

White Paper

ERP Requirements for Distribution Companies

Needs and features you should consider when buying software to co-ordinate accounting and distribution



The place of distribution companies in a hyper-competitive market

Over the past 30 years, globalization trends have generated a profound and challenging increase in business pace and complexity. In contrast to the management styles of the previous century, hyper-competitive, continuously shifting markets have brought about the advent of “agile enterprises” – organizations that embrace and even capitalize on change.

Roberta McPhail, an independent consultant specializing in project management and supply chain, approaches the topic of distribution by posing a fundamental question: “Why do distribution companies exist?” The answer, she says, is **service**. “On one hand, manufacturers are trying to shrink their supply chains and implement LEAN practices. On the other hand, they want to maintain all the usual service and delivery methods. If a company has a manufacturing site in Colorado, but physically ships its product all over North America, can its customers wait for the truck to arrive? A supplier may want to sell and deliver to consumers directly, but does it really want to deal with the needs and complaints of 100,000 customers? And if an end-user needs 20 different electronics parts, is it efficient to buy each part from a separate manufacturer? At the end of the day a distribution company can provide better service and delivery because it has better buying power and is better set up to manage the supply chain.”

The definition of distribution companies: any company that moves parts, components or finished goods from a location it controls or owns to a customer, partner, or other distributor.

The storage and distribution of inventory represents a cost that many manufacturers prefer to minimize. A well-run distribution company offers its downstream customers bottom-line benefits by lowering supply-chain costs. Upstream, to retailers, customer satisfaction is enhanced by avoiding stockouts; to consumers, especially those purchasing online, rapid order delivery leads to positive evaluations of the purchasing experience.

ERP and the Modern Distribution Company

Many distribution companies are coping with the demands of increased competition through the implementation of enterprise resource planning (ERP) systems. ERP systems provide tools to process and track large volumes of orders, procure goods and services from local and global suppliers, optimize inventory and customer service levels, streamline operations, and share information stored in multiple locations.

“Having an ERP system used to be a competitive advantage,” says Malcolm Ferrier, Business Information Technology Management Program Head at the British Columbia Institute of Technology. “These days, however, ERP systems are becoming ubiquitous, and to be a functioning distribution business in certain markets, a company needs a system that ties together its business data. An integrated ERP system is a central set of data that the entire organization can access. Whether it’s an on-site or a cloud-based system, ERP saves time and money, increases communications and makes for happier customers. The better a distribution company can get its ERP working the more likely it will be to successfully compete.”



“With an ERP system,” says Ferrier, “companies can eliminate inefficient legacy systems and business processes. The system should have an open architecture that facilitates changes to the system. Some ERP systems are large and complex, and the consultants are expensive. Many of them want you to conform to their processes, while others want the consultancy fees involved in modifying the software. In general, if a company chooses an ERP system that is relatively easy to implement, consultants might be needed to help make modifications, but the system will be more agile, and will hopefully create a competitive advantage.”

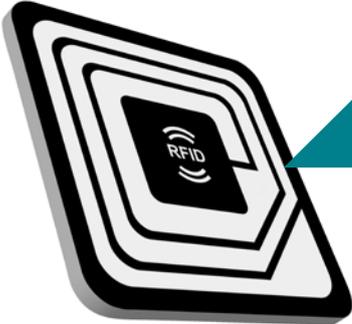
The importance of a scalable ERP solution providing supply-chain visibility

Key to the modern distribution company is a scalable ERP solution with exceptional capabilities for managing a global supply chain. Enterprise systems that have a modularized architecture provide the enterprise with an agile platform that allows the company to react rapidly to market changes. This enables quick connections with new supply chain partners, improves order and warehouse management through optimized sourcing and logistics, and increases real-time or near real-time visibility across the entire enterprise and especially along the supply chain.

“A distribution company’s ERP,” says Ferrier, “should be very focused on maintaining an efficient supply chain. Otherwise, a supplier or manufacturer might decide to deal directly with the retailer. There’s a word for it: “disintermediation”, which means getting rid of the middle-man. The distributor – the middle-man – has to add value, and has to be better at getting the goods to market than the suppliers themselves.”

In an ideal scenario, a distribution company functions as a seamless extension of its suppliers’ supply chains. That requires collaboration between companies, a technological challenge that can lead to competitive advantages and bottom-line rewards. “The ERP is the company brain,” says Ferrier, “but it can also connect to suppliers and customers through the Internet. Then, for example, the distribution company can receive signals directly from the retailer’s till. The ERP monitors the inventory, and as soon as it goes below three items on the shelf a restock signal is triggered. Walmart is great at this, right down to the individual product.”

For some companies, the traceability of merchandise can be a matter of mission-critical compliance. Traceability can also serve as an analysis tool for improving the movement of goods along the supply chain. An ERP ought to provide full visibility across multiple physical and virtual locations, and allow the company to trace its products backwards and forwards from material origins to final destination. In addition, a well-tuned ERP will record traceability and quality data on materials and products all along the supply chain. The recording of expiry and shelf-life information is essential for some products, as is the ability to rapidly trace and analyze the source of defects.



“Good visibility is the cornerstone of an efficient supply chain,” says Roberta McPhail. “At one extreme, a company receives a product from a vendor, then fills out a piece of paper that sits in a bin, providing no visibility until the morning. At the other end of the scale is RFID, but unless the company is very sophisticated it’s still an unlikely choice.” Since 2003, when Walmart announced that it would be implementing RFID, the technology has been slow to see mainstream adoption. Some distribution companies, however, use RFID wireless scanners to optimize a wide variety of business processes, including receiving, order fulfillment, cycle counting and loading. In an RFID environment, every pallet of product that enters the facility is bar-coded, allowing its lifecycle to be tracked, while eliminating time-wasting paper processes.

“Is RFID really going to make its way into the mainstream?” asks McPhail. “The technology is hard to set up, but the price is coming down.” According to research firm ABI, unit sales of passive RFID readers hit 250 million in 2014, and will rise to 445 million units by 2016.

The use of electronic collaboration tools

According to Ferrier, retailers are becoming more demanding in terms of the services that distribution companies provide. “Retailers that have done their homework are demanding electronic collaboration. They say: ‘We would like to plug our ERP system into your ERP system’. The Efficient Customer Response System at Walmart is a really good example – it keeps inventory levels low, and service high. Walmart needs to stay efficient – they want their products showing up on time with minimal complications.”

One example of an electronic collaboration system is EDI, an Internet-enabled system for exchanging business documents with external organizations, and for integrating the data from those documents (such as sales orders and statements) into the company’s internal systems. Companies that implement tools such as EDI must account for the effects that externally-generated information might have on their internal systems, but the incentives for adopting these sort of systems are clear. “Any forward-thinking distributor should be fine sharing data about products, shipments and inventory levels,” says Ferrier. “Imagine a contract with Walmart – the rewards are hugely larger than the risks.”

Vendor Managed Inventory (VMI) is a streamlined, EDI-enabled approach to inventory management and order fulfillment popular with big box retailers. VMI changes the direction of the traditional ordering process. Instead of sending purchase orders, customers electronically send daily demand information to the supplier, which uses that information to generate replenishment orders for the customer. The process is driven by demand, and guided by mutually agreed upon objectives for the customer’s inventory levels, fill rates, and transaction costs.



ERP Needs and Features to Consider

The list of ERP features for distributors is long and detailed. Distributors should first look at features for managing the flow of inventory through the supply chain, from demand to supply.

Your supply chain starts with demand from customers. Rather than guessing, **forecasting tools** can help predict the demand based on past sales, seasonality, and other factors.

Demand can also come from **retail sales**. If your company sells goods direct to consumers either online or from a warehouse counter, you will need an ERP solution that supports those **retail requirements**.

The next step is planning the supply to meet the demand. Are you chronically shorting customers? ERP systems can crunch the numbers for **on-hand inventory, customer demand**, and other data to help you decide what supplies to order, and when.

This in turn leads to managing suppliers. The system must offer visibility of data such as **purchase orders, due dates, costs, and supplier performance**. You might also want to exchange data electronically.

After receiving the goods into inventory, it is critically important to accurately track it. This is where so many distribution companies suffer if they don't have a system. A system gives you a complete view, including what is on hand, allocated to sales orders, and arriving on purchase orders. It also **tracks** other **data** such as **lot numbers, serial numbers, storage locations, and costs**.

The last step in the supply chain is **fulfilling sales orders and managing customers**. Common requirements are **fast sales order entry**, easy lookup and re-use of past/repeat orders, sophisticated **pricing mechanisms, credit management, recording notes** and interactions with customers, and more. Some companies also need electronic data interchange (EDI).

Traceability is important for companies with materials that expire and typically these are highly regulated industries.

A **“Return Merchandise”** feature can provide consistent handling of product returns.

Some distributors need **procurement functions** that allow the requisitioning and purchasing of goods, usually from catalogs.

Finally, your system must provide all of the related **reporting and accounting features** at every step in your supply chain. The ability to view the right information quickly helps you make faster and better decisions. There is an old saying, “bad decisions usually end up as inventory”.



Large distributors already running an ERP system and requiring an additional layer of sophisticated warehousing features should consider warehouse management systems (WMS). These systems allow businesses to optimize shipping, receiving, put-away and picking using features such as directed picking, directed put-away, wave picking, zone picking, integration to shipping companies, and more.

Transportation management systems (TMS) enable the creation of profiles for regional and international contracts, carriers, and trade lanes for intermodal and multi-leg moves. International trade and logistics software allows trading partners to collaborate in acquiring, transferring, transporting, and settling accounts.

In Conclusion

Any business considering ERP wants to know that their new system will help to maintain revenue growth. "A properly implemented ERP system can help a distribution company increase its revenue," says Ferrier, "assuming that the company is well managed, and that demand exists for its products. For example, if it takes two days to get a product to a company, and you cut that down to two hours, you can spend that saved time on new product generation, and on cutting costs to increase profitability, even if your revenue remains the same."

In closing, Ferrier reminds prospective buyers that beyond accurately defining business processes and work flow, the key to a successful ERP implementation includes a healthy dose of change management. "It's very important to manage change well, and that includes properly training your personnel. In order to get the best out of your ERP you have to help your people along."

The SYSPRO Approach

SYSPRO software is an award-winning, best-of-breed Enterprise Resource Planning (ERP) software solution for cost-effective, on-premise and cloud-based utilization. Industry analysts rank SYSPRO software among the finest, best-in-class enterprise resource planning solutions in the world. SYSPRO software's powerful features, simplicity of use, scalability, information visibility, analytic/reporting capabilities, business process and rapid deployment methodology are unmatched in its sector.

SYSPRO, formed in 1978, has earned the trust of thousands of companies globally. SYSPRO's ability to grow with its customers and its adherence to developing technology based on the needs of customers is why SYSPRO enjoys one of the highest customer retention rates in the industry.



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