

BI – Daily Information

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(In this article I am continuing the dialogue of the MD of a large company with Mr. Basu who is the head of one of the large Business Units of the company. The MD wishes to start a Daily Information System in the company. Mr. Basu, who has been an accountant by profession in his earlier avatar, resists this initiative. He says that too much time will go daily in this initiative and that daily information may not be really required. The MD has other ideas.)

The current year has been good for business. Several new business lines have been added. Flow of orders from the customers has been good. The MD has compared the performance of his company with Atlas Corporation, a competitor, and has found that while both the companies did well at the top line, the competitor did better in terms of the bottom line. The competitor company's CEO has been a close personal friend of the MD. They both met over the weekend, and the MD got several ideas from his friend.

MD's Secretary : Good Morning Mr. Basu, MD is waiting for you. MD seems to be in an aggressive mood today.

Basu knows that 'aggressive' mood means trouble and a lot of work ahead. He is thinking of getting a holiday leave of 4 weeks sanctioned from the MD, but now he is having second thoughts. MD is sitting in his chair facing the window and looking pensively at the oceanic view.

Basu : G..Good ..Morning Sir.

MD : Mr. Basu do you know that Atlas Corp has achieved a 5% better PAT than us, on more or less similar turnover ?

MD : On a turnover of about 1000 crores that means 50 crores more. This means that if we have a PAT of about 10% of Sales, it amounts to their having a turnover of 500 crores more than us.

MD : And they are in the same business as us.

MD turns around and looks penetratingly at Basu.

Basu breaks into a cold sweat.

Basu : But sir, we are using the best systems. We have internal audit in place. We had appointed consultants last year and we are following their recommendations. I am sure that there is some hanky-panky going on at Atlas Corp.

MD suddenly changes the topic.

MD : So Basu, how is your son ?

Basu is surprised at this sudden change of heart. Maybe his vacation may get sanctioned after all !

Basu : He is fine sir. He did quite well in his exams this time. My wife takes very good care of him.

MD : Basu I am sure your wife must be checking your son's progress once in a month?

Basu : No, no Sir. She checks his class work each day. She checks whether he has done his homework each day. She even checks if he has had his tiffin each day and that he is eating his vegetables. She knows that if she does not do this each day then it may be too late.

MD : You know Basu, that my mother also used to take a lot of care of me. Mothers have always been looking after their children. Whatever they have to go through life, they always manage to give a lot of care and attention to their children on a daily basis.

Basu thinks this would be the right time to ask for the vacation leave. He is about to open his mouth, when the bomb drops.

MD : Basu, I am thinking of making your wife a consultant to our company.

Basu jaws drop. He is imagining his position in his house if his wife is a consultant to the company, while he is just a President of one division.

Basu : W..Why sir ?

MD : Basu, the 5% better performance achieved by Atlas Corp has been achieved by checking on the performance of the company daily, instead of monthly. Basu, we check our performance on a monthly basis. I get my reports 5 days after the closure of the books each month. While 5 days reporting gap is ok, but the monthly reporting essentially becomes a post mortem. The damage is already done. Just as your wife checks your sons activities each day, I want to check the business activities on a daily basis rather than a monthly basis. Don't you think that will help ?

Basu : Sir, we are already giving you the daily sales, order booking, cash position etc.. What more do you want ?

MD : Basu, Atlas Corp is making their daily P&L account.

Basu is taken aback.

Basu : But that's impossible Sir. Each month end several of our accountants struggle for several days to get you the perfect financial picture. They scrutinize the accounts; pass provisional entries etc. so that you get the most accurate financial picture. Doing this on a daily basis would not be possible.

MD : Basu, I do appreciate the effort your team takes. They give me the perfect number. Our auditors also have not been able to fault the internal MIS. However the fact remains that Atlas Corp is making 5% more net profit.

Basu : But sir a lot of costs come at the end of the month and for many provisions have to be made. Salary cost comes at month end, electricity bills come at month end, contract labor bills come at month end... How do you expect me to give you a good P&L each day?

The secretary knocks at the door and enters with an elderly looking gentleman wearing a Gandhi topi.

The MD welcomes the guest in Gujarati.

MD : "Avo Avo Kantibhai !" (Welcome Kantibhai!)

Basu thinks that his meeting has been suddenly terminated. He gets up to go, when the MD signals him to sit down.

MD : Basu meet Mr. Kantibhai. I worked under him for some time when I was doing my CA Articles. Kantibhai was the chief accountant that time. Now, of course, he is retired. Kantibhai in those days used to give to his Sethji a Daily P&L Statement along with sales, order booking, cash collection and debtors outstanding. It used to be a single A3 size sheet with various boxes for different details. That time there were no computers or ERP systems. But they still gave the daily P&L. Kantibhai had learnt this 'padta' system from his brother who was working in a Marwari company.

MD : "Masala Chai leso Kantibhai ?" (Will you have spiced tea Kantibhai?)

MD presses a button under his desk. MD's secretary rolls in a tray of tea/coffee and biscuits. She also connects MD's pc to a large LCD screen, and an excel sheet comes alive on the screen.

Kantibhai : Basubhai, the real purpose of the daily accounting system is to let everyone in the organisation know that the management is checking accounts daily. If you don't do this, people become slack during the month and there are a lot of wastages. By the end of the month, nothing can be done about this, so it becomes our loss. But if you check daily and question the losses each day, people become alert, and our profits increase.

MD : Basu, isn't it true that our clients will confirm their orders well in advance, so that by month end we are very sure of what we have to deliver in the following month ?

Basu : Yes sir, that is very correct. By the month end we are very clear of what we are to dispatch during the month. In fact we know in advance what we have to dispatch on a day to day basis. In fact, as ours is an auto component division, if we don't dispatch on schedule the client would take from the competitor.

Kantibhai : So during the month our real challenge is producing our goods on time and dispatching the same. Basubhai, most of the costs are production related variable costs, and some of them are fixed costs. If there is no major event likely to happen in the coming month, can we be reasonably sure that the fixed costs will not change ?

Basu : Yes, Kantibhai. The fixed costs like Salaries, Rent, maintenance etc.. will not change by any major degree as compared to the previous month.

Kantibhai : Exactly. So identify all the fixed charges, divide them by number of days in the coming month and plot them daywise in an excel sheet.

Basu : Yes, that should not be difficult.

MD : Basu, if you see the Excel file on the screen, I have done some initial working for you. You can see on the screen all your fixed costs incurred in the last month. I don't expect any of these to change. So if I divide it by 31 (as July is the next month) and plot it in each column, I have the fixed cost per day.

MD has made an excel sheet in which the total fixed cost of the last month has been put in the first column i.e. the total columns. Using a formula he has divided the fixed cost by 31 days and entered these in the next 31 columns, one for each day.

Kantibhai : Now you will notice that there are certain costs which are variable in nature but for which bills come only at the end of the month. These are costs like Power, contract labor etc.. While it is true that the 'bills' come at month end, but these costs get incurred each day. Keeping tab on these costs on a daily basis is very important. For example you can take down each days meter reading and multiply it by the power rate to get that days power cost. If there are any major fluctuations in this cost, you should immediately inquire into the reasons and rectify the same. Similarly keep an eye on the contract labor each day. See that no additional hands are taken in by the contractor, and ask for any explanations for each day's variations. Keep an eye on the 'pennies' and the 'pounds' will take care of themselves.

MD : Very true Kantibhai !

Kantibhai : Well I don't know how your ERP works regarding raw material consumption. But this can be the biggest factor in correct profitability. Ensure that the daily production and consumption are correctly recorded. If your ERP does not permit this, then keep daily stocks at each of your work centres. Arrive at the daily consumption and wastages. Measure the scrap each day. Keep a track of these small things.

MD : Now put all these numbers together and up comes your Daily P&L account. Once the system is set up, I don't think it should take more than 30 minutes to do this. Basu it will give you and me a great insight into the working of the company.

Basu : Yes sir, I think it will keep everyone on the alert. They will realize that the management is checking each day, and that itself will curb inefficiency. But should I make a BI module out of this?

MD : Very well said Basu. Yes, I have instructed our BI team to meet you regarding this after about a month's time. Please setup this system in Excel first and work on it for a couple of months to understand the flow of data. I am sure that most of the data will be available from the ERP system. Make a set of business rules for cost identification and allocation. Some external inputs on a daily basis would be required like the power meter reading, contract labor head count etc.. I am sure that the BI team will set up some forms to capture these inputs.

Basu : Right Sir.

MD : But be sure that the daily p&l reconciles with the monthly one. While I don't want 100% accuracy, I also don't want too much difference. I have pulled out Kantibhai from his retirement to act as our consultant for 3 months . He will give us his practical knowhow to setup this system. He has very generously agreed to do so.

Basu : Th..Thank you sir. Thank you Kantibhai. I shall surely work on this.

Basu comes out of the meeting wiping his forehead. There goes my vacation. MD's secretary has difficulty in stifling a smile seeing Basu's face.

But I am happy to say that Basu worked diligently on this initiative along with the practical knowhow of Kantibhai , and in about 3 months the Daily P&L system started showing the desired results. That year PAT to Sales Ratio was in fact up by 5% as compared to last year.

The BI team also worked on the solution to automate it and polish it further. They added many dimensions which were not possible manually. They were able to also consolidate the Daily P&L across all the SBU's of the company, report on variance analysis and give highlights in cases where the standards were not being met. They used tools like KPI's, Scorecards and Dashboards combined with drill down analytical reports to a deep dive into data. The ERP was also tuned up so that most of the data came from the ERP. After all once the concept was clear, it was an easy task to automate the same.

And on a happy note, MD did send Basu on a vacation next year with family and all expenses paid ! After all a 5% increase in PAT could cover many such vacations !

Observations :

In my practice in BI, I have seen the BI being used for most of the obvious applications. Sales analysis or Inventory analysis or Financial Reporting etc.. In such usage, BI becomes just another reporting tool albeit more colorful and with more bells and whistles.

But to make real use of the power of BI Technology, use it creatively for applications which are difficult to do manually. This will give real business benefits from investments done in BI.

Design Principles:

- 1 After having invested in BI Technologies it is important to deliver some quick results so that the management team is able to understand the power of BI. However once the abilities of the technology and the service teams is known, it is important to involve the management to identify which applications need to be built for them to enable them to take better decisions and be more effective in their work.
- 2 It is not necessary that BI applications take only that data which is available in the ERP. The goal of BI is not 'reporting' but is 'decision making'. BI modules should therefore be designed on the basis of what is 'required' and not on the basis of what is 'available'. So all data inputs which are required to reach the correct decisions, whether such data is available or not in the ERP, need to be considered. For data which is not available in the ERP, user could be given forms to enter such data in the data warehouse.

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