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| **IT325. Seminario de Informática.** Caso de estudio: Blue Rhino Slows Down to Get Ahead |

# Integrantes del equipo: Omar y Giovanni

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Blue Rhino, founded in 1994 in Winston-Salem, North Carolina, considers itself the national leader in propane cylinder exchange services. Owners of propane-fueled backyard grills can visit nearly 30,000 retail locations, including Home Depot, Wal-Mart, and Kmart, in 48 states and Puerto Rico to exchange their empty propane cylinders for full cylinders provided by Blue Rhino. 63 percent of the company's employees fulfill distributor operations duties. The remaining employees serve in the departments of administration and finance, sales and marketing, information systems, and warehouse operations. In addition to its cylinder exchange services, Blue Rhino markets a number of propane-related products including grills, outdoor heaters, and pest control devices.

Blue Rhino's business grew rapidly in its first decade of operation. Its revenue for the fiscal year 2003 reached $258.2 million, which was an increase of 86 percent over two years. The company's operating income soared by over 500 percent during the same period. Blue Rhino's rapid rise to success caught the attention of Ferrellgas Partners, L.P., a leading distributor of propane in the United States. In April 2004, Ferrellgas acquired all of the outstanding stock of Blue Rhino Corporation in an all cash merger. Blue Rhino was converted into a limited liability company and now operates as a branded division of Ferrellgas.

Much of Blue Rhino's growth was a result of a change in approach to propane cylinder transactions. Traditionally, propane grill owners would bring their empty propane cylinders to a retail outlet to be refilled. The Blue Rhino approach of exchanging empty cylinders for ones that have already been filled is more efficient and safer. Customers do not have to wait for a retail employee to fill their cylinders or be in the presence of a transaction involving the transfer of a flammable agent. Additionally, this exchange prevents customers from using the same cylinder over many years, which could lead to dangerous malfunctions or cylinder corrosion. Converting refill customers to the exchange approach and increasing the demand for, and awareness of, cylinder exchange are two of the key elements of Blue Rhino's business strategy.

Blue Rhino implemented its business strategy in much the same way many new companies of the last decade have-with an entrepreneurial spirit. Under the leadership of CEO Billy Prim, Blue Rhino avoids micromanagement and bureaucracy, allowing its managers to act quickly and pursue business opportunities unabashedly. Prim extols not only the merits of his company's products and services, but the activities and lifestyles that make those products and services desirable as well. Prim went so far as to buy Winston-Salem's minor league baseball team, whose games serve as a perfect venue to promote outdoor activities such as summertime grilling.

In the last few years, however, Prim has had to grip the reins of the stampeding Blue Rhino a little tighter. In the wake of numerous egregious accounting scandals at major corporations that dominated news headlines for months, Congress passed the Sarbanes-Oxley Act in 2002. Section 404 of the Sarbanes-Oxley Act requires upper-level executives (CEOs, CFOs) of companies with market capitalization above $75 million to take greater responsibility for the income statements and balance sheets of their businesses. Specifically, after June 15, 2004, companies must prepare a management report that verifies the accuracy of their quarterly and annual financial statements at the close of the current fiscal year. The report must indicate that the company has taken appropriate measures to ensure the veracity of these statements. Additionally, the company's outside auditor must sign the report.

Penalties that can be imposed for fraudulent statements are severe, up to a maximum jail term of 20 years. As a result of this legislation, many companies have been compelled to examine and overhaul their business processes and systems, often at great expense. Many businesses employ distinct systems to manage different departments, such as accounting, inventory, and customers. Streamlining these systems into one reliable system for compliance reporting is a complex task.

For Blue Rhino, complying with Sarbanes-Oxley also requires a fundamental change in culture and operating procedures. Part of the company's rise was caused by its ability to make business decisions and enact deals almost at a moment's notice. Under the watch of Sarbanes-Oxley, every decision must pass through a series of checks and approvals to ensure the validity and legality of all business processes. Initially, this was an uncomfortable change for Blue Rhino employees, who were used to being trusted to act on their own.

Blue Rhino's executives do admit, somewhat grudgingly, that being subject to the Sarbanes-Oxley legislation does have some benefits. Prior to the passing of the legislation, Blue Rhino had begun revamping its financial practices. However, that effort had been wandering somewhat aimlessly until the requirements of Sarbanes-Oxley jumpstarted it.

One of the greatest issues facing the company was its degree of control over inventory. Distributors would submit accounts receivable and payable data piece by piece. These statements were collected at the end of the month by Blue Rhino employees who entered the figures manually into spreadsheets and integrated the spreadsheets into company-wide reports. The company had no method for automating the centralization of inventory data. It took a week or more to close the books, instead of a few days. The extra time required to consolidate the data manually resulted in frequent disconnects with inventory status throughout the country, often leaving Blue Rhino with profit-eating overstocks in its inventory.

The first step toward rectifying the inventory problem was implementing software that could automate delivery of inventory information to corporate headquarters. Blue Rhino turned to Metastorm's E-work business process management (BPM) software for a solution. With inventory data now automated, Blue Rhino could ship cylinders to its distributors according to actual demand rather than estimations based on figures that might be outdated. However, revamping data and retraining employees to get the system to work properly took months.

Compliance with Sarbanes-Oxley required additional systems work. Blue Rhino had to document the company's direct and indirect financial operations. CIO Bob Travatello's team depicted each process-the flow of data, the movement of money, and personnel activities involved in accounting, ordering, inventory, supply chain management, and delivery. The team looked for places where there weren't sufficient controls to ensure that information could not be changed without appropriate permission, Additionally, the staff needed to ensure that data was presented in such a way that mistakes and inconsistencies would be obvious to managers who were reviewing the data. The information technology (IT) staff also looked for holes in the system that weren't readily apparent. In the process of examining the company's processes through these filters, Blue Rhino discovered security flaws such as IT staff having the ability to modify tax data.

Travatello's team found some processes that needed improvement even though they were not directly related to financial systems. For example, the Human Resources department had previously communicated the technology needs of new employees to the IT department through phone calls and e-mails. As a result, these needs often were not addressed until a new employee was actually on the job. It could take several days before a new employee received all of the equipment that was required to perform his or her duties, which was an unnecessary loss of productivity. Blue Rhino solved this problem by implementing a human resources application that automates the process of sending new hires' equipment requirements to the IT department. The automated work flow enables the IT department to set up computers, phone numbers, accounts, passwords, and more as soon as a new employee is hired so that workers can begin fulfilling their responsibilities the first day on the job.

Other efforts include redesigning Blue Rhino's purchasing and customer service systems. Distributors had been filling out manual order forms for propane cylinders and faxing or e-mailing them to headquarters. It might take days until the orders were completed. A new system enables distributors to enter their requests into online forms that are automatically transmitted to central purchasing. Approved orders are filled instantly, making data immediately available to accounting, inventory, and supply chain management as well as company executives. The new system cuts days out of the order cycle.

To improve customer service, Blue Rhino developed an automated work flow system to handle customer requests such as checking on warranty information, ordering and shipping replacement parts, and providing repair instructions.

The seeds for these business improvements were planted before Sarbanes-Oxley entered the picture. However, Blue Rhino chief financial officer Mark Castaneda says, "Sarbanes-Oxley got us going faster down the path we were already on." The initial inventory management project taught the organization a great deal about redesigning information systems. When Sarbanes-Oxley became a reality, Blue Rhino dedicated $400,000 and 25 percent of its IT staff specifically to the task of meeting the requirements of the legislation. The staff determined that it could use the same E-work BPM software that it had already adopted for inventory management to implement Sarbanes-Oxley compliance procedures.

Blue Rhino's management expects all of these system changes to help it keep down the cost of staff, sales, and administration while the company continues to grow its revenues. If that occurs, net earnings would rise about 25 percent each year for the next two to four years.

# Without disavowing the benefits brought about by Sarbanes-Oxley, Blue Rhino executives initially remained steadfast in their belief that the legislation was a hindrance. More recently, the benefits of automated systems have been more convincing. Tamria Zertuche, director of information systems, sees the self-documenting features of E-work as a great advantage. She recognizes that Sarbanes-Oxley controls can be put in place without hurting productivity, and sometimes the controls have unexpected bonuses. Still, she keeps a watchful eye on the delicate balance between compliance and lost productivity. However, Blue Rhino is now confident about meeting its compliance deadlines and being able to finalize its financial statements in half the time that it used to take. The company also has newfound confidence in the accuracy and security of its data.

# *Sources: Ann Bednarz, "Blue Rhino Tackles SOX with Tools on Hand," Network World, April 10, 2006; Kristine Ellis, "Corporate Spotlight: Blue Rhino," American Executive, April 2004; "Annual Report" and "Form 10-K," www.ferrellgas.com, accessed December 22, 2006; www.bluerhino.com/ accessed December 22, 2006; Jeffrey Rothfeder, "Better Safe Than Sorry: Blue Rhino Corp.," and "Thinking Out Loud: CIO Bob Travatello," CIO Insight, February 1, 2004; Sandra O'Laughlin, "Blue Rhino Shows the Joy of Swapping," Brandweek, April 6, 2004, www.brandweek.com and "Blue Rhino Applies BPM to Sarbanes-Oxley," Transform Magazine, November 2003.*

# Preguntas del caso de estudio

1.- ¿Cuál es la estrategia de negocios de Blue Rhino? ¿Qué tan bien apoyan/ayudan los sistemas de información actuales a la estrategia de la empresa? Explicar.

La estrategia de negocio se basa en las transacciones de cilindros de propano.

La empresa encontró que es más redituable rellenar los cilindros vacíos y entregarlos nuevamente.

Blue Rhino evita la burocracia y la micro administración permitiendo a los administradores actuar rápidamente y conseguir oportunidades de negocio

2.- ¿Por qué tuvo Blue Rhino que renovar sus sistemas y procesos de negocios?

Porque el sistema de manejo de reportes financieros no le permitía tener la precisión de sus estados financieros en tiempo y forma

3.- ¿Qué cuestiones administrativas, de organización y tecnología tuvo la compañía que hacer frente, al incorporar sus nuevos sistemas?

Tuvieron que rediseñar la forma en que se administraban las compras y el servicio al cliente.

Tuvieron que cambiar el llenado de las formas manuales , las automatizaron a través de los nuevos sistemas

4.- ¿Se vió Blue Rhino beneficiado por la ley Sarbanes-Oxley? Explicar su respuesta.

Si se vio beneficiada por la nueva ley ya que les permitió desarrollar las nuevas prácticas financieras que ya tenían en progreso y que sin esta nueva ley les hubiera costado más tiempo y recursos

5.- Ha logrado Blue Rhino ser exitoso para responder a los requisitos de la legislación de la ley Sarbanes-Oxley? Explique.

Las bases ya estaban establecidas antes de que la legislación entraran en vigor.

Aunque esta nueva ley les hiso el camino más fácil y pudieron rediseñar sus sistemas de información e invertir el área de TI para cumplir los requerimientos de la legislación

6.- Liste las diferentes tecnologías que usaba la empresa para realizar sus actividades.

La compañía no tenía ningún inventario centralizado por lo que los obligaba a demorarse más en mantener actualizado los inventarios.

Llevaban los registros en hojas de cálculo y las integraban en reportes para ser distribuidas en toda la empresa

7.- ¿Qué objetivos estratégicos ha logrado conseguir Blue Rhino?

Les permitió tener un alto rendimiento manteniendo costos bajos del staff ventas y administración sin disminuir el crecimiento de sus utilidades.

Ahora Blue Rhino puede cumplir con los tiempos de entrega y redujo a la mitad la creación de los estados de cuenta.

También confían en la integridad y seguridad de los datos