HOW TO CHOOSE
A Distribution System

**Business
Automation
Specialists**
of Minnesota, Inc.

Implementing the proper distribution system can be as strategic and important to your bottom line as expanding your warehouse or bringing on new product lines. After all, implementing the right solution and choosing an experienced solution provider provides both immediate and long-term benefits that can impact your day-to-day business processes across the board. So, naturally, it is important that distributors take the time to clearly define business processes and objectives before starting the search for new distribution software.

There are literally dozens of software products on the market today to help distributors just like you automate and manage business requirements, such as accounting, inventory management, order entry, and assembly. The good news is that you have plenty of options. However, many companies feel overwhelmed by the evaluation process because they don't have a road map to help them identify the right distribution systems for their unique business and technical requirements.

Before starting the selection process, it's important to understand your needs and the benefits of having a good system. That's why we've created this guide—to provide you with the essential information you need to make the best decision possible. In the following pages, we'll walk you through the steps of getting started, choosing the right system, and implementation.

Growth Considerations
In the software world, one size certainly does not fit all companies. That's why it is wise to carefully evaluate the various claims made by solution providers as not all will measure up. Distributors generally move through three major phases of growth as follows:

Small 'Off-the-Shelf'
▶ Limited customization and integration tools
▶ Installed and implemented without assistance
▶ Time estimate: 1-3 months
▶ Cost estimate: <$3,000

Medium 'Configurable'
▶ More customization and integration tools
▶ Installed and implemented with assistance
▶ Time estimate: 3-6 months
▶ Cost estimate: $3,000-$50,000

Large 'Customizable'
▶ Robust customization and integration tools
▶ Installed / Implemented with assistance
▶ Time estimate: 6-12 months
▶ Cost estimate: >$50,000

Software Costs
Many distributors are either too small to implement more sophisticated software, or their distribution processes are simple enough to manage manually. These companies tend to leverage general business software for core requirements such as general ledger, accounts receivable, accounts payable, inventory tracking, order entry, and purchasing activities. In fact, most small distributors purchase off-the-shelf accounting software before fully automating inventory control, shipping, or warehouse management activities.

As you grow, your accounting requirements tend to remain relatively unchanged while the need for greater inventory control, sales management, and formalized purchasing tends to increase rapidly.

Impact on Distribution
At some point you might find yourself pushing your entry-level products to the limit and must either limp along with basic inventory and warehouse management features, or replace your system with a more robust business solution to support more advanced financial and distribution features. Companies that made the leap to high-end systems in the 1990's are likely struggling with antiquated technologies such as DOS or mainframe systems that simply can't keep up with their business demands.

Custom software development and the use of spreadsheets can extend the life of your entry-level distribution solution and legacy applications, but eventually you will reach a point where your homegrown system simply can't provide the necessary information you need to help you make sound business decisions.

Tools You Want from a Vendor

Many distributors remain relatively small and may never require full blown enterprise business applications. However, distributors in growth markets or those with aggressive business plans are encouraged to select a business system that can grow with their company—both in terms of transaction volume and increased functionality. By selecting a scalable solution, you can extend your investment for several years while avoiding unnecessary costs to implement a new solution. Some software publishers provide migration tools to help you move from prepackaged software to more sophisticated business systems. These migration tools may include:

Data Relocation

Data Relocation will allow you to relocate data from one system to another. Customers, vendors, items, and other relatively static data are the most common elements moved.

Transactional Data

An example of Transactional Data would be purchase or sales order history. While very few business applications can move transactional data from one application to another, companies that support multiple distribution solutions can relocate some transactional or historical data from entry-level systems to medium and large business applications.

Assisted Setup

A few applications include built-in implementation wizards to help your company get up and running on your new business system. These tools help you better understand how areas within the business application interact with each other. Some applications integrate to project management tools so that project managers can assign tasks to individuals or teams within the company.

Training Guides

Vendors that own multiple solutions sometimes provide guides to ease the transition from one application to another. For example, companies using entry-level products, such as Peachtree by Sage, typically pick, pack, and ship products in one step while larger businesses may require two or three separate steps. In this respect, the training guide would help by showing your employees, "Here's how you used to perform this task and here's how you will perform this task in the new application."

Industry Requirements

Distribution software is often specialized depending on the types of products being sold. For example, some of the most common distribution applications on the market are designed for distributors of industrial products, consumer packaged goods, and high-technology products.

Industry-specific software products are attractive to distributors because they typically provide a dozen or so specific features designed to meet a particular business requirement, such as custom item lookups in the fastener industry, or rental management for equipment distribution. However, the most popular Enterprise Resource Planning (ERP) applications provide 75-90 percent or more of the functionality required by distributors. More established ERP vendors have hundreds of third-party enhancements and vertical applications, which often provide the remaining 10-25 percent of industry-specific functionality. It is therefore critical that distributors carefully select their software vendor, since established ERP and distribution

"It was horrible, the antiquated system [we used to use] couldn't keep up with our growing business and we were forced to do so much by hand. Too many people were wasting too much time on paperwork. We were all slaves to the data, instead of making it work for us..."

Brian Fitzhenry,
VP Sales
Newrent, Inc.
(Commercial Trailer Distribution & Rental).

"The change has been like night and day. We now ship nearly 100 percent on time and complete on all orders. We fulfill auto replenishment orders within just three days. Our customers are ecstatic. The same retailer who was going to dump us a year ago now says we're their number one boxing vendor. What a turnaround!"

Seth Horowitz,
Executive Vice President
Everlast Worldwide, Inc.
(Boxing Apparel & Sporting Goods Distributor)

Industries Utilizing Distribution Software

Industrial Products
Plumbing, HVAC/R, hardware, automotive products, machinery, and equipment.

Consumer Packaged Goods (CPG)
Food, beverage, chemical, and pharmaceutical.

High Technology & Electronics
Electronic and electrical components & medical and office products.

Apparel
Apparel and textile products.

Building Products
Concrete, lumber, and wood products.

Other Industries
Petroleum, distribution, paper, and book wholesalers, and other specialized industries.

software suppliers have demonstrated industry staying power. Furthermore, due to their size and financial stability, established vendors are unlikely to be assimilated by other companies later on. ERP and accounting software products tend to have much larger installed bases and will likely be supported and enhanced for years to come.

In addition to industry solutions, there are hundreds of add-on and complementary solutions available to provide more advanced features. For example, there are literally hundreds of independent Electronic Data Interchange and Warehouse Management System applications on the market today.

As mentioned earlier, industry and boutique software publishers are generally much smaller than publishers of more general accounting and ERP solutions. Consequently, industry and niche publishers typically allocate most of their research and development to the inventory management, order entry, and purchasing side of their business applications with little investment in accounting, business intelligence, customer relationship management, human resources, asset management, payroll, and other non-distribution capabilities. Thus, you should carefully consider all your requirements and look for the best overall solution to meet your needs.

Software Evaluation
Evaluating software can be a very overwhelming task for small and medium sized distributors due to the sheer quantity of products to choose from and the complexity of each system. Distributors typically manage their evaluation process either in-house or through contracted software consultants and evaluation services.

In-House Evaluation
Some companies prefer to manage the software evaluation process themselves.

They typically develop a long list of potential candidates through multiple sources, which may include word-ofmouth references from companies in their industry, internet searches, online software directories and product reviews, business and trade magazines, distribution association and software trade shows, and others. If you're conducting your own software evaluations, it's a good idea to dedicate an employee to the project of collecting and organizing information for the evaluation team.

Choosing a Consultant
Consultants have special expertise— they've been through the process many times before and can help you save time and effort. A consultant can help you choose your software, install any needed networks or hardware, and help ensure that your system is up and running by your target date.

Your ideal consultant is someone who has installed distribution systems at businesses similar to yours. You will benefit substantially from their knowledge. A software company that publishes distribution software can recommend resellers in your area who have worked with companies like yours. You can also find good consultants through referrals at your professional club or organization or you may ask colleagues to share their experiences.

Questions to Ask Your Consultant
Have they installed distribution software at companies similar to yours?
Ask about company size, number of employees, and nature of the business.

Can they provide references?
Ask for contact names so you can call these customers and learn about their implementations.

Can they provide a free trial version of the software?
While a software demonstration can be helpful when you're in the process of evaluating your options, what you really need to see goes deeper than what 50 minutes of bells and whistles will show you. Trial software allows you to enter your own data and explore the features of the program. This is a limited use of the software and will require some effort on your part to investigate the product's capabilities.

How are their fees structured?
Find out up front how your consultant handles hours, services, and billing. See page 6 for more details on breaking down implementation costs.

Can they provide a complete service package?
As part of your implementation, you'll need training, technical support, and many other services. Look for a reseller who will work with you from start to finish. You don't want someone whose only focus is on selling software.

What are the costs involved with adding more users or modules?
When you're running price comparisons, dig a little deeper than initial cost. In addition to considering maintenance and upgrade support and costs, think about how much you'll pay to add on more users. Some packages are less than others for all modules but then gouge you in the cost per number of users, while other companies are relatively inexpensive when it comes to adding eats but charge quite a bit for additional modules.

Who is responsible for technical support?
At some point you will need technical support for your new system. Will you call the software manufacturer or the consultant?

How much will technical support cost? Find out what the policies are for maintenance, upgrades, and support. Get clear definitions up front. Ask your consultant what you can expect in support turnaround times. Some suppliers allow you to control your turnaround time by purchasing a support upgrade package.

Does the consultant listen effectively?
This question separates the true sales consultants from the peddlers. A true professional will not make recommendations for you without learning about your specific business needs and objectives.

Does the consultant communicate clearly?
Avoid resellers who try to impress you with jargon and who immediately start talking about equipment and program features. The focus during your interview should be on what applications the consultant can provide and how he or she can help you benefit from them—not on details.

Do you think you can work with the consultant?
You'll be working with the consultant over a period of weeks. You may even end up with a long-term relationship if the consultant helps change and extend your system as your company grows. Therefore, it is wise to choose a consultant who is a good fit with your company's philosophy and culture. It's important to trust your instincts, if you don't feel right about the consultant you should not move forward with them. You should select someone with whom you feel comfortable.

Choosing a Software Vendor
It's important to realize that you're not only selecting a distribution system— you're also choosing a company as well. Here is a more in-depth look at the factors to consider when choosing a

"I love our new system. It's very reliable and does everything we need, all in one easy-to-use package. We're so pleased, in fact, that we've opened our doors to other Anheuser-Busch wholesalers, so they can see what a smooth operation we've got running here."

Kurt Gail,CFO
Central Distributors of Beer (Beer Wholesaler)

"Physical inventory used to take me two full days, and we had to close the doors to do it. I am now able to do it in one day while we're open

Tony Lee, IT Manager
Atlanta Oriental Food Wholesale Co. (Grocery Distributor)

No Technology Lock-in

While you are exploring software applications, you should make sure that your selection does not leave you tied to a particular solution or vendor. Doing so can be risky and uncertain. You may be spending a great deal of money on bells and whistles that you honestly don't need and will never use. Worse yet, you may end up with obsolete technology that will cost you when it comes time to replace it. Choosing a vendor that offers you the freedom to choose among multiple products like Linux and Windows, multiple databases, and multiple operating systems is the key to avoiding a technology lock-in.

A Large Installed Base

How many organizations throughout North America are currently using the company's software? How many organizations around the world are using its software? How many resellers does it have? If the company you're considering has a large installed base of current users, it's a good bet that they're probably doing something right. People and organizations vote with their checkbooks; a popular product is a good sign that a company is stable as well as customer-friendly.

A large installed base also has a second benefit: third-party software manufacturers will be more likely to offer add-ons, worthwhile utilities, product training, and other benefits that you can utilize once you install the software.

Frequent Updates

Good software suppliers update their software frequently. They also make bug fixes available quickly and easily to resellers and customers. Before you make a purchase, find out if the software publisher has a maintenance program in place that gives you access to updates as they become available.

An Upgrade Path

This is similar to scalability which was mentioned earlier. A good software company invests heavily in engineering and develops new product features and enhancements regularly. It stays abreast of new technologies and makes sure that its customers do too—particularly those customers with a quickly growing business.

A software upgrade—where you move to a similar but more powerful product—can give your company flexibility as it grows. Software upgrades also are desirable as they often cost far less than the retail price of the full program. Imagine you purchased a new car a year ago, and then this year, the car company came out with a new model - of course you would want the new features. But you can't have those new features unless you purchase the new model! Unlike a vehicle manufacturer, a good software manufacturer will provide product upgrades at reasonable prices or as part of a yearly service agreement.

A Good Technical Support Team

Your consultant will be a good resource regarding technical questions or other issues that arise. But you will still, almost certainly, rely on the vendor's technical support team as well. Questions to ask regarding the vendor's support team include the following:

- How many people are in technical support?
- Where is technical support located? Has it been outsourced?
- How quickly do they take calls from customers?
- What are their hours of operation?
- What options are available for afterhours questions or concerns?
- What charges/service plans are there?

Suggested Planning Schedule
The following is a simple five-step process for successfully analyzing, selecting, implementing, and using a new distribution system.

Step 1: Pre-planning
This includes a review of your current system's capabilities, strengths, and weaknesses, as well as an initial list of things you are unable to do with your current system but will want to be able to do in your new system.

Step 2: Intelligence Gathering
Information is critical to sound decision making. The more information you can obtain now, the better. Learn as much as you can about the various distribution systems being considered, and in the long run, you'll be more likely to have the perfect system for your company.

Step 3: Analysis
Careful review the information gathered. This step may include actual software demonstrations, visiting organizations where the software has already been installed, and perhaps even a visit to the software publisher's headquarters.

Step 4: Implementation
Once a distribution system solution has been chosen, you will begin implementation. This may last weeks or months, and include data conversion, user training, and other elements.

Step 5: Post-implementation Review
This step includes the on-going monitoring and review of the system. Is it performing as expected? What elements need to be modified, changed, or customized? What optional elements can be added to further enhance system performance?

Suggested Planning Schedule

Months (Aproximately	1	2	3	4	5	6	7	8	9	10	11	12
Preplanning	■											
Intelligence Gath.		■	■	■								
Analysis					■							
Implementation							■	■	■	■	■	■
Post-Implementation Rvw.							■	■	■	■	■	■

CALCULATING CONSULTING COSTS

Consulting fees vary greatly depending on the needs of the company, the expertise of the consultant, and a host of other factors. While it's impossible to estimate exactly how much you will spend with a consultant during the analysis, implementation, and training phases, the list below provides some common ranges for you to consider:

- Analysis of client needs: 4-20 hours
- Install network and applications: 5-20 hours
- Modify procedures for new system: 2-5 hours per module
- Design chart of accounts for customer & vendor files: 10-20 hours
- Modify system reports: 10-25 hours
- Train clerical personnel: 10-20 hours
- Train system administrators: 10-25 hours
- Document modifications: 5-10 hours per module

You may have additional costs—and some savings—if your accounting system is already automated; data conversion could cost more, but analysis and training could cost less.

Can You Afford to Buy?

The benefits of implementing a distribution system are well known and well documented. But it still may be difficult to persuade the management of your company to part with hard-earned profits for the new system you're proposing. Consider preparing a return on investment (ROI) analysis to help your company realize the benefits of a new system as well as to decide how much to pay for it. Start by categorizing your costs.

Software Costs

These include software purchase or lease, and maintenance fees, as well as add-on products or packages required to adapt the system to your company. These costs can range from about $7,500-$100,000 for purchase, with annual maintenance costs starting at approximately 15 percent of the purchase price.

Hardware Costs

These include computers, components, networks, and printers. Costs can be difficult to project until you make your software selection. You probably already have most of the hardware you'll need, but you may need to upgrade servers or storage devices to accommodate a new system. For each 25 users, plan on spending $7,000-$15,000 to upgrade existing equipment, and $50,000-$65,000 to start from scratch.

Consulting Costs

You'll want an experienced consultant to help you select and plan your system implementation. See pages 3 & 4 for tips on choosing a qualified consultant. Fees vary regionally and depend substantially on your desire to "do it yourself" or to offload excess work to an expert. It may take up to 100 hours or more, with rates ranging from $90 to $180 per hour.

Overtime Costs

During implementation, you and your staff will have more work than usual. You may choose to hire temporary employees to handle some administrative tasks or ask current employees to work overtime. Plan on 10 to 20 extra hours per week per 25 employees served by the new system.

Training Costs

You'll need training to get people up and running on the new system. Good training is invaluable to the success of the project as it will save many hours of expensive backtracking. Training costs are lower than ever, thanks to "virtual" classrooms on the internet that reduce travel time and fit education into busy schedules. Training can take anywhere from 10 to 30 hours per employee.

Can You Afford Not to Buy?

If you're adding up your costs right now, they may seem huge. However, to complete your ROI calculation, you'll also need to add up the savings your new system will deliver. Results vary dramatically from one company to another, depending on objectives and work styles, but a good system will definitely deliver significant cost savings.

Reduced Inventory Shrinkage

With the right tracking and improved accountability, a good system can help you keep track of inventory and prevent losses. As a result, more of your purchased inventory ends up in final goods. If you're an average manufacturer, plan on reducing shrinkage from your current rates to a rate of about one percent.

Reduced Cost of Goods Through Improved Purchasing

With better forecasting, you'll be able to plan your buying to avoid peak pricing, rush charges, and small orders.

Based on our customer's experiences, and depending on the products you buy, component costs can be reduced by 10 percent or more, rush charges can be cut as much as 90 percent, and shipping costs can be lowered by 10 to 50 percent or more. Lower costs may also result in improved payment history for your company's credit report.

Reduced Labor Costs
With better scheduling and more accessible data, you'll need fewer people to get the same amount of work done. Often, a new system can dramatically reduce administrative costs while bringing overtime labor into check through improved scheduling. Depending on the nature of the company and the current rates of overtime, labor savings can range from 5 to 50 percent.

Could Your Company Do Better?
Calculate your own ROI by adding up your savings and dividing it by your estimated costs. In our experience, most companies save 10 to 30 percent on inventory holding costs. You can make this quick ROI calculation if you know the approximate value of your present inventory. You may be amazed to learn that many companies find that a new distribution system pays for itself in a matter of months.

Sample Annual Cost Savings

Old System	New System	Rationale	Calculation	Cost Savings
Avg. safety stock levels @ 100 units / SKU	Avg. safety stock levels @ 75 units / SKU	More accurate material planning / forecasting	25% stock reduction x 1,000 SKU's x $100 carrying costs /SKU /yr	$25,000
Annual Maintenance Fees @ $100K	Annual Maintenance Fees @ 20K	Companies moving off tier one ERP products often significantly reduce maintenance and support fees	$80,000 savings	$80,000
40 hrs to process period-end transactions	20 hours to process period-end transactions	Reproductions in data entry, system processing speed, and access to data improves period-end processing	13 periods x 20 hours x $30 / hr.	$7,800

Conclusion

Not all distribution systems are created equal. Each product and vendor will have their own set of strengths and weaknesses. Some systems provide rich industryspecific functionality but lack fundamental accounting features, while others provide a broader feature set, which can be customized to meet the needs of many different distribution environments. Furthermore, many small companies choose to automate their accounting and inventory processes before tackling their warehouse management and extended supply chain systems. These companies must prepare themselves for a huge leap in terms of the investment costs and training required to implement a more sophisticated business application.

A defined software evaluation process will help you identify the best solution to meet your needs. In addition, information gleaned from the evaluation process should be used during the implementation process to keep the project on track and on budget. Successful implementations can reap huge companywide benefits, including significant reductions in data entry, elimination of data entry errors, improved system security, as well as a significant increase to your company's bottom line.

About Business Automation Specialists of Minnesota, Inc.

We are a business automation solution advisor. We team with our clients to help them achieve their business objectives through appropriate application of business automation software. We focus on business process and consulting to streamline procedures, increase effectiveness and meet new challenges.

These business practices enable our clients to be more effective and accomplish more. Our methodology focuses on understanding your business objectives, critical needs and personnel capabilities. With this understanding we enable you to align your operations and strategies with a fully integrated business solution. This alignment heightens your competitive advantage in your market; strengthens your niche position; improves your core value presentation to your customers and eliminates business bottlenecks to meet your customers' requirements. Hundreds of customers have proven our methodologies since 1985.

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