Distribution

Challenges and outlook for a fast-moving market

Editor

Against a backdrop of globalisation and cost-cutting, competition is fierce and competing on price has become the norm. In order to gain market share and prosper, companies in the distribution and retail sector must deliver high quality products and services at a low cost. To achieve this ambitious goal and maintain customer satisfaction, they must streamline their processes, adopt best practices and use innovative technologies.

Several tools and processes are now critical: sales forecasting; optimised order management; procurement, and delivery execution. In addition to providing these fundamental requirements, enterprise resource planning (ERP) systems must be capable of evolving at the same pace as the sector's companies, providing solutions to problems and assisting them with new challenges they face. Mobility, radio frequency identification (RFID) technology and Business Intelligence are at the core of new practices and a necessity for successful distribution businesses.

In order to combine performance, innovation and strategic decision-making in a fast-moving market, it is, of course, critical to anticipate technical and organisational developments, and be equipped with appropriate solutions, implemented by partners who are knowledgeable about your business constraints and share your ambition. We hope this White Paper contributes to this goal.

Enjoy!

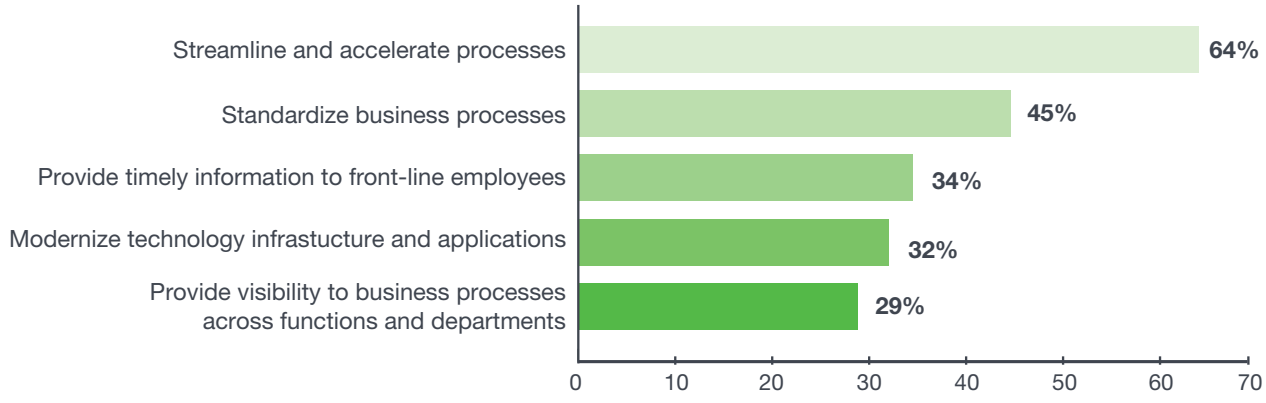
Sophie Dumas,
Sage ERP X3 & ERP Product Management, Sage Mid-Market

Contents

1 - Complex and demanding business

Retailers, wholesalers and logistics service providers operate in a market which has rigorous quality requirements, high volumes of international trade, and places intense pressure on all stakeholders, including distributors, customers, and suppliers.
This fast-moving market presents numerous complex business challenges.

Top strategic actions in wholesale and retail industries



Source: Aderdeen Group, July 2012
Percentage of respondents: 99

A. Distribution and trade, a fast-moving market

Distribution is not immune to the phenomenon of market globalisation, where local identities tend to melt away to form a globalised market subject to universal trends with regional exceptions.
To cope with this expansion of economic and financial borders, companies need to follow the trend and increase their international presence, extending their activities beyond their local borders and pursuing international development strategies.
They are faced with two options: either open up to new markets, which are sometimes very different from their core business, or buy and sell to external markets, in other countries, at even more competitive prices.
The economic crisis has led companies to focus on their core business, rejecting the first option of diversification. They would rather compete on price and outsource processes with the lowest added value (assembly line, order customisation, goods transportation, etc.).

Internationalising physical flows and services gives the option of shopping around and negotiating lower prices, but it may also affect the supply chain, which needs to be as inexpensive as it is flexible whilst capable of anticipating, and coping with, fluctuations in demand.
This also requires greater proactive management, since the supply chain is harder to control and subject to cultural, economic and social vagaries.

Consumers' adoption of new buying behaviours is also influencing and transforming the market. More and more customers are equipped with smartphones and tablets; the smartphone market is growing by 33% per year, outstripping sales of traditional phones (feature phones). Customers are adopting new habits linked to these devices, such as using them to order and buy products. Where once physical stores were all that was required for a business to develop, today an e-commerce site and its mobile version are a must. Multichannel solutions are consequently extending into all processes.

The established mobility in the private sphere is extending to the business sphere, where employees are also being provided with these tools and, as a result, benefitting from increased productivity and the streamlining of tasks.

For example, sales teams gain valuable time by preparing their quotes and placing orders in real time, wherever they happen to be.

To take advantage of this mobility, a company must review its information systems in order to integrate these devices with appropriate security policies.

In addition, companies are increasingly required to maintain process traceability, ensure product quality and comply with environmental regulations, making their activities more complex.

The EAN (European Article Number) and SSCC (Serial Shipping Container Code) standards, for example, require implementation of new recording and verification processes to ensure complete traceability. Fair trade, reductions in greenhouse gases and Green IT impose other processes which run counter to global competition. Distribution and trading companies must therefore make the best choices if they are to translate these new trends into strengths for their business and growth, while still keeping financial challenges in their sights.

***46%** of smartphone owners browse products in-store and then buy online.

Mobile eCommerce revenues across Europe will rise from € 1.7 billion in 2011 to € **19.2 billion in 2017

By 2017, mobile purchases are predicted to reach almost **7% of all online sales.

**Source: ComScore, Mobile Future in Focus, 2013*
***Forrester, 2012*

B. Optimum warehousing with tightly-managed margins

One of the biggest challenges faced by the distribution sector involves stock. No business will make a profit, or survive, if customers are left waiting because products are out of stock. Inventory management is a constant balancing act to match demand to stock levels. This balancing act must be adjusted in line with seasonal variations, market trends and conditions so as not to be too low or too high. Fixed assets, in the accounting sense, must also be kept as low as possible as they represent a significant cost in the annual financial statements, and achieving this involves ever more complex calculations.

Inventory levels must be optimised in order to meet customer demand and ensure fast delivery times. This is done by forecasting future orders. Several factors need to be taken into account, such as the duration of the sales cycle, the period, the price and the return rate. The growing momentum of new distribution channels - e-commerce and m-commerce (mobile commerce) – requires increased flexibility in inventory management, all of which explains why planning is key and procurement management tools are vital.

The operating margin constitutes another quantitative challenge. Closely monitored as an indicator of a company's financial health, it also helps keep a tight rein on the cost of internal processes. If savings need to be made, in-depth analysis of each expense item will pinpoint the most costly amongst these. Lengthy internal processes, high supplier prices, and excessive inventory or rental costs all affect the operating margin. With the financial crisis making the economy more volatile, companies no longer have room for error and so must monitor their key indicators closely.

C. Excellent customer service across all sites

The increasing use of the internet now allows the end customer to quickly compare retailers' prices. Price comparisons facilitated by communication technologies automatically increase pressure on prices, so retailers attempt to stand out from the crowd based on the quality of service they provide. And once again, customers are more demanding in this respect. According to a survey conducted by Accenture, one in five consumers changed supplier in 2012 in each of the ten sectors studied, including mobile phone operators, ISPs and large retailers, i.e. 5% more than in 2011 . Whether relating to response times in the event of a problem with an order, product returns or tracking orders in real time, consumers expect increasingly specialised services. Not to mention the intrinsic quality of the final product. The customer experience must be as satisfying and complete as possible. The processes involved in achieving this are complicated and expensive, but vital. The added value that companies can offer their customers has become every bit as important as the price or quality of the product.

Taking a company global also means taking customer services global. In general, companies should have an overview of their operational sites and activities regardless of their location. The aim is to match material and human resources to customer demand and ensure the traceability of all operational flows. However, difficulties may arise when several companies belong to a single group or are spread across various countries. They may have different information systems which need to communicate, or a shared system which facilitates the interaction of supply chains. A real-time view of inventory levels at all sites, whether outsourced or not, belonging to the group's various companies, is necessary in order to meet customer demand.

2 - Processes and good practices

To respond to the key challenges – optimum inventory levels, controlled operating margins, excellent customer service and a multi-site overview – the business processes and practices of distribution and trading companies must be structured around five cornerstones.

A. Sales forecasts

Advance knowledge of future sales is one of the key objectives of the supply chain because the better equipped the distributor is to anticipate them, the better its margins will be. Predictive forecasting helps to streamline processes, stock only what is required and tailor the distribution tool to upcoming workload in terms of human resources, stock levels and material resources.

This can be achieved in any number of ways, all of which are valid, from drawing on the most basic knowledge using historical data such as past customer orders, to more complex predictions which analyse product lifecycle behaviour and customer buying behaviour, integrating seasonal variations through objective or subjective criteria.

APS (Advanced Planning and Scheduling) tools meet the strategic analysis challenges faced by the distribution sector. From purchasing to selling, supplier to end customer, shipper to logistics provider, APS systems take a cross-cutting, global approach to optimising supply chain processes as a whole, by improving interaction between distributors' businesses and facilitating interaction between supply chains. The results are improved anticipation of stock levels, maximised margins and satisfied customers.

B. Procurement management

The inventory, sales and purchasing functions form the backbone of the supply chain. To streamline the entire chain, the flow of goods and services can be configured to match the company's organisational structure. It is also advisable to optimise operational management, including sales management driven by a single business-partner management system, flexible pricing rules and customer tracking.
The purchase control function, with business-partner management and incorporating supplier performance tracking, gives end-to-end control over the entire supply side, from requesting prices and quotes to matching supplier invoices. Tools now exist to further optimise the supply chain in terms of cost, performance and quality.

Implementing advanced logistics functions also contributes to flow management in line with demand. The engine for planning reordering in the short, medium and long term is one of these functions. With the help of a schedule and validation process, this kind of tool can be used to calculate a company's needs, confirm purchase suggestions, generate production commands for each order placed, anticipate customer demand and simulate inventories at a given date. This results in reliable inventory levels and fast turnaround on orders.

C. Managing customer orders

The primary sources of customer satisfaction are stock availability and prompt delivery.
It is therefore of paramount importance to define order preparation and delivery processes using dedicated tools. Again, solutions are available to ensure that the order preparation process includes the item type (without external tracking or with best-before tracking, batch number, etc.), order constraints (delivery dates, packaging, wrapping, labelling, etc.) and the very high turnover of some items. The information system must not only provide appropriate processes but also handle several scenarios, with a tailor-made preparation method for every order.

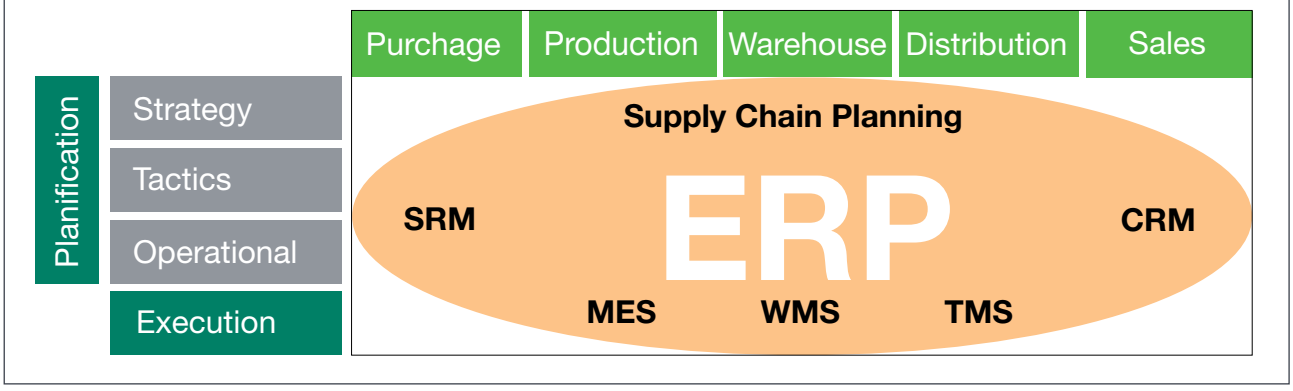
The order management process extends to management of the after-sales service in the event of a problem with a delivered product. This entails creating a customer knowledge base including making use of CRM (Customer Relationship Management) functionalities.

D. Executing logistics and deliveries

Management software for incoming and outgoing flows meet operators' key needs in the three critical phases of the supply chain: receipt of goods; preparation and order shipment.
When goods are received, the quality is checked, they are stored as and when they come using a radio or voice system, and flows between storage areas and preparation areas are optimised.
During the preparation phase, the pre-packing mode increases the efficiency of transfers to pallets and, consequently, loading onto trucks, and reordering is generated automatically.
This maximises human and IT resources. Lastly, during shipping, shipment units can be made up automatically or manually, and pallets can be put together for multiple or single customers and transferred to the loading bay with optimum efficiency.

Tracking is at the heart of the whole supply chain regardless of the item type handled.
Traceability is the ability to find the history, use and location of a logistics entity, such as the management of physical and IT access; items and their characteristics (batch number, serial number, expiry date, sell-by date, best-before date, date of manufacture, origin, etc.); sites (warehouse, bay, etc.) or locations; fluctuations in temperature, etc.
This ensures that delivery takes place in the best possible conditions.

ERP at the heart of distribution



ERP: Enterprise Resource Planning
SRM: Supplier Relationship Management
CRM: Customer Relationship Management
MES: Manufacturing Management System
WMS: Warehouse Management System
TMS: Transportation Management System

3 - New technologies contributing to performance

New technologies are appearing in the fast-moving market of distribution and trade which are already influencing these businesses and will do so to an even greater extent in the future. That being the case, analysis of good practices implemented is fundamental as these are key performance indicators (KPI) of solutions deployed.

A. Improved reporting with Business Intelligence

Management tools are essential for analysing and measuring a company's key data: sales performance by customer or product, manufacturing cost analysis, etc. Decision-making tools enable users to collect, consolidate, model and extract available data with a view to making the best possible decisions, both operational and strategic. Providing users with the right information at the right time increases efficiency.

Business Intelligence has contributed to improving reports for some years now, meeting the varying visibility requirements of personnel according to their hierarchical level. While non-managerial staff need operating information in order to initiate specific actions, e.g. anticipating stock shortages to prompt reorders from suppliers. Managers, however, are looking for detailed, consolidated indicators to make operational decisions; for example, understanding and analysing a supplier's performance over a given period increases negotiating power. And senior management require dashboards, multi-dimensional analysis indicators and alerts in order to run their businesses.

Monthly monitoring of the various KPIs makes it possible to model trends and plan corrective actions. When compared with the KPIs of rival companies, these indicators are excellent barometers to position a company against the competition.

B. From barcodes to RFID: ensuring traceability

Implementing barcodes in the supply chain fulfils the strict requirements for traceability set by national and international authorities. Europe uses the EAN (European Article Number) standard while North America uses the UCC (Uniform Code Council) standard. Both standardise barcodes, data exchange transactions, and XML-file exchange formats. The SSCC (Serail Shipment Container Code) provides a unique identifier for a shipment unit, irrespective of its contents, so that shipment, distribution and receipt of goods can be individually monitored. Barcodes have a proven track record: it only takes a few milliseconds to identify a product by scanning the code, as opposed to a few minutes when an operator has to manually enter product information. The information is guaranteed to be reliable and an almost infinite volume of tracking data can be stored.

The evolution of barcodes towards RFID (radio-frequency identification) enables the storage of diverse information using electronic labels called "tags". Data storage technology is highly efficient as there is no limit to the number of characters. In addition, labels are read in bulk, which increases operator productivity throughout the chain and eliminates manual reading of individual units. Although validated and fully operational, this technology is not yet widely used due to the lack of global standards for business sectors and the still prohibitive cost for products with low added value.

"Integrating our ERP with the radio-frequency voice system has led to a 20% increase in productivity and ensures that tracking is completely reliable. We can find a product reference, batch and expiry date in real time and identify the delivery of an order to a pharmacy belonging to the group."

M. Target, Head of Logistics
Sogiphar

C. Indoor" and "outdoor" mobility in distribution

Mobility is one of the major trends which distribution and trading companies must address. When applied to a company's internal personnel, we use the term "indoor" mobility. This covers a whole array of new technologies used to boost productivity, for example in warehouses: radio-frequency terminals, voice communication, PCs with Wi-Fi connections, wireless printers, etc.

"Outdoor" mobility applies to all the external people in a company. It typically involves providing sales representatives with tablets so that they can enter orders in real time, sign them and transmit them to the back office for preparation and delivery. It's an undeniable timesaver for companies, improves customer service through real-time interaction, and gives a positive image to prospective and existing customers.

Voice communication, the way forward for logistics?

"90% of current voice-recognition applications relate to warehouses. Wherever there is a high volume of information flows, this kind of technology responds to the need to boost productivity and reduce human error: companies using these tools record an increase in productivity of 20 to 30%. There is also a significant improvement in how reliably tasks are executed: depending on the specific features of the product being processed, picking errors decrease by 40 to 50%."

Lightweight equipment

"Using a headset which reduces ambient noise and an electronic terminal, operators are given instructions to optimise their routes around the warehouse. Voice directions are generated by the WMS (Warehouse Management System) and transmitted using Wi-Fi and Bluetooth technologies. The equipment is lightweight, reduces ambient noise and reliably recognises voice instructions. These user-friendly technologies have a bright future in distribution and other business sectors."

Philippe Mezerette, Head of Sales France, Vocollect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Testimonials

Adelya places mobility at the core of its strategy

"When we looked into providing portable computers for our sales teams, we decided on a tablet-based solution with an IT system for placing orders from the customer's premises. The system is fully connected to the information system at headquarters through web services," explains Philippe Scemama, Chairman and CEO of Adelya. This has resulted in significant gains in productivity and turnaround since sales reps carry their files on existing and prospective customers with them and place their orders in real time. "The next step was to give our on-call technical teams a tool which works on a smartphone. Once again, we are leveraging web services. We manage all technical operations from headquarters through our on-call teams. They are becoming more independent and faster at dealing with equipment failures and customer callouts," he adds.

Philippe Scemama, PDG de la société Adelya

Boutique Nature opts for voice technology for stock management

In 2012, Boutique Nature decided to digitalise its warehouse by integrating a new WMS (Warehouse Management System) compatible with its existing ERP. As part of this modernisation, the logistics and IT managers wanted to modernise order preparation processes, previously performed with paper-based picking lists. The aim was to reduce the error rate, which at the time was 7% (all types of errors combined). They soon decided on a voice system for order preparation and handling tasks. The teams are extremely satisfied with the solution and plan to extend its use to the perpetual inventory and warehousing systems. "Voice technology has now totally replaced paper-based picking lists. It has only been deployed for a few months but the teams at Boutique Nature have already noticed improvements, including a sharp increase in productivity. Installing voice technology has also made it possible to organise stock more logically, leading to a significant reduction in errors. Operators have been quick to adopt the new system, which they were proactive in requesting. It took less than an hour to train them and they were fully operational in two days," explains Fréderic Billon, operational director at Boutique Nature.

Fréderic Billon, directeur opérationnel de Boutique Nature

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