



The five keys to world-class distribution

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Executive overview

What does it mean to be a world-class competitor? It means being successful in your chosen market against any competition—regardless of size, country of origin or resources. It means matching or exceeding any competitor on customer service, quality, flexibility and innovation. It means picking your battles—competing where and when you choose and on terms that you dictate. It means you are in control and your competitors struggle to emulate your success.

What does it take to be a world-class distributor? It takes focus and hard work. World-class distributors understand their markets and their customers. They are constantly aware of all of the factors – internal and external – that affect performance and customer satisfaction. They are on top of everything over which they do have control and prepared to deal with those things that they cannot control.

To achieve world-class status, companies must be willing to change procedures and concepts, which means transforming relationships with suppliers, service providers and customers. Enterprise automation is indispensable to industry innovators who aim to gain market share, operate at peak efficiency and exceed customer expectations.

How can your company become and remain world-class? There are five keys to becoming a world-class distributor that distill the broad concepts above into specific actions that can be addressed and accomplished in your company. Each is presented with a brief discussion and examples of its impact on a distribution organization and its competitiveness.

The keys to success, in no particular order, are:

- 1) Exceed customer expectations
- 2) Cut operations costs
- 3) Reduce lead times
- 4) Streamline operations
- 5) Improve business performance visibility

Each of these objectives is important in and of itself; however, taken together, they describe the focus of the activities and attitudes that define world-class.

Exceed customer expectations

The ultimate goal in any business is pleasing your customers. The most successful companies don't just meet customer expectations, they exceed them and beat the competition by setting the bar at a level that is difficult, if not impossible, for others to surpass. Successful distributors manage the entire customer relationship—from prospect, to post-sales service and support—involving the entire organization in a customer focus. Whether or not they have direct contact with customers, contributors must keep the customers' needs in mind as they plan and carry out day-to-day operations.

Distributors must truly understand the customers' goals and objectives. Your products and services must strive to support the customers' vision. Communication is very important; neglect is the number one reason that customers terminate a relationship. The key is to give customers access to all appropriate information about your relationship and make it readily available whenever and wherever they might need it—the Web is your ally in achieving this objective.

As most companies have painfully learned in recent years, customers often change their mind. To be fair, market conditions are such that product cycles and demand patterns are constantly changing. Agility is extremely important. A solid, collaborative partnership with customers will provide the most reliable advanced information and therefore the earliest warning of upcoming changes.

The best strategy is to make the customer want to do business with you. Strive to be the preferred supplier through competitive products, high quality, the right price and superior customer service.

Arguably, the most important aspect of customer service is on-time performance. There are two sides to on-time delivery: promising a realistic date; then delivering on that promise. You must take that promise seriously, meaning that it is not given lightly—all considerations and constraints are factored in before committing to a delivery date. Performance measurements are a must; if you don't know how you are performing, you cannot improve upon it. It is not unusual for companies to consistently have 98% - 99% success in meeting agreed-to delivery dates.

Quality of both product and your service must be considered a given. Work with your customers and suppliers as early as possible in the product development cycle to determine the required measurements. Measuring and improving all processes through the order and fulfillment cycles, with an eye toward continuous improvement, will allow you to achieve or even surpass your expectations.

Cut operations costs

Although recent developments in planning and Customer Relationship Management (CRM) have focused more on top-line benefits—growing revenue—the bottom line is still greatly dependent on controlling costs. Companies with a lower operational cost structure enjoy an obvious advantage in profitability, and the ability to adjust pricing to meet competitive pressures, if necessary, to maintain or gain market share.

Costs are really just part of the scoreboard. When a company implements world-class operational processes, it improves multiple measurements simultaneously, including cost, lead times, inventory and customer service. This approach is superior to a pure cost reduction focus without the associated business process change, which can negatively impact other operational measurements like availability and customer service. Localized cost reduction efforts can often increase costs in other areas. Moving to overseas suppliers with lower unit costs, for example, will increase costs for procurement, transportation, inventory and reduced flexibility, among others.

The opportunities for cost reduction will vary with the specific situation and the kind of products the distributor handles. Since inventory cost is a dominant factor, significant opportunities for reduction lie in analyzing current forecasting and replenishment management, and devising effective sourcing and positioning strategies to have the right amount of the right inventory in the right place at the right time. It is important to optimize inventory strategy to be able to lower inventory costs without harming customer service.

Transportation costs can be minimized through effective route scheduling, and by employing strategies such as back-hauling and optimized mode selection. Overhead reduction is always a fertile area for cost reduction, using automation to streamline the procurement, warehousing, handling, shipment and customer management processes. Since most direct labor costs tend to be fixed, effective deployment of these resources can reduce unplanned overtime and unnecessary staff increases.

Reduce lead times

Shorter lead times are always a good thing. In many markets, the ability to deliver sooner will win business away from competitors with similar products, quality and price. In other markets, quick delivery can justify a premium price and will certainly enhance customer satisfaction. In all cases, shorter lead times increase flexibility and agility, reduce the need for inventory buffers and lower obsolescence risk. Lead times are cumulative and bi-directional—that is, order handling, picking, packing, transportation, planning, procurement, inspection, handling, the suppliers' lead time, and delivery to and between your warehouses all contribute to the lead time; and the time it takes to get signals down the supply chain to initiate each activity adds to the overall time it takes to get the job done.

Inflexible business rules and policies can drive undesired effects. Purchasing rules too focused on unit cost lead to large quantity buys that result in high inventory and long lead times. Ironically, this type of buying can also lead to shortages, since longer lead times mean you will be buying to a less accurate forecast. The best combination of price and lead time often comes from a stable buyer-supplier collaborative relationship based on long-term contracts with deliveries according to a forecast that is shared with the supplier and updated frequently. The same is true on the customer side. Instead of focusing on securing large, one-time, single orders that clog up the supply chain, companies must focus on creating long-term contracts with customers and inducing customers to share forecast information so your preparations can reduce their lead times.

Appropriate measurements contribute to high performance. On-time shipment and inventory turns are good examples of high-level measures that tie to company objectives. Focusing on isolated measurements like purchase price variance or incoming freight cost creates excess inventory and longer lead times. Warehouse floor measurements must encourage overall performance—shipping orders on time at minimal total cost and minimal total cycle times.

Performing manual transactions often slows down the supply chain and adds to lead time. Reporting transactions at each activity or creating a paper purchase order before suppliers work on an order are just two examples. In addition, manual transaction reporting often introduces errors and impacts work productivity. Companies must eliminate non-value added transactions and automate valuable transactions to speed up the supply chain. For example, electronic pick systems or wireless scanners can be used in the warehouse to direct picking and report activity, and supplier purchase orders can be electronically sent or completely eliminated using Supplier Relationship Management (SRM) solutions.

Streamline operations

Reducing inventory, as mentioned above, is the first place distributors look for cost savings and increased efficiency. Increase inventory velocity so that it spends less time in your warehouse(s). This is achieved through smart procurement, proper positioning, and close coordination with demand. In the extreme, goods can be cross-docked, moving right from the receiving dock to the shipping dock and never really sitting in your inventory at all. Beyond that, look for these opportunities:

- Procure goods in the smallest practical quantities with more frequent deliveries. Optimize plans based on collaboration with both customers and suppliers to find the lowest cost / lowest inventory solution that satisfies real customer needs as well as supplier efficiency and transportation considerations.
- Position goods as close as possible to customers, in the most appropriate quantities to serve their needs. This supports smaller, more frequent (and quicker) deliveries to customers, reducing their inventory needs. End-of-the-chain positioning is supported by a replenishment strategy that optimizes inventories and transportation up the chain and the possibility of movement across the chain as needs change.
- Collaborative forecasting, working closely with customers to uncover their true needs, is the driver for all of these efforts. Customers will often order defensively or respond to artificial incentives (quantity price breaks, for example, or load minimums or freight rate considerations). Open dialogues can often uncover alternative strategies that benefit both the customer and the distributor (and the supplier).
- Be demand driven: forward-thinking customers are becoming more willing to share detail demand data with distributors who, in turn, share the data with suppliers as part of the collaborative forecasting process. Point-of-sale data is the clearest measure of actual customer demand not disguised by local store inventories and shelf stock.

Inventory reductions notwithstanding, the need for warehouse space tends to grow to the extent that many distributors find themselves continually expanding yet constantly cramped for space. The solution is not to add more space, but to more effectively use the space you have, as well as reducing space requirements by reducing inventory). Automated warehouse systems can track locations and contents, allowing more effective use of available space. These systems can also monitor and manage stock rotation, shelf-life, environmental concerns (temperature requirements, proximity concerns), and optimum location for efficient access. Warehouse systems can also direct put-away and picking activity to increase labor productivity as well as making the most productive use of space and equipment.

Top line improvements can also come from product line expansion in the most general sense. Leading distributors are branching out from traditional product sale and delivery to offer value-added services like labeling, light assembly and packaging services.

Improve business performance visibility

Increased visibility improves business performance. Today's fast-moving, ever-changing business environment demands faster responsiveness to changes in the market, product innovation and supply chain events. Ignorance is one of the greatest threats to a distribution company's health and success. Executives and senior managers must understand how the enterprise is meeting strategic objectives. Middle-level managers need visibility into how they are performing against tactical objectives. Responsible individuals must be notified immediately when supply chain issues threaten the completion of objectives, so actions can be taken to ensure customer delivery and service expectations continue to be met.

A well-implemented and effective business solution delivers overall visibility into the health of the company and its operations and provides detailed information for performance measurement, process management, and problem identification and remediation. Such a system can help improve revenue through competitive advantage, helping you understand your business and manage it better, reduce operational costs, improve performance and improve results for all stakeholders—owners, executives, managers and employees.

An enterprise business solution will capture literally thousands of pieces of information each day, as activities are reported throughout the extended enterprise. All of this detailed data is of little use without placing it in context and seeing each activity in relationship to all the other activities and the overall plan. To turn data into meaningful information is an up-and-down process. Bits of data, taken together and summarized, form higher level contextual information that shows status, accomplishments and importance. From high-level summaries, the observer must be able to drill down to details to understand exactly what is happening and how to drive those activities toward the goals and objectives.

Management information and analysis is only as good as the data it is based on. Therefore, data must be collected as quickly as possible and with the least amount of human intervention, which tends to introduce delays and errors. It is equally important to collect data from supply chain partners through automation. Electronic Data Interchange (EDI) is the most commonly used method today but EDI is rapidly being replaced by XML-based e-commerce communications, SOA web services and Web-based portal technologies. New technologies allow almost continuous tracking of goods in containers, containers in trucks and rail cars, and trucks on the highway to an extent unimaginable only a few years ago using RFID and GPS tracking. The major package delivery companies have re-branded themselves as logistics service providers to reflect the expanding array of information services now available from labeling-billing devices that can be integrated with your own systems to web-based tracking and enhanced en-route services to help you stay aware, and in control, right to the point of delivery.

All systems should be integrated so information can pass freely between them without manual re-entry. Many distributors are left with "islands of automation" after implementation of specialized information systems in isolated portions of the business over the years. While each contains valuable information, absence of integration prevents the effective use of that information for overall management and coordination of effort toward company objectives.

Unlocking the potential

The keys to becoming a world-class distributor are not a secret—they are not even especially profound—they are simply a distillation of the experiences of leading companies and how they have managed to excel in their chosen markets. Any company can take advantage of the wisdom and the practices developed in more than 100 years of business since the Industrial Revolution brought modern distribution into existence, but many simply do not have the insight or the will to recognize what must be done and to accomplish it.

It is a poor workman who blames his tools for shoddy work, but it is also true that professionals understand the value of good tools and insist on having and using the best whenever possible. When selecting a business solution, look for one that can handle the tasks you have in mind, but also one that is flexible enough to adapt to emerging business situations and uses that may arise in the future. The handling and use of information is changing faster than any other technology on the planet. And, remember that information management is the fundamental support for each and every one of the keys to world-class performance.

When looking at extended ERP, supply chain management or CRM solutions some people tend to get distracted by details of the technology and miss the bigger picture. Keep in mind the reasons you are looking for a solution in the first place—to provide tools to manage the information that is essential to growing business value. And that's the application software, not the hardware or operating system. On the technology side, you only have to ensure, as much as you can, that the operating platform is capable of supporting your business needs today and in the foreseeable future, and that the supplier(s) will be around when you need them. Of course, no one knows the future, but you can certainly improve your odds with careful selection.

The keys to world-class distribution dictate a requirement to deploy capabilities to improve operations and processes. Subsequently, technology-based solutions must then be built around the functional processes of customer and order management, warehouse and inventory control, planning, sourcing, transportation and logistics, administration and finance. Being world-class is all about being as good as any competitor in the world, and just a little bit better, quicker, smarter, or more responsive than the rest. World-class distributors can choose their battles and compete on their own terms. They are in control of their own destiny and are seldom, if ever, blindsided by something they haven't anticipated or cannot handle.

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