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Operational Excellence: Taking Business Performance to the Next Level

May 2007

The changing competitive environment for midmarket businesses places a premium on efficiency, and companies that might once have done just fine with legacy approaches to measuring their processes and performance are finding life increasingly difficult. The rise of technology use has complicated, not simplified, development of effective processes and measurement. The need for operational excellence among midsize organizations has never been greater.

The following questions were posed by SAP to Raymond Boggs, vice president of IDC's Small/Medium Business (SMB) research, on behalf of SAP's small and midsize business customers.

Q. How is the pursuit of "operational excellence" impacting small and midsize businesses?

A. Operational excellence is closely tied to business performance — how a small or midsize business both effectively and *efficiently* gets the job done that it needs to in order to be a successful company. In many respects, operational excellence depends very naturally on information and getting the right information to the right people at the right time. It sounds pretty simple in theory, but in practice it can be extremely difficult to do well — a daunting but necessary task to take on as a company.

Companies should view "operational excellence" in terms of being efficient and putting a premium on efficiency, which is ever so important in an increasingly complicated and competitive marketplace. It's ironic that while technology can be very empowering and a terrific resource, it can also make business life more complicated in terms of how information is gathered, where it goes, the complex nature of the information management processes in place, and, ultimately, how a company measures its performance and success.

All these different elements tie into operational excellence and in many respects are at the heart of not only the success but also the survival of small and midsize companies.

Q. How do companies best implement a program for operational excellence?

A. The journey to operational excellence is every bit as important as the destination. In fact, it's the process that sets the stage for success because operational excellence really begins with priorities. Managers must sit down and figure out what the company's organizational priorities need to be in terms of information and what kind of information will be needed, not just internally but also externally.

Many participants have a stake in the success of a firm's operational excellence — employees onsite at headquarters, for example, but also branch office and other remote workers. Customers, too, as well as suppliers, should be involved in defining informational priorities.

In many respects, it's a complex and multidimensional process involving representatives from different constituencies, whether suppliers, customers, or even potential users of informational tools. So it's a process not just of looking inward but also of looking outward.

Another critical success factor is to make sure, from an organizational standpoint, that senior management is engaged every step of the way. This helps to smooth the political bumps that will inevitably be encountered in different areas of the organization.

Only the most senior managers can properly convey the seriousness of an operational excellence initiative and how truly groundbreaking a successful effort can be. For example, a committee of relatively low-level folks applying a point solution, a quick fix to the organizational problems, won't have the same impact and be ultimately transformative. Companies need their senior managers looking at the entire organization and saying, "We really have to disassemble and reassemble what it is we do, and how are we doing it, as we gear up for the next 5, 10, and even 20 years of existence."

Q. This process sounds complicated. Are there ways managers can approach the challenge of operational excellence and break it down to smaller pieces?

A. If you look at the challenge in its entirety, it can appear to be so enormous that it almost paralyzes people. You just don't know where to begin. So the answer is to subdivide the problem into very manageable, measurable, and achievable solution parts. Start by looking internally at what your company needs today. What are the really critical information components, as well as the practices of getting that information into the right hands, that are allowing you to do business? Don't be afraid to start small and get some initial successes in place. Just be sure those smaller projects still have senior management oversight.

The most basic information resources — the ones that everybody knows — are important, and you will want to maintain these resources no matter what. But think about what might be done in the interim with those information components. Can you do a better job in delivering them to the right people? Do all the information details really need to be provided? For example, do you really need to have two years of account activity available to everyone, or will information from just the past six months be sufficient?

A next step is to look at external benchmarks, the capabilities of your competitors. What's working for other companies that you may want to embrace, or at least study? From there you need to build a timetable for specific enhancements. Where are you in your information operations? Where do you want to go? What's the best way to get there? You may also want to take a look at what's working in other organizations that might not be directly related to your industry. Often this cross-industry view can create some real "gems" in new thinking within your own organization.

The nature of information has multiple dimensions — what the information is, who should get the information, and when the information should be available. In some cases, workers need instant access, such as the status of an individual account. In other situations, a weekly rollup of sales can be sufficient. Then there may be legal obligations for quarterly reporting. But here's the danger: Because the technology is so readily available, and the information can be so enormous in the detail provided, it can be too much.

As a result, companies are challenged to effectively filter out informational "noise" from what's really important. After all, you don't need to take your blood pressure every two minutes, or take your temperature every 30 seconds, to see if you're healthy or not.

Q. Achieving operational excellence still seems like it will take a lot of time and money. Will it?

- A. Not if you think of operational excellence as a logical and natural extension of your basic business planning. What you're doing is basically applying some additional questions to key business issues and providing a slightly more rigorous framework for basic business planning — both activities you typically engage in anyway (or should). This is simply a good opportunity to sharpen your discipline in terms of a formal quarterly or annual practice that you already pursue.

Another danger is in thinking of your plan as static; something that once assembled can be a guidebook for five years (it's a five-year plan, right?), after which it can be updated. The world will be dramatically different, however, when that half decade is over.

Your plan really needs to be a living document that's being continuously revised and updated based on competitive factors. It should also be used as a tool for making investment decisions. For example, where do you need to strengthen your technology infrastructure? How can you get information into the hands of folks more effectively? What are the ways you can boost productivity?

Yes, it will cost money to do this, and take time away from other activities — especially among senior managers. But, at the end of the day, it really is more expensive *not* to do it.

Q. How can managers measure the results of an operational excellence program?

- A. Unfortunately, there's no one index of operational excellence that companies can apply. In some respects, operational excellence will be echoed in the basic financial health of your organization. Managers will also see it reflected in customer satisfaction if customers and channel partners can get information they need more efficiently. It will also influence other measures such as return on investments made in improvements as the company moves forward.

The key is to set specific benchmarks that are important to your organization — six months, one year, two years, and so forth — then track the information technology investments and how they are more and more useful in delivering real payback across the organization. This way, you can begin to document the benefits of operational excellence discipline.

Never forget that your plan will need to be continuously refreshed and looked at in new ways based on changes in the competitive world. What are your customers expecting? What do your sales folks need in terms of information? What do your internal managers need to understand as far as their own performance metrics? Are they doing their jobs in an effective fashion?

None of this necessarily has to be invasive. Indeed, it should be part of business fundamentals, analogous to brushing your teeth — something you do every day without agonizing over it. Just part of basic business operations.

ABOUT THIS ANALYST

Raymond Boggs has a diverse background in the communications, computer, and office automation industries, as well as in consumer and channel research. He oversees IDC's Small/Medium Business research.

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