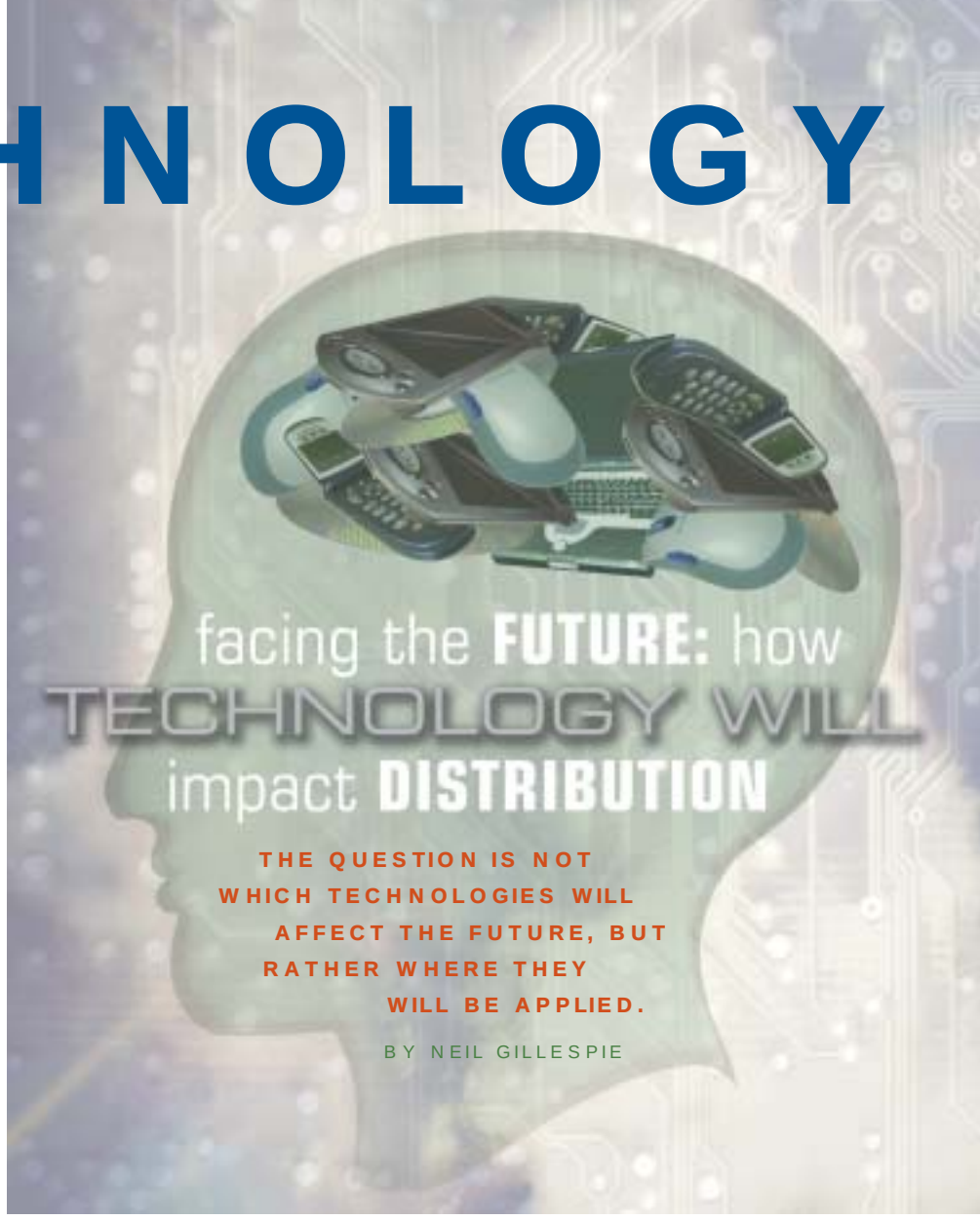
TECHNOLOGY



facing the FUTURE: how TECHNOLOGY WILL impact DISTRIBUTION

THE QUESTION IS NOT WHICH TECHNOLOGIES WILL AFFECT THE FUTURE, BUT RATHER WHERE THEY WILL BE APPLIED.

BY NEIL GILLESPIE

DISTRIBUTION SOFTWARE providers agree that the No. 1 place that technology will have an impact is in the warehouse. The No. 2 place? Customer and supplier relationship management.

Take radio frequency identification (RFID), for example. RFID systems of the future will consist of products with tiny smart tags that send out signals picked up by readers stationed around a warehouse. And while these systems are not yet practical (because of their limited range, readers need to be located every 15´ or so), it doesn't mean that distributors shouldn't be prepared.

"When these systems do become practical solutions, distributors will need a foundation of inventory management with the tools that are practical today," said Scott Raderstorf, chief technology officer at Intuit Eclipse. "This includes implementation of RF hand-held devices that make stocking, picking, checking, and delivering orders faster, more accurate, and ultimately more productive."

And while some distributors have begun implementing RF technology in their warehouses, many have not.

Doug Levin, executive vice president at Prophet 21, noted that a large part of the problem is the fact that most people don't like change. "Consider a distributor trying to change to electronic signature capture: The delivery guy, the customer, the filing clerk, the customer—each one likes his or her piece of paper. It's not easy to take them away; it's not easy to break patterns."

The key, then, is discipline first, technology second—and a strategy to deal with resistance to change.

Improving business results

TradePower President Dean Jester offered that distributors can improve future business results with technology via two ways: CRM and cost/productivity applications, the latter focusing on the warehouse.

"The use of CRM has two sides: One is examining customer profitability. The biggest problem distributors have is eroding gross margins, which puts more pressure on managing costs. Managing this at the customer level gets results."

"The second side to CRM," he continued, "is applying technology from a marketing sense in order to ask, 'What are the customers buying, what could they be buying, and what are they not buying?' "

He stressed that companies without good customer databases are vulnerable to their salespeople if they haven't collected good customer information. "Top salespeople make a lot of money—and management fears that they will take business with them if they leave, so they don't pressure them. The bottom line is that these businesses haven't collected the information about their customers to help themselves help their customers if their top salespeople leave."

Jester also noted that distributors can eliminate their most costly mistakes via warehouse automation. "RF handhelds are now one-third of the cost of five years ago," he noted. "If items are bar coded correctly, they can make it through the stocking, picking, checking, and delivery process virtually error-free. This can speed the stocking and picking process, increase order accuracy, reduce returns dramatically, lower costs, and raise customer satisfaction."

In a tight environment where it's imperative to get an ROI on your technology investment, Jester advises distributors to examine where they are right now, starting with technology infrastructure. "Start with the basic building blocks: Do you have a system capacity to store and have quick access? Do you have a solid LAN or a WAN (if appropriate)? Next, know what you're focusing on: Are you trying to grow sales? Are you trying to reduce costs in the warehouse? Apply technology to assist you in implementing a strategic business initiative.

Ross Elliott, vice president of operations for NxTrend Technologies, approaches the subject of technology from a slightly different angle: He explained that the industry has spent the majority of its time focused on managing the hard assets of business and has been pretty successful in managing inventory and cash flow. But as the face of distribution changes, it has become necessary to seek alternative ways to improve margins. While there are many ways to accomplish that, Elliott identified three as the best:

1. Develop individual offerings that focus on segments of the market with specific needs. For example, find solutions to call center or field service problems—not the usual activities for a distributor, but ones that can bring in an inordinate share of profits.

2. Adopt supply chain integration that improves productivity and lowers cost between trading partners. Elliott noted two ways that distributors can best do this with technology: "The first is in purchasing. Distributors get hung up on the 20% of their suppliers that can do EDI, but the other 80% could be 50% of their costs," he noted. "There are many ways to buy, but it would be more productive to standardize the way you buy from all of them."

NxTrend offers a solution that sets up a Web and e-mail application that allows suppliers to be notified of distributor order by e-mail, go to a Web site, and click to open and download the order. The result is a more productive process that is as close to real-time as possible and a standardized way of dealing with the "all other" set of suppliers which don't do EDI.

The second way technology will lower distributors' costs, said Elliott, is warehouse management. "Distributors get a payback on a warehouse management system inside of six months," he claimed.

3. Provide asset management—or supply after market service and spare parts for products a distributor sells. This is a particularly fertile ground for electrical distributors selling critical MRO items.

Case in point: Through the Rockwell Distributor network, Rockwell Automation provides asset management solutions for electronic parts that go into PLCs and drives. Distributors charge fees for documenting the location and the condition and recommend spare parts inventories for all electronic assets in a plant (including consignment of inventory), and then manage storeroom inventories with automatic replenishment services. Rockwell also has an extended set of asset management services through its Global Management Services (GMS) unit.

Driving factors

Levin believes that ease of use will drive technology's future, and offered some specific applications he thought distributors would embrace more in the future, if they were easier to use and had more built-in intelligence:

1. Sales and marketing planning. "Distributors should be using information about what customers are buying and what they should be buying," he said. "They should also be able to determine the share of each customer they are capturing by major product category."

That ability is precisely what Taylor Market Media Group has been promoting with its Sales Management Plus system, which works with a combination of data provided by the business system with inputs from sales and marketing people.

2. Advanced inventory management and purchasing techniques. Levin noted that whereas distributors used to set up their own review cycles, in the future these will be done for them. Systems will calculate what the best review period and forecasting cycle should be for a product.

He mentioned that Prophet 21's distributors have been spending on e-commerce sites at an accelerated pace lately. He also mentioned that "digital assets" (images and extended product data) are a limiting factor right now, and implied that if manufacturers or somebody did a better job of providing these, the e-commerce site building business, and distributor success with it, would be significantly enhanced and accelerated. "That speaks for all product categories: electrical, plumbing, industrial, HVAC, etc.," he noted.

What the future holds

"The single most significant technology that we will look back on and ponder will be the 'service architecture' that is just beginning to show itself," Elliott opined.

"Fundamentally it is as simple as breaking down all business applications into their underlying processes, then providing a cataloging toolset (Web ser-

TECHNOLOGY SIDELINES: BE YOUR OWN PHONE SERVICE

In need of a new phone system five to six years ago, David Cahill, IT director at Van Meter Industrial, Cedar Rapids, Iowa, was looking for more than just the obvious savings in toll call charges when he considered IP telephony.

"VoIP was in infancy, but we had a productivity opportunity so we decided to try it," said Cahill. The system decided upon was the CISCO Call Manager.

"We had someone answering the phone at every branch. Now we answer by region and the regional call receptionist knows the status of everyone on the screen, allowing her to advise a caller of a person's status and the time of their likely return. We can also use it as a call center—where calls go into a sales queue and are answered by the next available person in the pool. And we get unified messaging that is configurable to the preferences of each user—that's the key to its success."

Several things are required to implement the system, Cahill explained:

1. A good WAN infrastructure,
2. A switch or hub that is made for the IP telephony application, and
3. Training and a help desk.

"We reduced receptionists from 15 to three and we can present the best technical specialist to a customer from wherever they live and hot transfer a customer to that specialist in seconds," Cahill noted. *—N.G.*

vices) that allow users to know what is available and a mapping technology (orchestration) that ties these services together into a solution for a business issue," he noted.

"This service orientation will ultimately allow us to build functional, productive solutions to real business problems out of component services provided by disparate solution providers," he added.

"Distributors will be able to identify a problem or opportunity today, seek out the component services available, and bind them together to form a unified solution to the business issues that they have in near real-time. This technology will provide the agility and productivity that I believe are going to be critical to success over the next five to 10 years," Elliott concluded.

According to Raderstorf, "We'll look back and see delivery on the promise of what EDI started years ago: You can do huge things to change what happens in the supply chain in terms of cost. EDI and related technologies still have huge potential for broader and deeper usage in the supply chain."

"Wireless handhelds for warehouse logistics will see a lot of growth," Raderstorf predicted. "RFID will have a place in certain industries; it will be pretty exciting for higher-end products, and will be incredible for tracking expensive items. But for everything? That's the question."

Levin had this to say: "If I look back in several years I will have seen that integrating all of the different trading partners—distributors with other distributors, with suppliers, and with customers—will be the single biggest issue. End-user information will flow all the way back to the manufacturer, and technology will focus on providing that kind of flow."

He referenced P21's Trading Partner Connect system, which makes it possible for distributor and manufacturer trading partners to see and source inventory from one another. "An electrical guy signed up and now he is marketing electrical products to industrial distributors—almost turning into a master distributor for electrical items to industrial distributors," he said.

Levin also sees more handheld devices, and since storage is so much cheaper now, it should boost scanning and digital documentation applications. P21 itself has moved to a complete paperless system—where even customer contracts are signed, but sent back to the customer after digitally storing them. Levin said his accounting and legal firms both verified the quality and legality of this system. However, the speed of the scanning equipment is critical, he cautioned. Work processes are significantly changed as well, and that requires some training.

According to Jester, "Instant access will be the next really big thing. Suppose your competitor enables your customer to go into your system and it says 'Guess what—you don't have to buy inventory until you need to use it; we'll handle that.'

"If you want to discover where technology can help you," he continued, "ask this: How do you get connected to your customer to reduce their costs and improve their productivity to make it a no brainer to do business with you?"

And that is exactly where technology will help distributors. Yes, it is important to know about technology and its capabilities, but it is more important to know where it can be applied to help customers serve their customers better and lower their costs. The answers, after all, are not as important as the questions. ■■■

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TECHNOLOGY SIDELINES: BUILD THE PERFECT CATALOG

In early 2003, Bill French, president and CEO of St. Louis-based French Gerleman, saw that print catalogs weren't going away. In fact, they were alive and well as a marketing medium and a necessity for doing business. The problem was that they were costly and time consuming.

French enlisted the help of Vanguard Distribution Group to investigate the possibility for an automated solution to production and collaboration on the creation of content suitable for print catalogs.

The standard data from i2 or the IDW wouldn't do for this task. Descriptive copy wasn't prosaic enough, data was in all caps, and Web-serviceable images like jpegs and gifs didn't serve well for print applications.

Enter San Antonio's Alamark and its Supply Connect Pro solution. Under the leadership of CEO Jeff Merchant, Alamark's solution afforded a robust, flexible, and fast payback solution. The application's Meta-Flow Technology offered the ability to create layouts with laser-correct indices and tables of contents on the fly from any number of selected SKUs, query sales histories, or select top SKUs. Users can also set the application to show upsell items and highlight these alongside standard items as well as create catalogs for individual customers, market segments, and product categories. The software also helped with the analysis and layout—but the data prep problem loomed.

French and collaborators—Stuart Irby Company in Jackson, Miss., and Horizon Solutions in Albany, N.Y.—reasoned that they would have a lot of overlap with the SKUs needed among them. So they decided to merge/purge their databases of stock SKUs, reasoning that they only needed their stock SKUs, and contracted with a third party to build them. On the common items, the cost would be shared, reducing cost redundancy.

After training, French Gerleman's LeAnn Cross discovered some additional benefits of the system: "You can calculate number of pages per vendor and print out invoices for claiming funds. It is a lot easier to prepare different types of catalogs, and you can specify the publications in which SKUs will appear ahead of time. Once you have a catalog specified in terms of SKU selection criteria, you can simply run that play again at a later time." —*N.G.*