

Four distribution strategies for extending ERP to boost business performance

How to evaluate your best options to fit today's market pressures



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Executive summary

Global sourcing. A fluctuating economy. Extended supply operations. Demanding customers. Longer lead times and tighter margins. These are a few of the dynamics applying pressure in distribution environments. In order to remain competitive, distributors are sourcing and selling globally. But they must still maintain a local presence with high service levels, while keeping costs in check.

These new dynamics pose a serious threat to profitability and growth. Success in the new era requires a clear understanding of these forces, as well as openness to new approaches to generating revenue and profits.

At Infor™, we believe that extending the capabilities of an existing Enterprise Resource Planning (ERP) solution can help distributors better:

- Capture and serve demand
- Maximize inventory performance
- Optimize their supply chain
- Increase operational efficiency

Infor has deep expertise in the distribution industry and a breadth of solution offerings to meet the unique challenges distributors face. This whitepaper shares Infor's methodology for evaluating alternatives and calculating the value of extending the functionality of your existing ERP system.

Distribution today: The big picture

Distributors of all sizes are struggling to master today's business and economic environment. Not only are distribution operations more dependent on partners and extended to a global scale, but they face multiple challenges that continue to change the rules of the game, such as:

- The need to expand into new markets, offer new products or both in order to grow
- Longer global supply chains that create new complexities and coordination challenges, as well as costly redundant inventories
- Increasing customer expectations and tighter delivery timelines
- Shrinking margins due to customer price pressures and rising costs
- Rising energy costs and labor shortages, as well as internal operational silos, that make it tough to contain costs

These challenges are reshaping the distribution industry. In "Facing the Forces of Change," Dr. Adam J. Fein observes, "The world is changing, and wholesaler-distributors must keep evolving in order to stay relevant in their respective industry's supply chain. Successful companies also realize that there is never a final, specific end point to strategy because customers and their needs will always be changing."¹

Now that we established a big picture perspective of the changes impacting distribution in the new environment, let's look at three of these challenges in more detail.

¹Adam J. Fein, Ph.D., *Facing the Forces of Change®: Lead the Way in the Supply Chain*, National Association of Wholesaler-Distributors, 2007.

Threats to profitability and growth

Today's business environment provides a number of serious roadblocks in distributors' path to success. Many distributors struggle with identifying add-on sales opportunities for their current customers and managing information about prospects. In addition, they're plagued by outdated systems and facilities, as well as an inability to control operations across their many physical locations.

These barriers to growth, as well as the changing face of the industry, threaten short-term and long-term profitability and growth on several levels. Every day distributors struggle with:

- A lack of control over extended operations due to poor coordination with suppliers
- The need to drive their business based on the availability and supply of inventory, rather than the pull of market demand
- Limited visibility into growth opportunities such as add-on sales, new product sectors, and new customer segments

Facing the inventory avalanche

Excess inventory is the single largest threat to the financial performance of distributors. This avalanche of excess inventory results from:

- Global expansion that has multiplied overall inventory levels and increased time to market
- Complex multi-tier supply chains that have increased “just in case” safety stock
- Decentralization that has created redundant inventory
- Opportunistic growth that has driven “what if” inventories

Financial analysis of the distribution sector shows that redundant and excessive inventories are negatively impacting key metrics like operating margin, inventory carrying costs, and available working capital. This analysis shows that incremental revenue may actually be cash flow negative. That means for every incremental percent of revenue growth, distributors actually see less profit due to their inventory inefficiencies. The inefficiencies are overwhelmingly in the area of days in inventory.

The data clearly shows that inventory must be reduced to boost profits. These improvements can be accomplished by attacking the inventory avalanche on three fronts:

- Decreasing internal inventory levels
- Reducing redundant inventory across the supply chain
- Shrinking the total cycle time for inventory in the channel

The good news is that today’s bloated inventories offer lots of room for improvement and the tools exist to improve inventory visibility and control.

Working with a new set of rules

As if the barriers to growth and burdens of excess inventory aren't enough, the pace of change is also accelerating. Distributors agree that:

- Electronic business was once a differentiator, but is now a necessity
- Collaboration was optional, but now it's required to remove supply chain costs
- Big distributors are getting bigger, so you must either get big or specialize

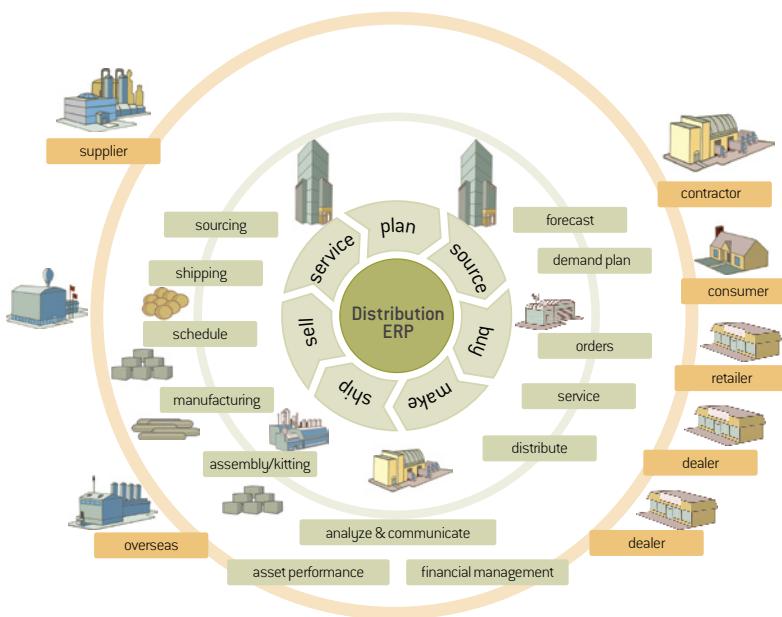
With all these business challenges contributing to a new business environment, it's no wonder the old playbook won't work. There are, however, a number of strategies distributors can use to leverage and extend their existing ERP systems to gain control of their distribution environment and overcome these shifting market conditions.

Extending your existing ERP solution

How can distributors extend their ERP systems to capture the greatest value? In the fast-paced world of distribution, there is not just one answer. There are multiple options depending on each distributor's unique business environment and opportunities. But it is critical to understand the ROI impact of various strategies in order to be prepared for profitable future growth.

As shown in Figure 1, regardless of the markets served or products offered, all distributors share a set of core business processes: plan, source, buy, make/assemble, ship, sell, and service. Any effective strategy for extending an existing ERP solution must enhance a distributor's ability to effectively perform at least one of these processes.

Figure 1: Distribution business processes



The ERP extension strategies for distributors can be grouped into four categories:

- Serving demand
- Maximizing inventory performance
- Optimizing supply chain efficiency
- Increasing operational efficiency

Each strategy has very specific benefits. However, different strategies can be combined to provide a perpetual view of demand, inventory, and supply. This comprehensive viewpoint includes all the business conditions that allow distributors to make timely decisions about these factors and, ultimately, streamline their operations.

A distributor's success depends on its ability to quickly source materials, increase inventory productivity, reduce operating costs and improve customer satisfaction. A recent study by *Industrial Distribution* (Figure 2) shows that distributors believe technology will play a major role in helping them become more efficient and grow their business.

Figure 2: Technologies expected to help grow the business

Technology	Greatest impact on business
Customer relationship management (CRM)	39%
Online web ordering	39%
Enterprise resource planning (ERP)	26%
Sales force automation	24%
Demand forecasting	19%
Wireless email/internet access	17%
Warehouse management systems (WMS)	16%
Financial management systems (FMS)	11%
Radio frequency identification (RFID)	8%

Source: *Industrial Distribution*, 62nd Annual Survey of Distributor Operations

Capturing and serving demand

Distributors can quickly profit from new opportunities to improve customer sales and service by better capturing and serving demand.

- **Demand planning** helps distributors predict and shape customer demand with greater accuracy. This solution accommodates even the toughest forecasting challenges associated with seasonality, promotional events, and new product introductions. As a result, forecast accuracy can be improved by 20-40% and inventory turns can be raised by 15-30%.
- **Advanced customer relationship management** helps distributors become more customer-centric and can provide a key market differentiator. Integrating CRM capabilities can boost sales and service by efficiently managing accounts and account activities, automating follow-up activities, managing lists and data input, and capturing information to use in the creation of marketing campaigns.
- **Internet commerce** leverages online advantages including electronic storefront and ordering and billing. An electronic storefront with integrated product catalog can enable sales and service 24x7. By leveraging e-commerce, distributors can reduce the cost of serving customers while improving the customer experience. A survey by *Industrial Distribution* shows that two out of three distributors now generate revenue from Internet-based sales.²
- **Retail POS transactions** help advance account management efforts. POS data can be leveraged to improve accuracy of demand plans and create tighter collaboration with supply chain partners.

² Industrial Distribution, Annual Survey of Distributor Operators, 2007, p. 22.

Maximizing inventory performance

Distributors require visibility and control over every aspect of the inventory lifecycle, with ready access to source material, supplier information, and inventory stocking levels.

- **Multi-site inventory control** and management helps to find the right balance between target service levels and inventory. Distributors need a single, enterprise-wide inventory management plan across every stock location. With this comprehensive plan, overall inventory investment can be dramatically reduced while still meeting service objectives.
- Using **RFID** automates data collection and inventory visibility across the extended supply chain. With dynamic inventory visibility and track and trace proficiency, distributors can meet compliance mandates and also benefit from operational and processing efficiency improvements.

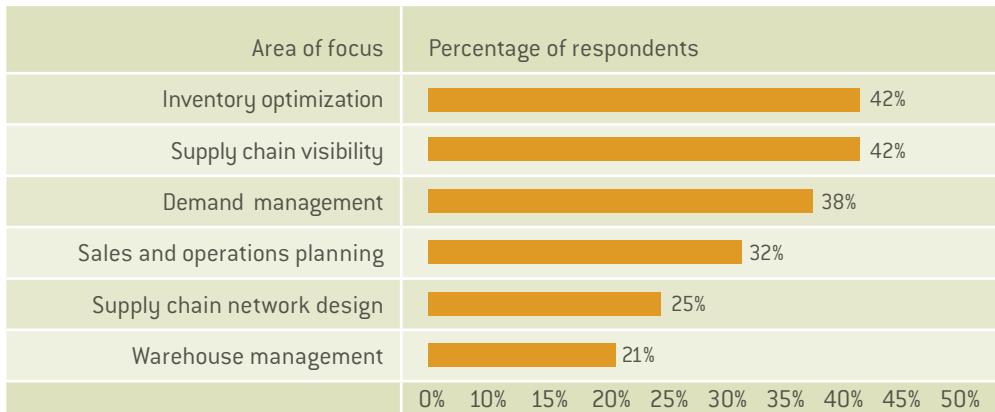
Optimizing the supply chain

Increasingly complex distribution supply chains will necessitate a greater reliance on demand planning, value-added services, integrated warehousing and transportation, and network design.

- Multi-location **demand planning** helps minimize redundant inventories through improved supply chain visibility. Distributors need the ability to respond faster to changes in demand and supply. With increased visibility, order fulfillment can be improved while reducing inventory investment, even across a global supply chain.
- Warehouses are at the hub of a distributor's business, and their efficient operation is vital to dispatching products to customers 24x7. An **integrated warehouse management system** (WMS) streamlines logistics operations with advanced capabilities for managing inbound and outbound deliveries, putaway, and picking, as well as optimizing labor. By using an integrated WMS, distributors have been able to reduce inventory 5-20%, increase labor productivity 15-40%, and improve almost perfect order accuracy rates.
- **Transportation management** improves the planning and procurement of transportation services, as well as route planning for dedicated fleets. Distributors need to streamline the shipping process—including transportation sourcing, shipment planning, electronic contracts, rate and freight management, and carrier selection. By automating these processes, transportation costs can be lowered by 8-15%.
- Today, 38% of warehouses do **light manufacturing** and 36% offer kitting. More and more often, distributors are expanding their offerings with light manufacturing, assembly, packaging, and other value-added services. By using advanced planning algorithms, the assembly and packaging process can be optimized, leading to a reduction in operating costs.
- **Network design** supports growth into new markets with extensive modeling and optimization capabilities. Today's distributors need to optimally locate facilities and inventory, and select the best transportation options as their company grows. Network design solutions provide interactive map-based graphics that show the impact of multiple scenarios on profitability and service.

An Aberdeen Group study (see Figure 3) found that inventory management, response management, and supply chain management are key areas of focus for distribution companies looking to improve their performance.³

Figure 3: Technology adoption plans for distribution companies



Source: Aberdeen Group, *The Distribution Supply Chain Executive's Strategic Agenda*

Increasing operational efficiency

Distributors need to constantly streamline operating efficiency through improved management of documents and assets and by monitoring corporate performance to corporate objectives.

- **Enterprise asset management** (EAM) provides automated control and analytics for monitoring and managing the deployment, performance, and maintenance of corporate assets. With EAM, distributors save time and money by optimizing maintenance resources, improving equipment and staff productivity, strengthening their ability to collect on warranty-related claims, and monitoring energy consumption.
- **Document management** can significantly reduce the cost for the manual processing of an ever-increasing volume of paper documents. Distributors have reported annual savings of \$50,000 or more after implementing a document management system. Advanced document processing and management can improve employee productivity, provide faster response times, enhance customer and supplier satisfaction, and ease compliance requirements.
- **Performance management** and enterprise analytics link corporate strategy to operational plans to provide business insights that are used to increase productivity, control costs, and improve overall business performance, giving distributors the ability to quickly measure the effectiveness of operations across the entire supply chain.

³Aberdeen Group, *The Distribution Supply Chain Executive's Strategic Agenda*, June 2008, p.2.

Integrating business solutions

More than ever, the pressure is on distributors to adapt with greater speed and precision. In order to compete effectively, distributors must have the ability to easily add, change, upgrade, or modify solutions as their business requirements change. Until now, integrating ERP with other solutions has been a challenge, but new service-oriented architectures are removing that headache.

A Service-Oriented Architecture (SOA) leverages existing solutions with a highly flexible approach. This architecture allows interoperable and autonomous applications and software components to be assembled to meet the distributor's specific business needs. A SOA strategy offers extreme flexibility without the disruption of having to replace the entire IT infrastructure.

Assessing the Value of Alternative ERP Extensions

With so many options for extending ERP, it's not easy to determine which strategy is the right fit. That's why a comprehensive review of return on assets is required. Distributors must orient their planning approach to consider the impact of various strategies on overall operational and financial performance.

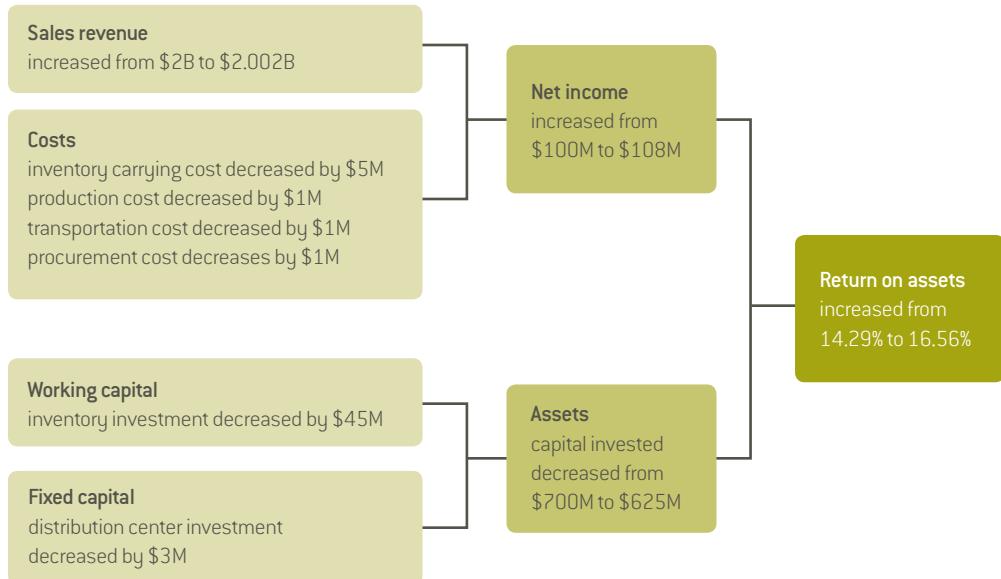
No two distributors are alike. For instance, excess inventory could be a result of poor sales forecasts, lack of visibility across the supply chain, or miscommunications with suppliers. Determining what solutions are critical for your distribution business requires a holistic review of your operations and challenges to identify performance gaps. You must take the time to evaluate all the options and determine the best approach for your distribution business.

Calculating Your Return

Traditionally, companies have calculated the return on investment (ROI) for individual business initiatives. But savvy distributors know they need a more strategic view of overall business improvement, such as return on assets (ROA). As shown in Figure 4 below, calculating ROA provides a financial analysis of the impact of various strategies.⁴ In this example, a major global company substantially increased its ROA by aligning functional activities with its supply chain strategy.

⁴Harvard Business Review, *Return on Assets Calculation*, September 2007, p. 122.

Figure 4: Sample return on assets calculation.



Source: Harvard Business Review, Return on Assets Calculation,

At Infor, we have the industry expertise, solution knowledge, analytical tools, and financial models required to assess the value of alternative ERP extensions. Given our deep expertise in the distribution industry and breadth of solution offerings, Infor is uniquely qualified to help you evaluate alternatives and calculate the return on specific initiatives for extending your ERP functionality.

Infor can assist you in prioritizing your business goals and the metrics that will be used to measure your success. For instance, your goals could include:

- Inventory objectives, such as fill rates and the speed of inventory turns
- Improved demand visibility and planning
- Closer collaboration with partners and suppliers that results in lowering costs and reducing invested working capital
- New service offerings that involve supporting more of a solution with fee-based services
- Driving a growth model for the business

We can help you tie these goals together in a financial model using a return on assets calculation. Then you can objectively identify gaps in reaching these goals. What does your organization need to do that it can't do today, and what does it need to do better? Finally, we help you identify which ERP extensions fit your goals and eliminate the gaps so you can realize your new game plan.

Conclusion

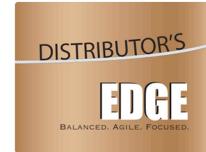
The dynamics of extended global supply chains, connected customers, and new business models have redefined the distributor's business environment. Given these threats to short term profitability and long term growth, distributors have little choice except to quickly address these challenges.

Some distributors are taking innovative approaches, focusing on better serving demand with improved forecasts, or conducting more business via the web. Others are choosing to increase operational effectiveness with enterprise asset management or analytical reviews of corporate performance. Many are undertaking initiatives like multi-site inventory control and integrated warehouse management that can optimize supply chain efficiency.

Given the variety of strategic options, distributors are asking us to help assess the value of alternative ERP extensions. Contact Infor today and we'll put our industry expertise, solution knowledge, analytical tools, and financial models to work for you by evaluating alternatives and calculating the return you can receive by extending your ERP functionality.

About Infor

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