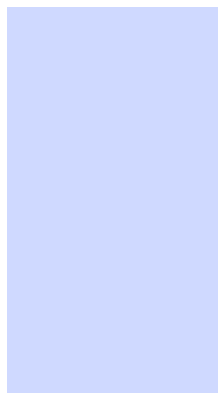
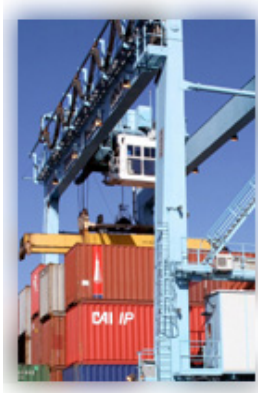


ACE Supply Chain Profitability

(*ANALYZE, CONTROL, ENHANCE*)



*A White Paper on Analyzing, Controlling and Enhancing Supply Chain Profitability
for Importers and Distributors of Consumer Products*



Apprise Software, Inc.

Introduction

The consumer goods distribution industry faces significant business challenges. Fluctuating economic conditions and intense competition create increased cost and margin pressures. Changing industry regulations drive new compliance requirements. Long product lead times from overseas suppliers coupled with changing consumer preferences require tighter management of inventory forecasting and planning. Global supplier relationships complicate the tracking of inventory status and availability, as well as cost management. Customer consolidation is changing the retail distribution channel, and large retailers and mass merchants are driving stringent compliance requirements into the operations of their supply chain partners.

To sustain and grow profitability, you need to meet changing industry, regulatory and customer demands while maintaining efficiencies and tight control over costs.

Each of these dynamics creates increased business complexity and cost that can negatively impact profitability. To sustain and grow your profitability, you need to simultaneously meet changing industry, regulatory and customer demands while maintaining operational efficiencies and tight control over costs. ERP and supply chain management systems are intended to help address these challenges by automating and optimizing the flow of products, services, and related information from your customers to your suppliers and vice versa. In theory, these systems should improve information visibility, help streamline and integrate processes to achieve cost reductions and efficiency gains, improve service to customers, and much more¹. But in practice, many systems fail to deliver such results.

The following paper outlines tips and suggestions on leveraging a supply chain management solution to analyze, control and enhance your profitability in today's complex environment. It focuses specifically on the challenges and issues commonly faced by mid-sized consumer goods distributors today.

Analyze to Gain an Understanding of True Profitability

The best place to start with any challenge is analysis, and the concept of analyzing profitability seems fairly simple. Measure your profitability by finding the difference between total revenue and total costs, and then understand and influence the elements which are driving both. But in practice, the concept is not quite so easy. On what basis do you want to measure your profitability? On an overall company basis? On a product or product line basis? At the customer level? By channel? Most likely, you prefer to measure profitability on a variety of levels that will enable you to make better business decisions regarding both products and customers.

Once you choose how you want to view profitability, you will need the information to measure and understand it. This requires complete visibility into revenue and costs - gross and net revenue as well as hard costs and soft costs. But, getting this information can often be difficult and time consuming.

It is imperative that a supply chain management solution offers the tools necessary to track and measure revenue and costs at the levels you need to understand profitability and make critical business decisions.

Disparate systems that track your sales and orders; discounts, credits, and deductions that don't tie back to customer orders; and manual processes between sales, purchasing and your accounting functions can all hinder your ability to understand profitability at any level. Some hard costs – such as actual product costs from your suppliers – are simple to measure, but, many are not quite as easy. Imported goods can incur additional costs for freight, duties, insurance, and broker fees. These costs must be linked with related products and customer orders for visibility into true landed costs and to track product and ultimately customer level profitability. Add to the mix less directly measurable costs, such as commissions, royalties, promotions, advertising, personnel time, chargebacks and compliance costs, and true profitability by product or customer becomes even more challenging to understand.

To successfully analyze profitability, it is imperative that you have the tools and information necessary to track and measure all aspects of revenue and costs. This requires tight alignment of your supply chain management system with your business processes, real-time and consistent information throughout the system, and flexibility to support analysis and reporting at the necessary levels to enable you to understand profitability and make critical business decisions. The results of a recent industry study by Gartner, Inc.¹ indicate that information visibility, reporting and analytics, which cover from one end of the supply chain all the way through to the other, can help optimize supply chain performance by enabling faster and better decisions about purchasing, logistics, pricing and service delivery, as well as by providing you with the intelligence you need to evaluate and make changes in business direction.

Take *Control* with Industry-Focused, Fully Integrated Supply Chain Management

Getting to the point of having end-to-end supply chain visibility – and the information needed to drive business change that will positively impact profitability – is a circular problem. The lack of accurate or meaningful information can often be a major roadblock that prevents change or improvement. Yet, not making a change will often result in an ongoing lack of the critical business information needed to make improvements. Selecting the right supply chain solution provider and implementing the right supply chain system can help break this cycle and deliver significant returns to your business.

Two of the biggest barriers to the successful deployment of a supply chain management solution are the need for business process re-engineering and integration with internal systems.

Not surprisingly, the two biggest barriers to the successful deployment of a supply chain management solution are the need for business process re-engineering and integration with internal systems². Your business already has processes and systems in place that help manage your day-to-day operations. How much change will a new system cause to your existing processes? How well will it integrate with your existing systems to ensure seamless operations and consistent information?

Table 1 – Horizontal versus Industry-Focused Solutions

	Pros	Cons
Horizontal Solutions	<ul style="list-style-type: none"> Standardized/transferable across industries Possible lower initial license and maintenance fees 	<ul style="list-style-type: none"> Limited industry specific provider knowledge and solution functionality Higher need for customizations Higher total cost of ownership Longer time to deploy
Industry-Focused Solutions	<ul style="list-style-type: none"> Industry specific, best practice provider knowledge and solution functionality Strong out-of-the-box business fit Faster time to deploy Lower total cost of ownership 	<ul style="list-style-type: none"> Possible higher initial license and maintenance fees Solution limited to narrow range of industry(ies) designed for

A “horizontal” solution provider that serves many different industries with a general packaged solution may need to make significant customizations to the system in order for it to fit your business model and integrate with your other internal systems. Although initial license and maintenance fees can sometimes be lower, such solutions can often result in higher total costs due to hard costs for customizations – and their ongoing maintenance – as well as longer system deployment timeframes while the provider learns your business, makes necessary customizations and ultimately deploys the system.

A solution provider focused on the consumer goods distribution industry will likely offer a system with a stronger “out-of-the-box” fit with your business model and processes, which can keep initial costs and deployment timeframes down. In addition, the functionality of an industry focused product should be able to better meet your unique business requirements, such as landed cost tracking and retailer compliance management, including EDI and RFID. But, equally important, an industry focused solution provider should be able to partner with you to uncover industry best practices you can apply to your operations to drive process improvements – creating the opportunity for both short- and long-term profitability gains through cost reductions, efficiency improvements, and more responsive sales and service to customers.

A second consideration is whether to implement an add-on “best-of-breed” solution or a fully integrated end-to-end solution. Best-of-breed

solutions will focus on and can help improve operational effectiveness in an individual operational area, such as warehouse management, forecasting and purchasing, order entry, or financials. Being narrower in scope, initial hard costs for such solutions may be lower than those for deploying a new end-to-end solution. However, the positive impacts of this type of solution on your operations will be limited to its focus area, and it can often be difficult to achieve real-time visibility into performance throughout your organization since information will reside in multiple places and often in multiple formats. Data will need to be synchronized across systems, and controls will be needed to ensure accuracy and consistency of information - such as on orders, receivables, and inventory status - from one system to another.

Table 2 – Best-of-Breed versus Fully Integrated Solutions

	Pros	Cons
Best-of-Breed Solutions	<ul style="list-style-type: none"> • Depth of functionality in one specific operational area • Possible lower initial cost 	<ul style="list-style-type: none"> • Business impact/benefits limited to one operational area • Concerns over data accuracy and consistency across systems • Limited real-time information visibility • Multiple vendor relationships to manage
Fully Integrated Solutions	<ul style="list-style-type: none"> • Breadth of operational impact/benefits • End-to-end, real-time information visibility • Data accuracy and consistency across systems • Single vendor relationship and accountability 	<ul style="list-style-type: none"> • Less depth of functionality in any one operational area • Possible higher initial cost

A fully integrated end-to-end solution encompasses nearly all aspects of your operations, including sales, service, forecasting, importing, landed cost management, warehouse management, retailer compliance management, financials, business intelligence, and more. These solutions are generally preferred by mid-sized organizations because they offer a lower cost of entry to the broadest suite of operational solutions and the most comprehensive business benefits by driving improvements into all aspects of operations¹. Integrated end-to-end solutions enable standardization on one platform and vendor, resulting in improved information accuracy and consistency,

End-to-end solutions are generally preferred by mid-sized organizations because they offer a lower cost of entry to the broadest suite of operational solutions and the most comprehensive business benefits.

as well as real-time information flow for improved business performance visibility throughout your organization. In addition, an integrated single vendor solution can result in an improved and more strategic vendor relationship. The vendor will be more knowledgeable in all aspects of your operations and therefore able to offer more thorough recommendations for process improvements to maximize profitability.

Improve Supply Chain Efficiency to *Enhance Profitability*

The right industry-focused, integrated solution provider should be able to partner with you to explore opportunities for efficiency and profitability improvements in both your “front” and “back” office operations.

In your front office, opportunities for efficiency gains and process improvements exist in many areas. Linking credit and collections with customer orders and accounts receivable history can help you automate credit approval or denial and the follow up on past due balances. Integrated sales, order entry and inventory management enables you to see real-time product status and availability, and allocation tools enable you to automatically prioritize and fulfill your most critical customer orders. Integrating EDI capabilities for seamless and real-time communication between you and your largest customers can improve order and shipping error rates, as well as improve compliance with retailer requirements, such as ASNs, to avoid chargebacks. Utilizing flexible pricing and discounting capabilities can automate complex pricing and discounting at the customer or channel level to improve customer sales and service support. Integrating your eBusiness solutions can enable anytime, anywhere order entry and access to inventory availability information so you can capitalize on revenue opportunities. Real-time, end-to-end visibility and reporting can deliver efficiency gains throughout your operations.

Having the right information, supply chain system, and business partner will be critical to finding, understanding, and capitalizing on opportunities for efficiency gains and profitability improvements.

In your back office, an equal number of opportunities can be explored for possible process improvements and efficiency gains. Integrated planning tools can help automate inventory forecasting and purchasing, improve accuracy by incorporating seasonality and customer point-of-sale information, enhance product availability, and minimize inventory carrying costs. Integrated container and vessel level tracking and management can improve insight into product availability and status. Integrated cost management can provide complete visibility into true landed costs for improved control over profitability. Warehouse operations can be streamlined for enhanced receiving, putaway, and picking efficiencies, including drop shipping and cross-docking. Warehouse automation, such as wireless devices, can improve personnel productivity and picking and cycle counting accuracy. Integrated master BOLs can help manage shipments through the warehouse, provide compliant transportation documentation, and control routes for improved efficiencies.

Regardless of where your opportunities for efficiency gains and profitability improvements might lie, having the right information, supply chain system, and business partner will be critical to finding, understanding, and capitalizing on those opportunities.

Summary

Gaining a competitive edge and growing profitability in the highly competitive and rapidly changing consumer goods distribution industry can be challenging. Apprise Software, Inc. can help. We specialize in enterprise-wide supply chain solutions for importers and distributors of consumer products. Leveraging over 20 years of industry experience, we combine personalized services and industry best practices with the latest technologies to provide end-to-end supply chain solutions that meet your unique business requirements.

Our industry leading solution, Apprise® Distribution, can help you more efficiently manage your end-to-end operations for improved

supply chain profitability, including: forecasting, purchasing, tracking and managing imported goods; measuring and tracking true landed costs; meeting retailer compliance requirements, such as EDI and RFID; automating warehouse and other operational processes for improved efficiencies; and much more. Please contact us if we can answer any questions or assist you in exploring how you can improve your supply chain performance to deliver reduced costs, improved efficiencies, and enhanced revenues and profitability for your business.

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¹ *Market Trends: Midsize Business ERP and SCM Market*, Gartner, Inc. November 2004.

² *User Study: Supply Chain Management Initiatives (US)*, Gartner, Inc. 2005.