

"HOW CAN SOFTWARE INCREASE THE COMPETITIVENESS OF MID-MARKET DISTRIBUTION COMPANIES?"

IRIS ENTERPRISE SOFTWARE RESPONDS TO THE CHALLENGE

FSN Whitepaper

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Introduction

Distribution companies are the workhorses of the modern economy.

In macro-economic terms the decline in manufacturing industries throughout the western world has been more than offset by the burgeoning growth of the services sector and the apparently insatiable consumer demand for the latest electronic goods, foods, fashions and household products. Distribution companies make the economy 'tick' by sourcing these goods at home and abroad, collecting, assembling, packaging and transporting them efficiently to customers anywhere in the world.

But mid-market distribution companies in particular face a number of stern challenges. On the one hand the Internet has reduced barriers to competition, for example, by allowing mid-market companies to tap into vast new markets for the supply and sale of goods in far flung places, but at the same time increasing price transparency, Internet auction sites and portals present a major competitive threat as Internet savvy consumers trawl the net for the best bargains. Additionally, a low inflation economy has reduced companies' pricing power, translating competitive pressure directly into squeezed margins and lower returns.

However pricing constraints and increased competition are not the only factors constraining distributors' margins. Rising fuel costs, increasing road congestion and road charging schemes are raising transport and distribution costs whilst escalating land prices and property rentals are lifting the cost of storage and specialised warehousing.

In response to this highly competitive trading environment some companies have sought to defray the cost of doing business by outsourcing non-core activities such as

warehousing and logistics to specialised operators who can perform the task more capably. But this still leaves the sizable challenge of running the rest of the business efficiently in-house.

Finely honed business systems and processes are crucial to processing large volumes of transactions expeditiously and containing average transaction costs. But there is another side to information systems. Harnessed in the right way they can contribute directly to competitiveness and revenue growth, for example, enabling distributors to respond to changing markets and new opportunities or supporting expansion without adding to headcount.

In this whitepaper we examine how distribution companies can utilise business systems more effectively and underline the importance of information systems, productivity tools and appropriate industry functionality in enabling distributors to rise to the challenge of competing in a rapidly changing global market.



Responding to change

ERP versus Best of Breed systems

Systems agility is absolutely fundamental to enabling a company to respond flexibly to changing business conditions. Management needs to be confident that a revised pricing framework, a newly acquired overseas operation or distribution centre can be introduced without fear that its systems will act as a brake on progress.

In the past companies have looked to traditional ERP systems to provide broadly based functionality covering most eventualities. These systems were at their height of popularity in the period leading up to the new millennium when double digit growth was assured and the main requirement was for a dependable transaction processing 'engine'. In these more challenging times the limitations of 'one size fits all' approach has been exposed as companies discover that these systems are relatively inflexible and costly to maintain.

Rapidly developing markets create the need for more specialised and up to date functionality such as RFID (Radio Frequency Identification) which has the potential to revolutionise the traceability of goods through the supply chain utilising computer chips embedded in products. Companies that are able to respond quickly to the demands of supermarkets or other retailers for this kind of product traceability can benefit from 'first mover advantage' but those that rely on inflexible ERP systems may be left behind.

Integration

In practice this means that business systems have to be able to leverage the considerable expertise in third party 'best of breed' systems, which as the names suggests are designed with a specific purpose and industry best practice in mind. An ERP response based on systems modifications could simply take too long to complete and deliver inferior capability.

Similar considerations apply to the latest thinking around logistics and warehousing. The 'just in time' requests of increasingly sophisticated and demanding retailers has to be matched by distributors with matching capability. This could, for example, involve the use of specialised logistics packages for routing and scheduling of vehicle deliveries so that goods turn up at the right customer depot at the right time or perhaps the use of the latest warehousing management systems to ensure that the right goods are automatically picked from warehouse bins.

Irrespective of whether these specialised capabilities are furnished in-house or leverage third party outsourcers' systems, the ease with which distributors' transaction systems can be integrated and the openness of their systems architectures lay at the heart of their ability to respond and compete.

Scalability

For the majority of mid-market distributors their use of systems is pervasive. Often moderate to high volume businesses they depend on their systems for end-to-end processing of sales quotations, orders and invoices through to purchase order processing, inventory management and financials.

As such their systems represent a sizeable financial commitment as well as a substantial investment in their processes and people. Systems decisions are not entered into lightly and the longevity of the systems is crucial to delivering an acceptable return on investment. Having invested in integrating best of breed packages, other information sources and broader capability it is important that systems can be expanded in sympathy with the company's growth. Therefore systems scalability, i.e. the ability to accommodate additional business users and increase the throughput of business volume without degrading systems performance is vital.

Few businesses can afford the disruption of an unplanned upgrade, or worse still, the replacement of systems during a period of rapid growth, since this could seriously jeopardise customer and supplier relationships and damage future prospects for growth.

How can systems improve productivity?

Improving productivity, i.e. the ability to produce more output from a given level of resources is a great concern to mid-market companies keen to keep a lid on overheads and direct labour costs.

Controlling these costs not only allows distributors to realise economies of scale, but the resulting profit improvement gives them 'permission' to grow the business and invest confidently in new markets.

Although traditional business systems have allowed companies to reduce their average transaction costs through automation and greater integration many have reached the limit of what they can achieve. In the past, business systems frequently adopted a modular design in which common business processes such as sales order processing were represented by different business modules, for example, sales ledger, order processing, invoicing and stock control. Unfortunately, this modular design artificially re-enforced the functional boundaries between different areas of the business rather than uniting them in a common process. As a result, it was difficult to share information across the functional boundaries and workers in one area of the business lacked visibility of the work being carried out in another. In many cases the user interface or 'look and feel' of the application was different in each module, accentuating the divide.



A number of accounting and business software solutions meet this challenge by using a single interface which pervades the entire system. But why is a consistent interface and underlying design so desirable? The answer is that a single interface promotes a common method of navigating the system, accessing applications and retrieving information. It is this familiarity that enables users to broaden their reach and use parts of the system that they would not normally enter but are related to their role, or the process for which they are responsible.

In other words it breaks down functional barriers, improves communication and collaboration. At a stroke, it enables staff to be more responsive to each other, customers and suppliers. In the case of customers, where immediacy of response can make the difference between new business gained and a lost opportunity, this translates into better customer service and improved competitive positioning.

As a bi-product a standardised user interface enhances staff mobility since the learning curve in moving personnel from one role to another is greatly reduced by the instant familiarity of the system. But the application of workflow technology also boosts productivity. The ability to raise purchase requisitions and route them for approval through the organisation based, for example, on the value of the goods ordered eliminates much of the 'paper chase' associated with manual processes, particularly in multi-site operations.

Industry functionality is key to competitiveness

The problem with the 'one size fits all' approach of the generic ERP system is that it promotes the lowest common denominator in terms of functionality.

An ERP system has to appeal to a wide constituency of companies rather than addressing the specific concerns of a distribution business with its need for specialist functionality.

Whilst some industry specific functionality such as logistics and automated warehouse management can be acquired through integration (see earlier), certain core functionality such as complex price matrices, batch and serial tracking mark out a distribution system from a generic ERP system.

The complex interplay of customer and product pricing lay at the heart of distribution systems. Product prices need to accommodate various price lists and special prices based on quantity discounts, volume breaks, target margins or mark-ups.

Similarly, customers or customer groups may be awarded discounts and quantity-break discounts based on specific products and product groups. Multiple instances of different arrangements in one business is common in an environment in which distributors have to deal with the sophisticated buying requirements of retail chains at one end of the spectrum and corner shops at the other.

Fragrance producer, Claremont & May has used industry functionality to grow market share

Home fragrance producer, Claremont & May has benefited from the ease with which it can now manage its biannual product price change.

With many of its 500 products subject to as many as seven different price structures based on volume of sales, distribution channel and currency, each price change affects as many as 3,000 prices. In the past, this process took up to 100 hours. Now, using spreadsheets and Object Linking &

Embedding (OLE) functionality, the changes can be loaded into their accounting and business system, Exchequer, in minutes.

Malcolm Parker, IT Manager, Claremont & May explains "We have complete information visibility," he says. "The sales team can immediately see the prices for each customer and can export those prices to the customer if required. Critically, information on products is now also available in local language versions. Stock information is stored in English and automatically converted to Dutch, German or French for orders and sales confirmations using Exchequer's alternate stock database. The result has been a significant improvement in customer relationships that has seen sales double to these European countries in the past year."

Batch or lot traceability and serial number tracking have also become essential to many industries, for example those that deal with food stuffs, chemicals and safety critical equipment or need to maintain service records. The ability to trace serial numbers back to individual batches of production and works orders and right through to inventory and then on to individual suppliers is often a mandatory requirement for a distributor. Similarly, tracing inventory parts in the opposite direction to determine where they were used can be equally important.

Also, the inventory requirements of a distributor are often very exacting. Control over stock aging, for example, first in/first out (FIFO) across multiple bins, warehouses and locations can be very demanding. In addition, control over returns, inspection, taking back into stock, write offs and refunds to customers together with fulfilling or re-instating back orders are part of the every day complexity of a distribution business.

However, efficient management of complex product/customer pricing, traceability and multi-warehousing are fundamental to competitiveness by allowing distributors to tailor their approach and accommodate a broad range of customer requirements.

Why distributors need to embrace the networked economy

Whilst the foregoing sections deal with the control of costs, improved productivity, processes and flexibility as the cornerstones of competitiveness, the ability to embrace the networked economy adds an entirely new dimension.

Ecommerce, CRM (Customer Relationship Management) and information interchange via XML provide opportunities for new revenue streams as well as 'locking in' customers and suppliers.

These days distributors frequently need the capability to trade over the Internet in addition to more traditional channels to market. Once again integration and information interchange are key to leveraging specialised packages for online stores. Some, for example, enable inventory and customer information to be exchanged with online stores so that orders can be taken on-line and checked for validity in the same way as they would be over the telephone or in person. In the reverse direction completed orders can be posted into the distribution system, so that order confirmations, delivery notes and invoices can be generated in the normal way. Like-wise links to popular CRM systems allow customer information to be integrated, sales quotations to be based on the relevant price matrix and quotes to be converted into fully fledged sales orders as appropriate.

The ability to exchange purchase and sales invoices electronically with suppliers and customers using published standards for information interchange such as eBIS-XML not only improves productivity by eliminating unnecessary paper handling but is often a pre-requisite for trading with large customers and suppliers. Having the capability to support these standards through a distribution system squeezes out other less technically competent suppliers.



XML gave Cougar a competitive advantage on the web

Cougar Group, an international distributor of pumps, was looking to modernise its supply chain by utilising web-based technology.

Initially driven by the ongoing development of its website, Cougar realised the huge cost and time savings available by introducing the web-based transaction language, XML, into its purchase ordering.

XML allows information to be exchanged between any application, running on any system or platform. eBIS-XML a standard developed by BASDA (Business Application Software Developers' Association) is a derivative of XML. As eBIS-XML is an open standard, there are also no issues of compatibility - all eBIS-XML enabled applications can talk to each other. Non-enabled applications can still open eBIS-XML forms in a conventional browser, although they won't be able to process them automatically. This means that a company can use eBIS-XML to communicate with everyone in the supply chain.

One of Cougar's suppliers, Grundfos, a leading pump manufacturer, uses SAP for its accounts. The challenge was therefore to send purchase order transactions from Cougar's own system, Exchequer, directly into the SAP system. XML was the carrier and with IRIS Enterprise Software's assistance, full integration was achieved. Cougar can now send paperless purchase orders to Grundfos, which in turn sends out electronic delivery notes and invoices, creating a truly paperless supply chain.

This essentially gave Cougar leeway to become a point of virtual contact to link its suppliers with customers via the Internet. It is no longer merely a pump distributor but an online marketplace and, as such, has been approached by other customers and suppliers, who have become aware of the project, to supply and distribute other engineering-related products.

Why is information at the touch of a button so critical?

Managing the complexities of a highly competitive business in a fast moving business environment with even moderate transaction volumes is a major challenge.

Research quoted by Microsoft suggests that more than a quarter of every office worker's day is consumed simply looking for information. This could mean walking the corridors between departments, visiting the warehouse, wasting time on the telephone or numerous email exchanges. However, the inability to answer customer enquiries, resolve invoice disputes and check for stock

substitutions in a timely fashion can be costly in terms of lost business and dented customer relationships.

Earlier sections of this whitepaper illustrated how a consistent interface in Exchequer, for example, overcomes some of the functional barriers in an organisation. But the ability to also retrieve information uniformly from anywhere across the business using the exceptional capability within the standard functionality of Exchequer is a major boon to productivity.

Drilling down from summarised data to underlying data at a transaction level is the conventional means by which most distribution systems allow users to trace transactions through the system. This is

supported by 'tree' structures (in familiar Microsoft style) that display the interrelationships between successive levels of items in a master file, for example, the relationship between product classes, individual product groups and items in an inventory file.

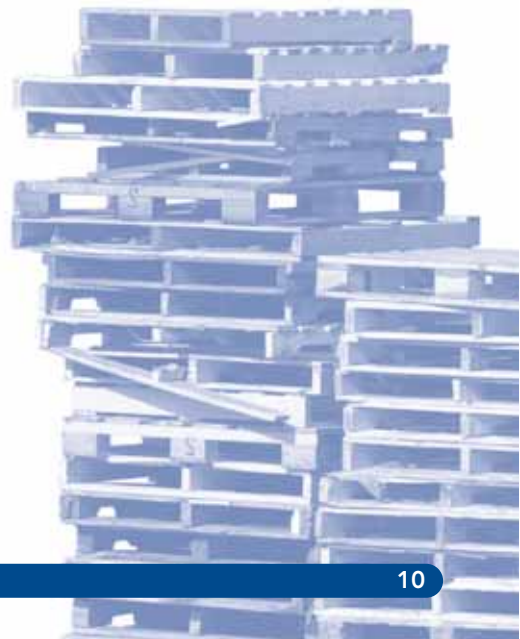
However, behind the scenes every transaction in a distribution setting also has system maintained relationships. For example a sales invoice is the culmination of a quotation, an agreed sales order and most likely product deliveries to multiple customer addresses. In turn, these items may have been made to order through production works orders and the parts may have been subject to quality control and tracking. Finally, even a single transaction of this nature will have given rise to a number of accounting transactions. In Exchequer, an 'Object-Drill' capability allows the user to select an 'object' such as a sales invoice and drill around all of the relationships automatically maintained by the system, exposing each piece of the jigsaw in the original transaction screens.

In effect, through a combination of the common interface and the Object-Drill capability an Exchequer distribution system supports users (provided they have adequate security permission) across the whole 'order to cash' process. Similarly the system supports the other business cycles such as 'purchase to pay'. In other words, users can reach out across the business to find the information that they need without leaving their desks.

The same competitive advantages apply whether a user is resolving a transaction query or a manager is using the system to gain insight into profitable products, product demand forecasts or leading customers. Many distribution systems use a Microsoft Excel add-in to deliver management information 'on the hoof'. The ability to query the transaction database through a tightly integrated and familiar Microsoft Excel interface is

compelling. Exchequer is unusual because the Microsoft Excel interface preserves all of the capability of the Object-Drill so that users can roam through the transaction database as though they were using 'native' Exchequer capability.

The immediacy of information retrieval and the ease with which it can be achieved is massively bolstered by unconstrained access to historic and current data. Unlike other systems Exchequer does not impose fixed periodicity, i.e. period dates can be defined for each trading month in the conventional way but the transaction database is also amenable to query and reporting between any set of user defined dates. This means that distribution companies that, for example, launch products that straddle a year end or a new production process that extends beyond calendar months can see the appropriate outcomes without being limited to 'artificial' accounting periods. In this way, management information is produced exactly according to the needs of the organisation, helping business managers to compete with the most up to date and relevant information.



Dependable software suppliers underpin competitiveness

With market consolidation and software houses changing hands it is important that mid-market distributors are supported by an organisation that not only understands their business but will be there for the long term.

IRIS Enterprise Software is a UK headquartered division of the IRIS Group (the specialist £35m turnover accounting software business) with a long history of serving distribution companies. Its founders 'cut their teeth' in developing bespoke

systems for mid-market companies in the 80s and are still engaged in the business which has now grown to become one of the UK's best known package solution providers to mid-market. Over 15,000 organisations use the software which has won the company the title Financial Software Provider of the Year 2005 & 2006 Real Finance/CBI FDs' Excellence Awards, as well as helping it top the ICAEW Accounting Software Survey 2006, earning the tag "The best rated product catering for businesses in the medium range," in the process.

Exchequer's focus on mid-market companies with 4-100 users gives it unique empathy with this segment and especially distribution companies which make up the biggest slice of its user base.

Jemella Group manages performance rather than numbers

Jemella Group, the professional hair care company which owns the ghd and nu:u brands, most famous for its ceramic styling irons, implemented Exchequer as a method of improving financial reporting and the management of accounting information.

When assessing Exchequer, Jemella was impressed by the way the software could drill-down on financial data rather than just reporting on numbers. The software provides an easy-to-use, fast and flexible tool for creating reports, which allows Jemella to support financial data with effective analysis.

According to Mark Hall, Jemella's Finance Director "Exchequer takes finance into a new era by allowing us to report on performance and not just numbers. My goal is to have a finance team that is action orientated - we report the numbers, explain the performance and then turn that into business actions."

"Understanding performance of each brand is key to the success of the brand itself and Jemella as a company. In addition, it's imperative for us to have a financial management package that can grow with our business and offer good stock control across multiple sites, as well as bill of materials." he adds.

Summary

The mid-market distribution sector is a competitive and challenging segment of the UK economy.

Suitable software is essential to responding to the constantly changing market conditions. The challenging demands of sophisticated customers requires distribution companies to be exceptionally responsive and those companies that cannot leverage the best software in logistics and warehousing or are unable to automate information interchange with customers and suppliers rapidly disqualify themselves from participating fully in the burgeoning networked economy.

Maximising productivity is key to competitiveness in an environment in which slender profit margins are constantly under pressure. Mid-market distribution companies are heavily reliant on their systems and a familiar user interface coupled with the ability to reach out beyond functional boundaries empowers users across the organisation to find the information they need to be responsive to customers. Furthermore, with unconstrained access to the underlying systems, managers can readily gain valuable insights into business performance, trends and prospects.

Working with a software supplier that understands the market issues and drivers is essential to staying ahead of the game. A proven track record and commitment to providing key industry functionality, such as serial number and batch traceability is vital to meeting customer demands and sustaining a competitive edge. But a software supplier's ongoing product development taking advantage of, for example, the latest Microsoft desktop developments is also crucial to maintaining skills and productivity.

IRIS Enterprise Software is a company with a long history of helping its customers respond to change by serving up award winning software that is easy to use, delivers industry functionality, enhances productivity and provides competitive edge.

About FSN

FSN Publishing Limited is an independent research, news and publishing organisation catering for the needs of the finance function. The report is written by Gary Simon, Group Publisher of FSN and Managing Editor of FSN Newswire. He is a graduate of London University, a Chartered Accountant and a Fellow of the British Computer Society with more than 23 years experience of implementing management and financial reporting systems. Formerly a partner in Deloitte for more than 16 years, he has led some of the most complex information management assignments for global enterprises in the private and public sector. His latest book, 'Fast Close to the Max™' is now available.

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About IRIS Enterprise Software

IRIS Enterprise Software, formerly Exchequer Software, was established in 1984 when the PC was just starting to find its way into small and medium sized businesses (SMEs).

In March 2005, Exchequer Software was acquired by the IRIS Group - a leading provider of accountancy and business software to accountants, practices and small businesses in the UK - and thus became known as IRIS Enterprise Software.

Exchequer Software's origins were in the development of accounting and business solutions for a wide variety of different industries, culminating in a suite of financial modules launched onto the market in 1990.

Exchequer Software's focus was on the SME sector of the market, and the company continued to develop industry specific solutions for this sector of the business community. This focus, and the ensuing 20 years experience, combined with the company's continued commitment to providing leading edge, innovative, reliable and customer-focused accounting and business solutions, has achieved positioning as one of the most reputable and successful suppliers of accounting systems in the mid-range market.

Now over 15,000 organisations utilise Exchequer to manage their accounts and run their business operations.

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