

The Supplier Relationship



THE SUPPLIER RELATIONSHIP: WHO'S MANAGING WHOM?

In many ways the wholesale distribution industry is unique. It operates in a state of constant change like no other. The business is largely labor intensive. And yet companies manage hundreds of thousands of stock items, relying primarily on stand-alone, disparate systems, spreadsheets and the knowledge and experience of individuals to maintain the daily flow of goods from suppliers to customers. And, perhaps uniquely, margins are so tight that the difference between making a profit or not can turn on a seemingly harmless decision.

So, what's so special about wholesale distribution? And how do companies survive when those in most other industries have sought a greater competitive edge by investing billions of dollars to reshape business processes and implement the latest technology, in addition to developing an "on demand" operating environment that supports collaborative supply chains that respond almost immediately to customer needs?

The answer is twofold. First, those who run wholesale distribution companies have over the years perfected the fine art of juggling hundreds of balls in the air at the same time, while standing on one leg with one hand tied behind their backs. It's a neat trick if you can pull it off. But take your eye off the ball for just one moment—to consider if there's a better way of doing things—and the whole structure can come crashing down.

Second, most companies specialize within segmented sectors. Take electrical companies as an example. Distributors know their market and what it wants, and service the local customer base from local branches. Simple, really. But times are changing. There is far less segmentation and fragmentation. Increasingly, wholesale distributors are consolidating into larger units. They are offering a wider choice of product ranges and assortments to so-called parallel customers, such as adding plumbing alongside electrical.

Add to this shorter product lifecycles (as in the computing industry) and specifications that change almost weekly, and it comes as no surprise that category management has become a daily challenge fraught with danger. Overwhelmed as they are with massive increases in information, the decisions of product managers about whether or not to accept changes in product detail, discounts and prices have become increasingly more challenging as they struggle to fulfill their responsibilities.

On top of this there is, of course, the continuing downward pressure on the prices customers are prepared to pay. So much so that it is increasingly apparent that the only way to protect, let alone improve, margins is to make what goes on in the supply chain between the supplier's distribution center and the customer's premises significantly more cost efficient. This includes the key areas of sourcing, price and margin setting, and logistics.



Key benefits:

Seamless sourcing, elimination of time-consuming legwork, powerful analysis and comparison tools, faster agreements

Today, wholesale distributors are confronted with a stark choice. Do nothing and continue to rely on what has worked well up until now. Or, advocate a more refined and information-rich business model built around a low-cost supply chain. In this scenario, the technology becomes the engine that unites the organization, creating information transparency and giving business managers the ability and the time to improve service to customers and ultimately lift margins.

A growing number of wholesale distributors have started to embrace the latter option and have started to cast a critical eye over the new, innovative supply chain management (SCM) solutions being developed by companies like Lawson. And some are beginning to work closely with the company to ensure that specific wholesale distribution industry requirements are included within software development regimes.

So, what are the main challenges for wholesale distributors? And what are the key operational areas where the combination of process improvement and technology will provide tangible solutions that deliver what is claimed on the packaging—a predictable return on investment linked with quantifiable business benefits? What follows are a few suggestions.

Supplier Sourcing: Automating the Process

A time consuming, often manual process that involves reams of paperwork and weeks of careful analysis, supplier sourcing can often take up to two to three months to reach the stage of a negotiated commercial agreement.

But imagine a scenario where the technology does the leg work for those in procurement, enabling a new supplier agreement to be reached in a matter of weeks by virtually eliminating the endless checking and double checking, as well as requests for further information, that is synonymous with current practices.

That possibility is now available. Lawson M3 Supply Chain Management provides a seamless roadmap for handling the issue, receipt and analysis of requests for quotes. The process is fast and is partially automated, from the moment the request is released by e-mail to prescribed potential suppliers (who either complete the attached downloadable request for quotation document or click on a link to a web application) to the point at which offers are received, evaluated, rejected or accepted.

The system contains powerful analytical tools that enable comparisons between price, discount, margin and lead-time proposals from different suppliers. And it goes further by automating the process of reaching a commercial agreement with the selected supplier through to the point at which the first purchase order is released.

For distributors with a network of local sales and service outlets, M3 Supply Chain Management will illuminate the inefficiencies of disparate, multiple sourcing through local branches of the same products from different, favored suppliers.

M3 Supply Chain Management enables all purchases to be consolidated and analyzed in order to exploit bulk-buying power to the full. The system then provides a framework within which local branches call off orders for local customers as required.

Category Management: Real-Time Information Handling

In wholesale distribution, the number of items managed by any one company can run into the hundreds of thousands. But on average a distributor will typically hold physical stocks of up to 50,000 items for delivery within one to two hours, and a minimum of 100,000 catalog items for delivery within one to two days.

Key benefits:

70-percent time savings,
up-to-the-minute information,
information accuracy,
invoice management
by exception



It's critical, therefore, that the latest information is available to customers up front whenever and wherever possible. The distributor needs to know instantly if a particular item is in stock. If it's not, the customer has to be offered an alternative that both fulfills his or her needs and is available.

But considering the huge volumes of information distributors are now required to process, it's hardly surprising that many are starting to struggle.

For example, pity the poor product manager who has to manually review, line by line, pages and pages of changes to product specifications, prices, discounts, margins and conditions, decide whether or not to accept or reject the changes, and then enter the information manually into stand-alone systems.

By the time a change has been made, dozens of others are stacked up behind it in a growing logjam, adding further pressure and increasing the risk of expensive errors—even the smallest error may make the difference between maintaining margin or not.

And the commercial ramifications can be severe. Any deficiencies in the product and pricing database (resulting in the absence of accurate, up-to-date information for frontline sales people) increase the risk of lost sales as a direct result of the inability to respond immediately to a customer request.

M3 Supply Chain Management seamlessly updates and automates the importing and processing of information from suppliers into the distributor's database, saving at least 70 percent of the time it normally takes with current methods. The system contains workflows that manage the import of new information that is automatically checked against the information already contained in the database.

The system then "asks" the product manager to either accept or reject changes, with accepted changes automatically updated in the main database and available to the entire organization.

As part of the seamless integration with suppliers, technical descriptions and pictures are also linked automatically, categorized and published as PDF files, on the web site or sent for reproduction in catalogs.

This type of seamless process also flows through into supplier invoice control. The system is dynamic and checks each invoice based on the principle of management by exception. Invoices that match agreed-upon prices and conditions are released automatically for payment. Those that don't are automatically flagged for query. The process alleviates the endless hours of manual checking and ensures that time is used more productively.

Contract Management: Spend Analysis and Margin Control

Margins are already tight and getting tighter. And the purchase cost of an item in some cases can be as much as 75 percent of the final selling price, which leaves little room for maneuvering.

Faced with managing tens of thousands of items, numerous suppliers, hundreds of price structures and an overwhelming array of customer discounts, even a mathematical genius would find it difficult, if not impossible, to create a weekly analysis of performance. For those who primarily use the limited capabilities of a spreadsheet, the task becomes mission impossible.

So in a high volume business, how are margins tracked on so many items? How are cost price changes balanced against selling prices, taking into account transport costs and lead times? In reality they can't be, at least not with the desired and required level of accuracy.

Key benefits:

Price and margin comparisons, consolidated view, margin improvement



Key benefits:

Optimized purchasing, optimized inventory, optimized discounts, dynamic scheduling, time savings, improved customer service levels

But with Lawson M3 Supply Chain Management they can! The system evaluates and compares purchase prices, margins and delivery lead times, one supplier against the other. It also takes transaction and administration costs into account, and provides the kind of consolidated view that is almost impossible to achieve with spreadsheets.

The system will also run different scenarios to provide options. For example, it will calculate the financial implications of marginal changes in cost and selling prices, perhaps taking extra discounts for volume into account and thus raising the distinct possibility of achieving a fractional, but nonetheless valuable, margin increase.

And Lawson M3 does all this at the frequency that's right for your business—daily, weekly or monthly.

Purchase Order Proposals and Consolidated Sourcing

Transport and warehousing costs can constitute a significant part of the purchase cost of an item. So it's important to optimize product procurement schedules based on known sales forecasts.

For example, is it more profitable to order stock of a particular item in bulk to maximize volume and transport discounts, taking the cost of warehousing into account? Or is it more profitable to purchase smaller amounts to fulfill immediate needs, but not maximize discounts and incur higher transport costs? And what are the effects on cash flow?

Manually, this sort of equation is almost impossible to calculate. Therefore distributors have been unable to realize the possibility of achieving considerable savings and improvements in this area. They simply have not been able to produce the information that would support this type of decision making across the entire product portfolio. Until now.

M3 Supply Chain Management takes all known factors into account, including the number and length of time the items concerned are likely to be held in stock. It considers the known factors and constraints, and models different scenarios in order to optimize purchasing and inventory levels across all product ranges.

And having optimized procurement schedules, M3 Supply Chain Management goes on to automate the confirmation of delivery dates, a process that previously required human intervention using e-mail, fax or telephone communication. M3 Supply Chain Management creates the potential for significant savings in time, as well as the opportunity to increase customer service levels.

When purchase orders are issued, suppliers will in turn confirm delivery dates. The system automatically compares these with the delivery dates given to customers to check whether they vary from the original dates on sales orders. If they do vary, the system recalculates new dates that are then re-confirmed to customers.

The built-in dynamics of the system also enable M3 Supply Chain Management to confirm the date and time at which a delivery vehicle leaves the warehouse, and to calculate its estimated time of arrival at the customer's premises.



Conclusion

So, how are our suppliers really performing? Are we getting the best possible discounts? Are they maintaining agreed-upon service and quality levels? Are we able to measure performance on a weekly or monthly basis? And, just as important, what about our own performance? Are we maintaining the service levels we promised? Are we developing opportunities to strengthen margins?

These are just some of the questions wholesalers often ask themselves. Whether or not they are able to find satisfactory answers using current processes and whatever technology is available is very doubtful. However, M3 Supply Chain Management provides solutions that can make a tangible contribution from day one.

M3 Supply Chain Management helps distributors tackle the problems they face daily. It provides business managers and frontline employees with the tools to be more productive so that they are more able to respond to an individual customer's needs, manage the business more effectively and, as a result, reduce operating costs and improve margins—an altogether more sensible proposition.



Headquarters: USA
380 St. Peter Street
St. Paul, MN 55102-1302
Tel +1 651-767-7000

Regional Offices:

Northern Europe **Sweden**
Denmark, Finland, Tel +46 8 5552 5000
Norway, Sweden Fax +46 8 5552 5999

Central Europe **United Kingdom**
Austria, Belgium, Tel +44 1344 360273
Czech Republic, Fax +44 1344 868351
Germany, Hungary,
Ireland, Netherlands,
Poland, Switzerland,
United Kingdom

Southern Europe **France**
France, Israel, Tél. +33 1 34 20 80 00
Italy, Portugal, Fax +33 1 40 39 25 07
South America, Spain

Asia Pacific **Singapore**
China, Hong Kong, Tel +65 6788 8769
India, Japan, Malaysia, Fax +65 6788 8757
Singapore, Thailand

ANZ **Australia**
Australia, Tel +61 2 8437 5600
New Zealand Fax +61 2 8437 5699

info@lawson.com
www.lawson.com