Software Evaluation Guide for Apparel Distributors

ISA

sage software

Your business in mind.

Introduction

Implementing the proper business system can be as strategic and important to your bottom line as expanding your warehouse or bringing on new product lines. However, implementing the wrong solution or choosing an inexperienced solution provider can have a serious negative effect on your business — from lost opportunities and late orders to bankruptcy in some extreme cases. Consequently, it is imperative that wholesale distributors take time to clearly define their business processes and objectives before they start their search for new business software.

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

This guide is designed to help wholesale distributors manage the entire software evaluation cycle from needs analysis and budget planning through software selection and implementation.

Growth Considerations

Distributors can choose from hundreds of software products to help them manage their businesses. In the software world, one size certainly does not fit all companies. Consequently, distributors generally move through three major phases of growth as follows:

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

Software Lifecycle

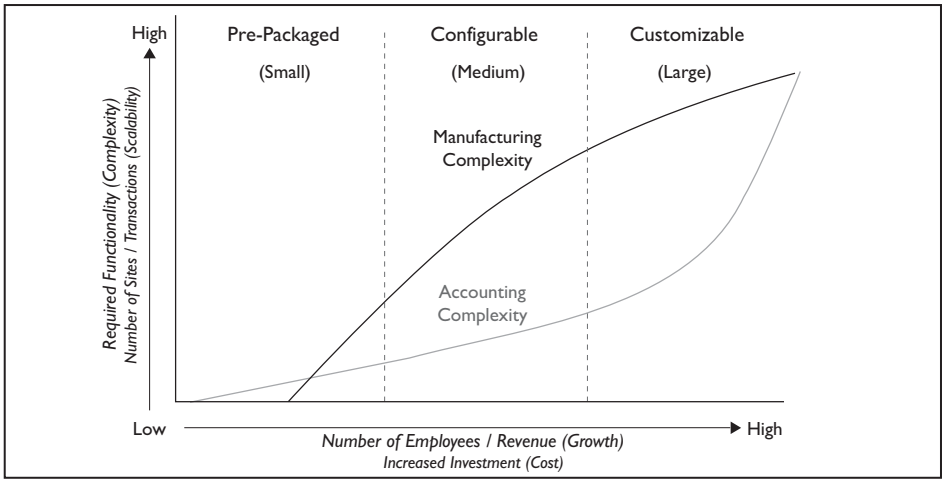
Off-The-Shelf	Configurable	Customizable
• Limited customization and integration tools	• More customization and integration tools	• Robust customization and integration tools
• Installed / implemented without assistance generally in 1-3 months	• Installed / implemented with assistance generally in 3-6 months	• Installed / implemented with assistance generally in 6-12 months
• Cost: <$3,000	• Cost: $3,000 to $50,000	• Cost: >$50,000
→ Small	→ Medium	→ Large

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 distributors grow, their accounting requirements tend to remain relatively unchanged while the need for greater inventory control, sales management, and formalized purchasing tends to increase rapidly. The chart below shows how distributors' needs change as they grow from start-up companies to more established corporations with larger revenues, increased numbers of transactions, and more employees.

Impact on Distribution

At some point in time, distributors push their entry-level products to the limit and must either limp along with the basic inventory and warehouse management features in their entry-level product or they need to replace their system with a more functional business solution to support both financials and more advanced distribution features. Other companies who made the leap to higher-end systems in the 1990s are likely struggling with antiquated technologies such as DOS or mainframe systems that simply didn't keep up with the times.



Custom software development and use of spreadsheets can extend the life of entry-level accounting solutions and legacy applications, but eventually companies reach a point where homegrown systems simply don't provide the necessary information to make sound business decisions.

"It was horrible... the antiquated system [we used to use] couldn't keep up with us 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)

Managing Growth

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, companies can extend their investment for several years while avoiding unnecessary costs to implement a new solution. Some software publishers, such as Sage Software, provide migration tools to help distributors move from prepackaged software to more sophisticated business systems. These migration tools sometimes include:

Data Migration – Some business systems provide tools to migrate data from one system to another. Customers, vendors, items, and other relatively static data are the most common data elements moved into the new system.

Transactional Data – Very few business applications can move transactional data from one application to another. For example, purchase order and sales order history is very different between various applications. Companies like Sage Software that support multiple distribution solutions can migrate 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 companies get up and running fast on their new business system. These tools help companies understand how areas within the business application interact with each other. For example, warehouses are almost always set up before items. Some applications integrate to project management tools so that project managers can assign tasks to individuals or teams in the company.

Training Guides – Vendors who 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 helps by stating, "Here's how you used to perform this task and here's how you will perform this task in your new application."

"The transformation 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)

Apparel/Footwear Industry Requirements

The major challenge of apparel/footwear companies is that they manage styles not inventory items. Each style is defined by different attributes such as color, style, size, and fabric. The combination of a style + attribute(s) = actual inventory items. Not having this information easily available through-out the whole ordering cycle affects productivity and can result in costly mistakes.

As well, the demand for apparel and footwear products is dynamic and often unpredictable. This means that manufacturers and retailers often hold sizable inventories of unwanted goods. Demand is also determined by comparative costs of manufacturing in the North America vs. overseas. Therefore flexibility, efficiency, and having accurate specific information are key components of choosing a proper system for the apparel and footwear industry.

Software for apparel/footwear distributors typically includes configuration capabilities, attribute matrices, and specialized functionality for sales order entry, inventory and warehouse management.

Software Evaluation

Evaluating software can be a very overwhelming task for small and mid-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-of-mouth 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 other sources. Companies who conduct their own software evaluations should dedicate an employee to the project of collecting and organizing information for the evaluation team.

Software Consultant

Some companies contract software consultants to manage the evaluation process. As with any industry, there are good consultants and poor consultants. Wholesalers should consider consultants with several years of experience and those who are not biased toward a product that their company represents. Many accounting firms also provide software consulting and evaluation services. In addition, there are a handful of credible, unbiased sources that provide detailed product reports and software evaluation services.

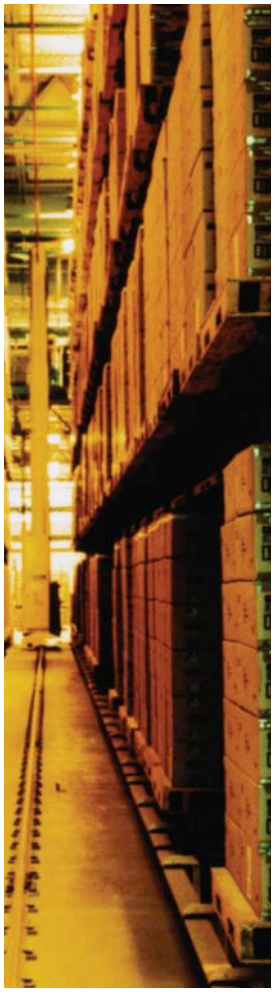
Evaluation Process

Distributors should form an internal software evaluation team comprised of representatives from different departments. A typical evaluation team will include employees from various departments within your business.

An employee should be designated as the project leader. The project leader should be responsible for managing the evaluation process. He or she will likely do a lot of the up-front work to build the initial list of software products and will work with contracted consultants or evaluation services throughout the evaluation cycle. Project leaders will also schedule team meetings and software demonstrations.

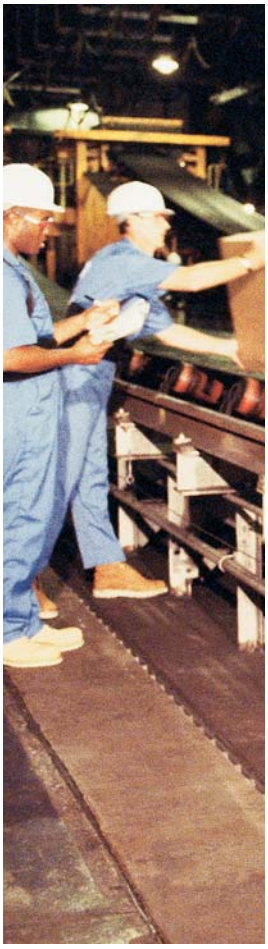
The evaluation process typically includes five phases — needs analysis, research, evaluation, selection, and implementation.

Needs Analysis	• Establish an internal evaluation team with representatives from various departments within your company • Hire consultant or contract evaluation service • Develop needs analysis outlining requirements for a new system • Establish metrics using current system for future ROI calculations
Research	• Read trade and business magazines • Attend industry, association, and software trade shows • Use software directories and product reviews • Use search engines to find related information • Ask other companies in your industry what they're using • Compare in-depth research provided by the contracted consultant or evaluation service
Evaluation	• Use the needs analysis to develop a request for proposal (RFP) • Send the RFP to vendors identified during the research phase • Use research and RFP information to create a list of 5-10 potential solutions • Schedule overview demos of each product. Overview demos will typically take 1-2 hours • Meet after the overview demos to pick 3-5 vendors for a more detailed product demonstration. Detailed demos generally last 4-8 hours.
Selection	• Post-demo team meetings and product selection • Contact the vendor or reseller, negotiate pricing, define implementation plan • Coordinate information transfer from evaluation team to implementation team
Implementation	• Define implementation roles and responsibilities • Establish implementation timeline • Conference room pilot before going live • Run new system parallel to existing business system for 1-4 weeks • Continue implementation team meetings every month for the first 1-2 years after implementation to monitor progress, discuss ways to optimize the new system, and measure ROI achieved through improved processes (compared to the former system)



"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)



RFP Components

As mentioned earlier, a request for proposal can help distributors collect and analyze information about each software product and vendor that they are considering. Sample request for proposals are readily available on the Internet. Most software consultants and evaluation services can also provide needs analysis and request for proposal templates. In general, most RFP templates include the following sections.

Vendor / Software Profile

- General company information including address, Web site, revenues, stock profile (if publicly traded), years in business, customer base and key executives, and sales contacts.
- Company stability and viability analysis. The market for distribution software is currently undergoing considerable consolidation. Like most maturing industries, only a handful of leading vendors will emerge when consolidation is complete. It is imperative that companies consider vendor size and presence in their industry when selecting a new business application as smaller vendors will be at a considerable disadvantage and could be acquired by larger vendors that may discontinue their solutions.
- Software profile including technology platforms supported (for example, databases, operating systems and hardware), specialized vertical industry functionality supported, customer profile, product version and release descriptions, and more.
- Availability of add-on and industry-specific solutions from third-party software developers.

System-Wide Features

- General system-wide features including report writer, business intelligence capabilities, e-mail and fax integration, data alerts, security capabilities, decimal precision, critical field lengths (such as GL account, customer ID, vendor ID, item ID, etc.), online help and support for multiple companies, multiple sites, and multiple currencies.
- Customization and integration capabilities including data import/export utilities, integration and customization tools, and links to attached files or documents.

Accounting / Purchasing

- Fundamental financial features including general ledger, accounts payable, accounts receivable, and bank reconciliation functionality.
- Advanced financial features for larger companies, including budgeting, national accounts, allocations, consolidations, debt collection, fixed asset accounting/ depreciation, and multicurrency.

- Online transaction tools including credit card processing, credit checking, automated clearing house (ACH), and electronic funds transfer (EFT).
- Cost accounting (for manufacturer-distributors) including FIFO, LIFO, actual (lot costing), average, standard, and warehouse costing (for maintaining cost by location). Also, the ability to track specific costs to the GL for overhead, fixed setup, fixed run, variable setup, variable run, direct labor, material, outside process, and support for machine cost/rates, ABC costing, and landed costs.
- Purchasing capabilities including requisitions, blanket orders, release schedules, and request for quote (RFQ) tracking.

Customer Service / Order Entry / Pricing

- Multiple order entry methods including customer service order entry, point-of-sale cash register integration, rental management functionality, electronic data interchange (EDI), and Web storefronts for B2B or B2C orders.
- Flexible pricing including effective dates, contract pricing, customer pricing, promotions, volume or dollar pricing, discounting, and commission calculations.
- Online capabilities including product support knowledge base, customer self-service (account status/maintenance and shipment tracking), online catalog management, and more.
- Additional features for product configuration and/or guided sales, returned materials authorization (RMA), rebates, warranties, available-to-promise or capable to promise utilities, field service, item/lot reservations, blanket orders, and support for customer release schedules.

Inventory / Warehouse Management

- Inventory and item features such as lot/serial tracking, bin locations, consigned inventory, basic and advanced picking (for example, zone, wave, FIFO picking), item attributes, UOM conversions, product grouping by buyer or purchased product line, physical inventory calculations, and more.
- Shipping capabilities such as shipping and handling charge calculations, shipment tracking, bill of lading creation, and creation of SARA reports or MSDS documents.
- Receiving features including assisted put-away rules, cascade receiving, quarantined inventory, and vendor analysis.
- Advanced warehouse tools including bar coding, radio frequency handheld integration, RFID support, three-step inventory transfers, container tracking, pallet building, route management, and more.

"Physical inventory used to take me two days, and we had to close the doors to do it. Now I can do it in one while we're still running operations."

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

Sales / Marketing

- Sales force automation including contact management, opportunity tracking, territory definition, sales team management, sales forecasting, estimating, quoting, proposal generation, remote access, and data synchronization.
- Marketing automation such as campaign tracking, literature fulfillment, budget and revenue management, telemarketing, and sales scripts, and more.

Manufacturing

- Discrete bill of material structure and routing definitions, CAD integration, outside processing (subcontracted operations), engineering change control, work order creation, material issues, labor entry, real-time shop floor control and more.
- Batch process features such as recipe/formula definition, laboratory management and quality control, batch-sizing, cost analysis, nutritional labeling, compliance management, and more.
- Material planning capabilities including material requirements planning, sales forecasting, and inventory replenishment.
- Scheduling of resources including labor, tools, work centers, and machines as well as preventative maintenance capabilities.

Human Resources & Payroll

- Employee management including time and attendance features such as time clock integration, time-off requests, attendance tracking, training and certification, recruitment, retirement, and benefits administration.
- Payroll processing including outsourced payroll services, direct deposit, deductions for union dues, piece-rate and crew incentives, overtime pay calculations, benefits deductions, and more.
- Benefits administration features for management of dental, vision, health, retirement, and other company-provided benefit plans, including optional online benefits enrollment capabilities.
- Federal and state tax and reporting regulations including FMLA, COBRA, OSHA, HIPPA, ERISA, and more.

Project Budget

The leap from entry-level accounting products to more configurable business software represents a major investment for most distributors. For example, the costs to purchase entry-level systems such as Peachtree by Sage are typically less than $3,000. These products can be installed and implemented by most people with little or no training or assistance, and can serve the company's needs for many years as they grow from a start-up to a multi-million dollar corporation. Distributors who replace their entry-level business software with more complex solutions most often realize increased costs such as:

Software/Maintenance/Support

Prepackaged business software usually supports up to five or 10 concurrent users. Software for growing businesses can support virtually unlimited users and typically starts at around $10,000. Pricing is generally based on the number of concurrent users and the number of modules purchased. In general, distributors should expect to pay around $2,000 to $3,000 per concurrent user for most common systems. Prepackaged software typically includes limited product and user support. Product updates are often provided free of charge from the publisher's Web site. More sophisticated business software is usually sold with an annual maintenance plan providing customers with access to free updates and new versions of the software. Maintenance plans are highly recommended as they provide new features and keep the software compatible with current technologies. Maintenance contracts usually range from 10 to 30 percent of the product's suggested list price (not the negotiated or discounted price).

Implementation/Training/Customization

Unlike off-the-shelf accounting software, more complex applications should be installed and implemented with the assistance of certified consultants. Consequently, distributors should plan to spend about as much on implementation as they do for the software itself. Implementation costs often cover system installation, configuration, data migration, training, customization, integration, and related services.

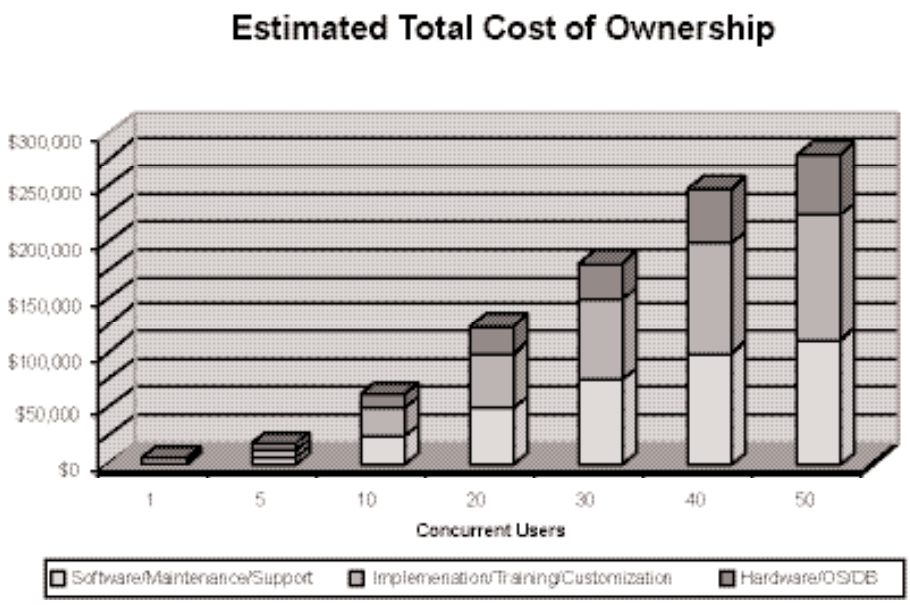
Hardware/OS/DB

Prepackaged accounting software typically includes a built-in database and can run on standard PCs. Users will have to purchase operating system software and licenses. Overall, hardware and operating system expenses should cost around $5,000 for smaller companies. More sophisticated software typically does not include the application database. Consequently, larger businesses can expect to spend about half as much on hardware, database software, and operating system licenses as they spend on software/maintenance/support. Costs may be

significantly lower if companies can reuse existing personal computers and servers, and they currently have operating systems and databases required to support the new system.

Total Cost of Ownership

The following chart shows typical costs distributors can expect to pay for a new business system. Costs will vary based on software functionality, user counts, technology platforms, and other variable options.



Achieving an ROI

Significant cost savings are realized by most companies who automate their businesses for the first time or companies that move from antiquated applications to modern supply chain management systems. However, cost savings are often difficult to measure since efficiency improvements and cost avoidance are not always visible. Still, distributors can measure some aspects of their businesses to calculate general returns on their investment.

To calculate ROI, companies must first establish benchmarks on common activities using their current business system. For example, how long does it take to process an order or a customer return, how many orders are shipped late per month, and what are the associated carrying costs per item in inventory? The table on the following page highlights how companies may achieve a positive return on investment.

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 and forecasting	25% Stock Reduction X 1,000 SKUs X $100 Carrying Cost/SKU/Year	$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 Hours to process period-end transactions	20 Hours to process period-end transactions	Reductions in data entry, system processing speed, and access to data improves period-end processing	13 Periods X 20 Hours X $30/Hour	$7,800

Conclusion

Not all distribution systems are created equal. Each product and vendor has their strengths and weaknesses. Some systems provide rich industry-specific 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. Further, many small companies 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 they make and training required to implement a more sophisticated business application.

Distributors need to consider future growth, vendor viability, product stability and functionality, the availability of third-party add-on solutions, total cost of ownership, and potential return on investment when choosing new business software—even if they are automating their business for the first time with pre-packaged, entry-level solutions like Peachtree by Sage.

A defined software evaluation process will help distributors identify the best solution to meet their 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 company-wide benefits, including significant reductions in data entry, elimination of data entry errors, improved system security, and significant improvements to the company's bottom line.

"It's as if our multiple warehouses and satellite offices are under one roof now...and we can keep our eye on stock levels or do a query on a dealer invoice, no matter whether we're in headquarters in Atlanta or the warehouse in Athens."

Fred Dulaney, Partner
Premier Marketing, Inc.
(Automotive Audio Equipment Wholesaler)