RESEARCH NOTE
NETSUITE'S IMPACT ON MANUFACTURING COMPANY PERFORMANCE

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THE BOTTOM LINE

When Nucleus analysts investigated the use of NetSuite by manufacturers, they found these companies were able to accelerate their quote-to-cash cycle and improve visibility, inventory management, and productivity. Analysts also found that automation eliminated costly order fulfillment tasks. Manufacturers that deployed NetSuite drove greater efficiencies while reducing IT costs.

NetSuite provides an integrated software-as-a-service (SaaS) business management application for accounting and financials, enterprise planning, manufacturing, e-commerce, customer relationship management (CRM), and reporting. The core application provides functionality for manufacturing order and billing management, global subsidiary and business unit management, and partner relationship management.

NetSuite's application is based on a single customer record, so sales, support, billing, accounting, shipping, and business intelligence capabilities all access the same data. Components of NetSuite that support manufacturers include:

- Assembly management, work order, and bill of materials capabilities. Manufacturers can manage component quantities and multi-level assemblies, automate component restocking based on work orders, and manage components for both a single assembly and a particular work order. Product history tracking maintains a complete history for both products and their underlying components.

- Manufacturing requirements planning and shop floor control. The NetSuite MRP engine builds the master production schedule and aligns production and inventory with demand. Shop floor controls provide real-time status updates to help track and optimize cycle times.

- Inventory, cost, and project controls. Automated alerts enable manufacturers to proactively manage inventory, track cost elements, and understand planned versus actual costs for better forecasting and planning.

- Demand planning. NetSuite uses information from sales orders and forecasted demand to help manufacturers manage stock and support just-in-time manufacturing.

- Production engineering. Item master maintenance, bill of materials maintenance, and engineering change control ensure that engineering changes are reflected in downstream deliverables and inventories.

- Lot and serial control. Manufacturers can trace an item's lot and serial number through purchasing, inventory, the shop floor, and sales fulfillment.

- Multi-division and multi-site support. Using NetSuite, manufacturers can support multiple facilities and companies and monitor operations on a centralized or decentralized basis.

- Order fulfillment. Once a sale is closed, functionality in NetSuite generates an order and then manages it throughout the order-to-cash cycle. Task management functionality automatically identifies all the actions required for order fulfillment and assigns them to the appropriate person at the proper time according to pre-configured plans.

- Industry-specific dashboards and metrics. Role-based dashboards and pre-built reports provide real-time visibility into operational metrics such as order statuses, inventory levels, and supplier performance statistics.

- E-commerce tools. NetSuite enables companies to set up e-commerce sites, including customer shopping carts and inventory search functionality. Order entry capabilities enable integration between these e-commerce tools and order fulfillment applications and processes.

Nucleus found many manufacturers deploying NetSuite migrated from on-premise applications such as QuickBooks, Microsoft Dynamics GP, or ACCPAC. Others had been using a combination of these applications, home-grown applications, and manual processes to support their business. To understand the impact of adopting NetSuite on manufacturers, Nucleus conducted in-depth interviews with 21 NetSuite customers in the manufacturing industry.

BENEFIT AREAS

In its analysis of NetSuite manufacturing customers, Nucleus identified a number of direct and indirect benefits companies experienced from adopting NetSuite. Areas impacted include the quote-to-cash cycle, inventory, productivity, software costs, visibility, sales, and gross margin.

Accelerated quote to cash

Nucleus found that by automating processes such as order processing, fulfillment, shipping, and collections, NetSuite customers could accelerate the quote-to-cash cycle. Many customers noted they were able to create orders on the fly instead of keying them in manually, and reduce the need for adjustments or rework because of fewer errors. The net effect was shorter overall lead times:

- *"Before the deployment, sales orders were recorded on paper and then entered into another system, which took too much time. Sometimes there would be stacks of unprocessed orders at the end of the day. Because of the NetSuite deployment, we reduced average lead time from 6 days to 2.5 days."*

- *"The user interface has everything you need to generate an order from a closed sale. When we were manual, converting a sale into a complete and accurate order for internal purposes sometimes required two or three customer touches. Getting rid of them reduced lead time by 44 percent."*

- *"Once an order is booked, NetSuite breaks it down into tasks that have to be completed in order to ship… People always know it the moment they can pick up their part of the process. Taking out the slack here and in order processing enabled us to take lead time from seven days to three."*

Nucleus found manufacturing customers could shorten different components of the order-to-cash cycle. Overall, Nucleus found companies could shorten the overall order-to-cash cycle by up to 30 percent – some segments were shortened by more than 30 percent while others were shortened less.

Customers found that automation also brought a greater level of accuracy to documents related to order fulfillment, shipping, invoicing, and collections. This accuracy, along with standard reports that gave greater visibility into accounts receivable and credit-related customer data, enabled them to accelerate collections:

- *"We've reduced past-due balances by half. NetSuite has standard reports and dashboards for agings and aging-related metrics that highlight accounts in red, yellow, or green. We use this visibility to identify collection issues early and put credit holds on customers so we don't get into trouble with weak payers."*

- *"We've used NetSuite to govern the extension of credit. Every customer we have falls into a particular category according to their payment history and dictates whether and how much credit we're willing to extend credit terms to them."*

Nucleus found that manufacturers could use NetSuite to monitor accounts receivable and govern the extension of credit to reduce days sales outstanding by an average of 28 percent.

The benefit of accelerating the conversion of working-capital assets is reduced capital requirements – and reduced cost of financing.

Greater visibility

Many manufacturers cited the need for greater visibility as a key motivation for adopting NetSuite. Nucleus found this visibility enabled them to better plan and manage inventory and provide more rapid, accurate product delivery estimates to customers:

- *"We needed the visibility into specific orders so that we can see which ones are in trouble and schedule accordingly."*

- *"We're more accurate with shipping dates. I do inventory and know that I can get things done at a closer due date because I know if I have it or not. We promise the fifth [of the month] and do it."*

- *"We have better costing and are able to realize trends in costing. Before it was just a feel, now we know what will actually impact the bottom line, and when I see a trend I do something about it – I can react 2 months faster than before."*

- *"The conversation has changed from what is going on to why is it going on. Today we have a complete understanding of all ongoing issues."*

Better inventory management

Nucleus found a number of NetSuite customers translated greater visibility into improved inventory management. Automated alerts and inventory replenishment helped them carry less inventory while avoiding stockouts:

- *"We set minimum and maximum levels in inventory and find out [with alerts] if we are short."*

- *"Impact to inventory is a lot more immediate. We have better visibility into inventory and flags that weren't there before – so we have tighter inventory."*
- *"Every single point in the build process from requisitions to finished goods is represented in the system as a single item. There are six or seven intermediate conversion steps. Every single stage is represented in NetSuite; you just run a build and it automatically adjust the inventory for what's been done."*
- *"We've seen a decrease in stockouts while keeping a lower level of inventory on hand. Before, we significantly padded long lead time order items – by 50 percent – because we didn't have a clear picture."*
- *"We can see what we've sold and plan our ordering based on what is moving and what purchase orders are in the system."*

> Customers that used NetSuite to better manage inventory reported inventory carrying reductions of an average of 20 percent.

Improved productivity

Because NetSuite automates so many processes related to the quote-to-cash cycle, as well as other functions such as purchasing and inventory management, manufacturers moving to NetSuite experienced productivity increases. At many of the companies Nucleus analyzed, NetSuite improved the productivity of report builders by between 20 and 50 percent by replacing labor-intensive manual reporting with standardized reporting.

> Nucleus found manufacturers adopting NetSuite improved the productivity of report builders by between 20 percent and 50 percent.

Companies using NetSuite to automate processes that are very manual and paper or spreadsheet-based today may experience even greater efficiencies: one manufacturer of customized wood products was able to reduce the report building staff by three full-time equivalents.

Companies also achieved productivity in their accounting departments, where the customers Nucleus analyzed reduced the time required to close financial statements by an average of 33 percent. Customers also found that purchasers, who have better access to data related to vendors, inventories, and SKUs were able to improve their productivity by an average of 35 percent. For many companies, productivity improvements led to headcount reductions in departments that included order entry, accounting, customer service, purchasing, and shipping:

- *"We've reduced staff from 25 to 17. There are 25 percent fewer people in customer service and order processing because it's easier for these people to find the data they need. And during the Christmas rush, we add one person instead of three or four. We also have fewer people in shipping, where people can print a label in 30 seconds, rather than two minutes, for each of the 16,000 boxes we drop ship."*
- *"We expanded NetSuite from just CRM to include ERP, replacing SAP. We eliminated three positions, people who were just rekeying finance-related data from NetSuite into SAP."*

> Nucleus estimates manufacturers adopting NetSuite can expect to improve the productivity of purchasers by an average of 35 percent.

Another area where Nucleus found headcount reductions was in IT, particularly for customers moving from multiple on-premise ERP and CRM applications:

- *"We don't have any IT people. It's just me. I spend less than 2 percent of my time supporting NetSuite."*
- *"The last manufacturer I worked at deployed SAP. Running SAP here would have required adding three people; ABAP programmers for things like running the data bases and maintenance and modifications to all the functionality."*
- *"We've done lots of configuration in NetSuite, for things like custom reports related to productivity or margins. This is done by various people in the company, and none of them have IT backgrounds."*

> Nucleus found manufacturers adopting NetSuite can expect the application to require less than 25 percent of one person's time on an ongoing basis for support, maintenance, and fine tuning.

Reduced software costs

Nucleus found that customers deploying multiple components within NetSuite can avoid or eliminate investments in standalone ERP, CRM, order processing, and other applications from other vendors as well as the cost of integrating those applications:

- *"We're using NetSuite for ERP, CRM, sales force automation, and payroll. Pursuing any other approach, especially an on-premise one, would have required five separate deployments."*
- *"NetSuite is 75 percent of our IT footprint and we have 60 employees. I'm the entire IT department and I spend less than 20 percent of my time on NetSuite."*
- *"We are doing accounting, purchasing, manufacturing, inventory management, and CRM in NetSuite. Had we not gone the NetSuite route, it probably would have meant at least three separate software purchases. Our goal is to meet 85 percent of our IT needs with NetSuite."*

> Manufacturers adopting NetSuite found it often displaced at least two on-premise applications and their related support costs. Nucleus estimates that manufacturers in the initial phases of building their enterprise application infrastructure can expect NetSuite to meet 80 percent or more of their business application needs.

Increased sales

NetSuite Manufacturing customers found that greater access to information enabled sales people to be more effective in customer relationship management, leading to improvements that increased sales, including:

- Productivity. In companies that turned to NetSuite for CRM and order entry, sales people spent more time selling and less time looking for the data required to close a sale and generate the necessary purchase order.
- Revenue optimization. In many of the companies where NetSuite made sales people more productive, sales staff used productivity gains to spend more time using NetSuite to analyze their customers, prospects, and market conditions.

The more that was known about these factors, the more price aggressive they were when closing deals.

- Web presence. Some of the manufacturers Nucleus analyzed used NetSuite Store, Shopping Cart, and Order Management functionality to replace e-commerce sites poorly built and integrated. Companies that did this found that their customers performed more effective searches, spent more time at the site, found purchasing easier, and bought more.

- Customer satisfaction. Although many of the companies Nucleus analyzed lacked formal metrics for tracking customer satisfaction, the majority were confident their customers were more loyal and purchased more as a result of improved order accuracy, better on-time shipping statistics, and increased ease of purchase and payment.

Nucleus found that greater visibility, increased productivity, and an improved Web presence enabled NetSuite users to increase sales:

- *"We were able to drop a customer service person because that staff is more efficient, and replace him with someone in sales whose goal it is to achieve a 25 percent growth in wholesale channel volume."*

- *"We use NetSuite Web store and Shopping Cart. There's more metadata associated with our inventory, so visitors' key-word searches generate better results. They are less likely to abandon and tend to buy more. Sales are also up because we're more likely to turn up as a Google search result."*

- *"Our orders require a lot of customization. NetSuite enables us to handle all this complexity by enabling sales people to enter all of the required information for quoting and order entry…. They need far less support from staff in the various departments. We've let four support people go and we're replacing them with sales staff."*

- *"We promise delivery within 72 hours and NetSuite is a major factor in us living up to this. This is a commodity business and our delivery promise is part of the reason why our revenues are up by about 8 percent even though overall sales in our industry are significantly down."*

- *"Our salespeople are 20 percent more productive because there's so much less order entry and hunting for data associated with each sale."*

Manufacturers moving to NetSuite found they could increase sales by up to 25 percent as a result of improved e-commerce capabilities, increased customer satisfaction, and salespeople who were more productive and better informed.

Increased gross margin

Companies that used NetSuite to improve decisions of both salespeople and purchasers improved their bottom line by increasing their gross margin. Many of the NetSuite users that Nucleus spoke to used their deployments to gain important strategic information about customers and vendors. In purchasing departments, NetSuite didn't just make people more productive, it enabled them to rapidly analyze and rank vendors according to metrics such as price, quality, volume, and on-time delivery performance. Many of these users combined analyses of volume and price to both consolidate vendors and make them more price competitive.

The net effect of more aggressive purchasing and selling tactics can be an increase to a manufacturer's gross margin:

- *"We now have excellent visibility into our vendors' performance. We know how cost competitive they are and their on-time delivery rates. We also know how much we're buying from them globally. Our buyers have used this information to take our cost of goods sold down by a quarter to a half a percent."*

- *"On average, parts are costing two percent to three percent less because purchasers can easily track a vendor's pricing history… It doesn't take too many smart purchasing changes to start impacting the gross margin."*

- *"We've probably increased gross margin by about 50 percent. Purchasers manage vendors more aggressively. Sales people can browse a customer's prior purchase history on the fly while putting together bids or during conversations. So they are taking their bids up without losing them."*

- *"We can keep a closer eye on our margins. Every order has to pass minimum margin standards by divisions and NetSuite gives us visibility up front. We look at our margins and change our price list according to changes in labor or raw materials."*

CONCLUSION

Automating manual tasks can drive greater efficiency and lower costs for manufacturers. However, small and medium-sized manufacturers are often challenged to support disparate IT systems and applications to manage customer, product, financial, and other data. Nucleus found that companies adopting NetSuite were able to automate many processes such as quote-to-cash because all the needed data and appropriate processes are housed in one integrated suite. Customers also had greater visibility across the supply chain through the dashboards and reporting capabilities of NetSuite. These capabilities, and the fact that NetSuite's cloud model requires limited internal IT support resources, enabled manufacturers to be more efficient and leverage opportunities for growth.