operating efficiently, and by understanding the impact of everything on everything else in the business, the organisation improves its ability to define its profitability.

Say for instance, a sugar manufacturer wants to understand the profitability of transporting its sugar. In order to do this, the organisation needs to understand every element of the business that impacts on this one aspect, in either a direct or indirect way.

Are the trucks used to transport the sugar hired from a transport company or do they belong to the sugar company? What is the cost of petrol and oil? What mileage does each truck have per litre of petrol? What are the service costs per truck? What is the life span of each truck?

Technology is what makes it possible for organisations to start understanding the dynamics of their business, but the technology must be presented as a solution rather than as technology just for technology's sake.

What are the licence fees and tollgate expenses per truck? What is the weight of the sugar and how full can the trucks be loaded before exceeding maximum capacity? Is there any way to better use the free space in the trucks if the weight of the sugar prevents the truck from being spatially filled to capacity? What are the costs associated with the drivers? What is the cost of loading and unloading the truck's content? What are the most economical routes the trucks can go to reach their destination? How will breakdowns affect the delivery times and costs?

The depth of understanding that is needed to enable an organisation to close the gap between its current profit and its potential profit is phenomenal, but with this understanding the company should be able to control various factors, budget and plan dynamically, report dynamically, and cost dynamically. It would be able to define its profitability.

Dynamic tools

Technology is what makes it possible for organisations to start understanding the dynamics of their business, but the technology must be presented as a solution rather than as technology just for technology's sake.

Online analytic processing (OLAP) is one of the best technologies for allowing companies to view all its components by any criterion they choose. It enables an organisation to slice and dice its business,

display and analyse any business information, and to view the company dynamically using multidimensional models.

With OLAP, organisations can benefit from dynamic budgeting, costing, forecasting, strategic planning, financial reporting, and customer profitability applications.

Business performance management, business intelligence and business activity monitoring work together to provide greater overall benefit to the organisation.

Successfully defining profitability in an organisation is possible when problems can be isolated and addressed, and when the right technology and skills are in place. Being able to identify positive areas in the business, and expanding on these, also goes a long way towards defining profitability. At the end of the day, it boils down to understanding the logistics of your business.

About Cortell SA

Cortell SA focuses on extracting business intelligence information for the measurement and management of critical business processes and issues through the design, development and implementation of large scale modelling, budgeting, and reporting solutions; performance management systems to render operational excellence and achievement of financial results; executive information systems to help managers keep their "fingers on the pulse"; customer and market intelligence to provide insight into customer profitability, relationships, and services; and costing systems to identify ineffective processes or products.

Operating in the financial services, health services, logistics, public sector, manufacturing, and tertiary education industries, Cortell has offices in South Africa, Australia, New Zealand and USA.

