

## Business Process Management's Time Has Come

by Barbara Angius Saxby

**Summary:** *Why 2007 is shaping up to be the Year of BPM, according to Aberdeen.*

Many senior IT decision-makers have cast a wary eye on talk about business process management (BPM), seeing it as yet another attempt by software vendors to sell the latest "new thing." Managing business processes to drive business applications is important, but for people whose professional standing rests on their judgment as to where to invest their firm's technology budget, understanding all of the different approaches and technology options can be a complex proposition. For those looking for confirmation that BPM is a critical requirement and that it actually provides real business value, a recent report from Aberdeen Research entitled, "Aligning IT to Business Processes: How BPM is Complementing ERP and Custom Applications,"<sup>1</sup> provides lots of solid reasons why the time for BPM is now.

One area where BPM shows great promise is among organizations that use advanced ERP systems or best-in-class technologies to manage complex supply chain and distribution channels involving multiple partners and systems. With BPM - along with service-oriented architecture (SOA) and Web services - companies finally have the ability to align business requirements with IT capabilities to compose applications, easily, quickly and at a reasonable cost. The reality with many early versions of BPM offerings, however, was that the payoff was less than promised as they represent a collection of discrete tools using static modeling techniques. But the problem was that early efforts at combining BPM and SOA failed to bring together in a single integrated environment that features business process modeling capability, the service-oriented platform needed to deliver on this promise and, perhaps most important of all, the functional business services themselves to assemble applications.

This incompleteness defines an important gap between the promise of new technology and the reality of what most vendors can actually deliver today. Ideally, a business process platform and a library of prebuilt and highly scalable business services that model processes should be delivered as part of the same offering. To do otherwise is to short-circuit the advantages that come from combining process and platform - thus adding unnecessarily to the complexity of real-world development and deployment. First-generation BPM offerings typically didn't effectively align IT with business processes, and subsequently fell short. The need in the marketplace, however, remained strong.

Why? Despite the investment of millions in ERP systems and supply chain automation software over the years, there is widespread agreement that enterprise software isn't delivering as much value as it should. Consider that

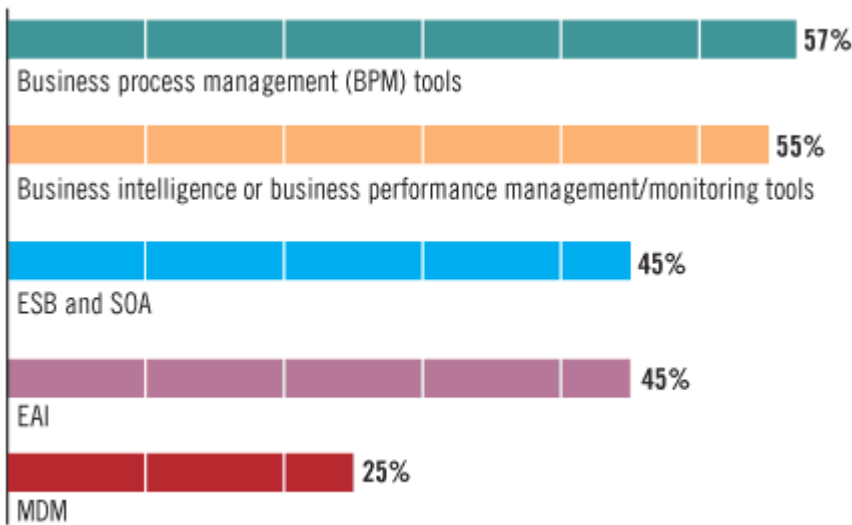
- More than half of companies surveyed in the Aberdeen study still rely on manual business processes;

- Only 15 percent believe their applications afford them the flexibility they desire, and
- 21 percent say their applications force them to limit service offerings.<sup>2</sup>

Organizations are understandably frustrated with inflexible software systems that can't keep pace with business changes. And the lack of automation is painful - it drives up costs, delays decisions and negatively impacts productivity and customer service.

The question becomes, can BPM really address these long-standing problems, or should IT decision-makers begin looking elsewhere for more agile business processes and better coordination between the supply and demand sides of the business? According to Aberdeen, the answer is: stop looking, BPM solutions can really deliver. Or maybe more accurately: IT decision-makers have decided that implementing BPM technologies is the wisest course of action because the alternatives on their own can't meet the ultimate objective of aligning IT with business processes to build better, more agile business applications. Consider some of the findings contained in the report:

- More than 50 percent of those surveyed (large, midsize and small companies) are turning to BPM in 2007.
- Close to three-quarters of large companies (annual revenue of more than \$1 billion) are investing in BPM tools.
- There is an overwhelming preference for BPM technologies to create and monitor business workflows, followed by the chief tools that assist with IT integration: ESB, SOA middleware and enterprise application integration (see Figure 1).



Source: Aberdeen Group, December 2006

**Figure 1: Infrastructure Middleware Tools Drawing Investment Flexibility for Agility**

No doubt many companies have been struggling over whether or not to pull the trigger on BPM-based applications, but it appears that a consensus has formed that now is the time to begin taking steps toward the new technology. In fact, implementations in rigorous, enterprise-scale settings are beginning to show quite clearly that BPM technologies can enable organizations to extend and bolster the capabilities and performance of ERP and

supply chain infrastructure.

Moreover, such implementations are directly addressing the concerns that Aberdeen's study pinpointed. In their discussion of the main roadblocks to business process improvement, the authors state first and foremost that ERP systems "don't provide ... needed flexibility," with 75 percent of companies that are the biggest users of ERP systems citing lack of flexibility as their primary roadblock to business process visibility and integration. Additional findings include:

- Key application parameters and rules are locked inside program source code.
- Conventional ERP approaches suffer from a lack of centralized workflows associated with management lifecycles.
- A lack of IT agility forces interim paper workarounds to change business processes, with a resulting increase in labor and loss of management visibility.

## **BPM in Action**

European food giant Hero AG, was planning to launch a new juice drink into the marketplace. Company IT architects faced a difficult value chain challenge. First of all, the product contains no preservatives and, therefore, requires a continuous refrigeration chain as the beverages are distributed to stores. Its shelf life is only 47 days, and of this period, 26 days must be allocated to the retail trade. With this relatively short window of opportunity, Hero needed to organize the value chain between production and delivery to the trade with pinpoint precision. In fact, all processes relating to the production, warehousing and delivery would need to be checked on a routine basis and would have to run within a planned cycle. Taken together, these concerns presented not just a distribution challenge, but a systems problem as well.

The launch plan called for rollout into several countries across the continent, but each of the individual regional companies involved in the launch maintain their own ERP systems. For example, Hero's plants in Germany use SAP R/3, in contrast, Hero Netherlands uses a system developed by Baan. Planners also had to consider the systems used by the company's distribution partners. Much as Aberdeen points out, important functionality was locked into these ERP systems. The challenge was to find a way to centralize workflow to tap into this functionality, and provide the flexibility to manage the distribution channel across a diverse ERP infrastructure.

The solution to these challenges was to use a vendor platform to create an intercompany supply chain hub linking the central Hero production department with the ERP systems of the regional Hero companies and third-party distributors. The hub supports regular data exchange and provides accurate, real-time visibility into all points in the value chain, from production to distributor to retailer. With this visibility, Hero production managers are able to precisely monitor and control the distribution channel, accurately matching the supply of goods in the distribution channel to the demand from distributors and retailers. In fact, Hero is able to distribute its beverages from a single production location to a number of different European countries while maintaining freshness and ensuring maximum shelf life.

The distribution system designed by Hero incorporates only one warehousing step between production and trade, so a number of competing variables - production capacity, commodity availability and reject costs - had to be taken into account. Thanks to the demand-driven logistics capability powered by Ramco, all of these variables are optimally balanced. If a bottleneck of excess supply begins to form, production managers know it right away and

can act immediately to fix it using the Hub's built-in web conferencing capability. When a distributor or retailer begins to experience a shortage, managers can anticipate it and solve it before it becomes a problem. This ability to maintain peak efficiency in the channel at all times has a direct positive impact on the availability of Hero to optimize its value chain, and ensure peak sales performance as well.

## **No Need to Reinvent the Wheel**

Hero's experience is but one example of how a comprehensive, flexible platform approach can be leveraged to extend and improve upon existing business processes, relationships and ERP systems. The company had in place the technologies, distribution networks and production capability needed to bring a new product to market. What it lacked was the ability to coordinate and manage these assets with the degree of precision required to accommodate the tight distribution windows and shelf-life requirements imposed by a highly perishable product.

The authors of the Aberdeen report cite a second study showing that organizations investing in SOA and BPM technologies have shown only modest ROI to date, with an average return of about 9 percent.<sup>3</sup> As the Hero example demonstrates, however, innovative BPM strategies can open up entire new lines of business based on tightly choreographed operational models. This is why the combination of BPM and SOA technologies holds such promise, because the idea of improving on, not abandoning, existing ERP capabilities and business processes can deliver tremendous value with relatively little investment in new technology. Instead, it can leverage the information found in these systems to create new applications or extend functionality where rapid change on demand is required. Moreover, it is applicable virtually wherever sophisticated ERP, custom enterprise applications, and supply chain systems are in use - financial services, retail, manufacturing, health care and beyond. With the demand for agility escalating at breakneck speed, it's no wonder that Aberdeen is finding such a widespread movement toward BPM and SOA alignment for more agile business applications.

### *References:*

1. "Aligning IT to Business Process: How BPM is Complementing ERP and Customer Applications." Aberdeen, May 2007.
2. "Aligning IT to Business Process: How BPM is Complementing ERP and Customer Applications." Aberdeen, May 2007.
3. "Composite Applications Benchmark Report." Aberdeen. 2007.

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