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# Distribution

COSTS DOWN, CUSTOMER **Loyalty** UP

# Costs down, customer **loyalty** up

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This paper offers our view of how it's possible to keep costs down and customer loyalty up.

If you're a distributor, you probably struggle with the same problems as every other distributor in the world. Never mind where you are or what industry you're in; the questions remain the same. How do you keep costs down without compromising on the value of your offering? How do you run a tight inventory and warehouse and still respond to customer needs? It's always a trade-off between cost management and customer service, isn't it? Or is it?

Cost control need not impinge on customer service. When you promote efficient processes, both you and your customers profit. Centering your attention on efficiency doesn't mean you compromise on customer service. On the contrary, the customer feels the benefits of a well-run organization.

This booklet will tell you how an integrated business management software system makes the execution of efficient processes manageable. It explains how the transparent information in such a system can improve your relationship with customers. You'll find real-life examples of how distribution companies have used Microsoft Business Solutions to increase both efficiency and customer satisfaction. As you read this, please keep in mind that new business processes and the software that supports them do not have to be implemented all at once. A good software solution matches your pace and grows with you.



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# Put **processes** first – watch costs decrease

An old Chinese proverb says that it's difficult to find a black cat in a dark room – especially when the cat isn't there! Now this proverb may not refer to the distribution industry, but then again, maybe it does. Because if you don't have business rules for your warehouse and inventory processes, then you may as well be working in the dark.

Smart business rules can help you gain better control of your inventory, pick and put away more efficiently and reduce lead time. It's true that it can be a challenge to

implement such processes, but a business solution with integrated warehouse and inventory management capabilities makes it easier.

Why? Two reasons:

1. It enforces consistent execution of the business processes you've set up and allows you to focus your efforts.
2. It provides a basis for accurate information throughout your organization – from your inventory and warehouse to sales, finance and service.

## COUNT ON **Real-time** INVENTORY INFORMATION

In order to introduce efficient business processes, you need an accurate account of your **physical inventory**. If you have separate inventory management and business management systems, however, then the information isn't up to date until the data in the two systems is reconciled. This is a process that can take time and result in errors. Mistakes are made when counting quantities, and then more mistakes are made when keying in the information. Inaccurate information is a poor place to start when you're trying to introduce efficient business processes.

An **integrated business management solution**, which includes bar codes and scanners, can help you start on the right foot. It gives you **real-time** information that helps you maintain accurate inventory data, reduce potential errors and implement efficient business processes.

Whenever you pick, put-away or move an item in your warehouse, you scan its bar code plus the bar code of the shelf or bin it is stored in. You get an immediate connection from your warehouse to your business solution, and you eliminate the potential errors that otherwise are made when you have to enter the data manually.

#### **CASE IN POINT:**

Rationel Vinduer, a manufacturer and distributor of windows and doors, used to spend two days and 20 people on their quarterly physical inventory. With barcodes and scanners transmitting to their Microsoft Business Solutions system, it now takes five people a couple of hours.

**Physical Inventory:** A physical count of the individual items in stock at a particular date and time.

**Integrated business management solution:** Connected applications that support the planning and management of all resources within an organization and bring you closer to customers, suppliers and other business partners.

**Real-time:** Operations that occur consistent with human perception of time. For example, when one person posts an invoice in a business software system, and this is instantly reflected to all other users throughout the system.

## WORK WITH THE **Right** INFORMATION

### Four questions to ask when purchasing warehouse management software

#### 1. Is it part of a business management solution?

A system that is good for your warehouse operations may cause more work for your finance, sales and purchasing departments – if it is not integrated.

#### 2. Will you have to change the way you work?

The solution should help you improve your warehouse processes, but you should also be able to customize it to your specific needs.

#### 3. Will the system grow with your business?

When your company expands, or needs a more advanced warehouse management system, it should be easy to upgrade.

#### 4. Is the system easy to learn and use?

The system should be straightforward to learn and use for warehouse employees as well as any temporary staff or less frequent users, such as managers and salespeople.

Lets look at a scenario that shows how an integrated system increases efficiency in a situation where the minimum bin inventory amount is reached.

Without an integrated solution, the employee finds the items on a pick list and at some point enters them in the system (correctly, you hope). In the meantime, other clerks continue picking from an increasingly depleted (and finally empty) bin. The purchaser makes an order without taking into account that these items need to be replenished, and your phone staff can't give customers accurate information about the progress of orders involving these items. Inaccurate data is like a virus that spreads inefficient processes. It triggers poor decisions and dissatisfied customers.

With an integrated solution, the system directs the employee to the nearest bin, which contains the items that need to be picked. The employee scans the bar code on the item, gets immediate verification that it corresponds to the sales order, and the process is instantaneously recorded in the system. There are no trips to an empty bin. There is no need to re-enter warehouse information in other systems. The purchaser knows which items need to be reordered, and customers get accurate delivery information.



**Cycle count:** A procedure for counting inventory on a regular basis, the frequency depending on the item's classification.

## WORK **Smarter**

Once you're confident that you have a high level of accuracy in your physical inventory, you can make a **cycle count** part of your everyday work and include smart business rules. For example, you might count items that are valuable to key customers more frequently, or you might focus on raw materials critical to your operations. You may even be able to eliminate the traditional annual physical inventory count. Your business management system helps to ensure that you follow the rules you set up.

You can also use your integrated system to improve pick and put away processes. The system can direct workers about what to pick and put away, where and in which order. (You can even take account for blocked aisles or broken shelves.) For example:

Increase efficiency by having the system specify a picking path to the warehouse employee via a hand-held device. It's more efficient because the worker picks multiple items while in a given location.

Reduce lead time by having the business rules in your system set up to specify that fast moving goods are put where you easily can get to them and slow moving items in the back of the warehouse. You can even keep items in your supplier's warehouse and ship directly to the customer from there.

Distribution expert John Schreiber describes an advantage of using your system to maintain rules about where you put away items: "If you locate all 'A' ranked products (regardless of their product line) that have the same storage requirements in the most accessible bin locations, your employees will spend more time picking orders and less time walking around your warehouse."<sup>1</sup>

The business rules that you set up in your system may have a positive effect on your entire organization, which ultimately can reduce costs and benefit your customers. On the next page, you can see some key performance indicators for distribution processes. In the next section, we'll look at how the transparency that an integrated system can help you increase the value of what you offer customers.



## KEY Performance INDICATORS

Benchmarking (both internal and competitive) and adoption of best practices can boost efficiency significantly. Here is a list of some Key Performance Indicators to help determine the competitiveness of distribution processes within an organization. Some measures of performance are more important than others, depending on the specific industry and market niche within that industry.

### Working Capital as it relates to Inventory Carrying Costs, Obsolescence & Shrinkage

*Working Capital Turnover = Revenues / Average Working Capital during period (Current Assets-Current Liabilities)*

In typical organizations, inventory holding costs amount to approximately one third of the average inventory value. The more quickly inventory is turned into cash, the more liquid and solvent the company. The working capital turnover is a measure of the length of this operating cycle.

Holding costs comprise of inventory handling costs (both personnel and equipment), storage space (rent/buy), insurance, taxes, obsolescence and shrinkage. Eliminating damaged and obsolete goods on a timely basis, and reducing the number of slow-moving items in stock can improve both inventory turns and working capital turnover.

### Speed of Delivery

#### Lead Time

Lead time is the amount of time from when the product is ordered to when it is delivered to the customer. Shortening lead times can improve sales by increasing the number of total available selling days within the product's selling season.

#### Variability (Customer Order Fill Rate & Cycle Times)

The degree of variability is even more critical than lead time. Customers don't like uncertainty. Excess variability signifies operational inefficiencies that are often characterized by decreased customer order fill rates and cumulating backorders. Such inefficiencies can lead to lost revenues (present & future), diminishing goodwill, and higher unanticipated costs (such as higher freight premiums).

### Inventory Turnover

*Cost of Goods Sold (COGS) / Average Inventory during the Period*

Inventory turnover ratio can be a critical indicator of operational efficiency. However, it varies significantly depending on the nature of the business: in other words, the industry, company and corporate strategy.

The optimal inventory turnover is a fine balance between fulfilling customer service commitments and minimizing inventory carrying costs.

Relatively low turnover may denote an accumulation of excess inventories that are physically deteriorating or becoming obsolete. You can improve inventory accuracy via cycle counting, put-away and pick confirmations. Access to real-time inventory information can lead to lower levels of safety stock and dead stock, which in turn improves inventory turns.

### Inventory to Sales Ratio

*Sales / Average Inventory during the Period*

The inventory turnover ratio is often calculated by dividing sales (rather than Cost of Goods Sold) by the average inventory for the period. Providing that there is a relatively constant relationship between selling prices and cost of goods sold, changes in trend for inventory turnover can usually be identified with either Inventory Turnover or Inventory to Sales Ratio.



# Make customers **rely** on you

In order to respond to customer demands, many distributors are finding it necessary to focus on core competencies that strengthen their ties with customers.

"A decade ago, the smart money was on diversification," says Jesper Momme, an outsourcing expert. "But when customers continued to demand more sophisticated products at ever-lower prices, a lot of companies found that the products and the processes became too complex for them to handle. Today, the trend is shifting toward focusing on core competencies."<sup>2</sup>

A system that supports your core competencies and your way of working can increase your competitiveness. It can make customers depend on you for the unique information and services that you offer.

#### CASE IN POINT:

Microsoft Business Solutions has helped US distributor, Pacifico's Beauty Products, speed up their purchase order process from two days to two hours. And now that they don't have to re-enter data, their customers are finding that orders are being fulfilled more accurately.

## BETTER Information, BETTER Service

The greater your **transparency**, the better your position to manage your company wisely. As one logistics expert put it:

"When a plant manager can 'see' inventory on the floor, in the yard, and in-transit to the plant or distribution center, the manager is empowered with information to make better decisions about production, referrals, freight diversions, expedited transportation and safety stock management.

"The best tools will also integrate with corporate financial systems to capture the increase in available working capital. Rate reductions and network optimization can save thousands of dollars; using visibility tools to reduce static inventory will free up millions of dollars in working capital without sacrificing service to the customers."<sup>3</sup>

In fact, the transparency of an integrated solution helps you become more responsive to customers. Managers, and everyone else in your organization, can predict delivery dates, trace the progress of orders and trace lot or serial numbers for recall, warranty or quality control.

When entering a sales order, for example, you have access to all the latest information in your database about price and important product specifications. You can cross-reference any vendor, customer or internal code and find the corresponding item. And you can find alternatives with the latest price and quantity on hand.

Let's say a customer calls to order 20 items. The sales rep sees in the system that a truck driver has just unloaded a pallet. She tells the customer that 10 items are immediately available, and 10 more can be ordered directly from the vendor.

A few days later, the customer calls to check on the status of the second part of his order. The employee doesn't have to put the customer on hold in order to find the original salesperson. He tracks them on the screen and sees that the remaining 10 items were shipped directly from the vendor and are on their way.

A month later, the customer calls again to complain that some of the items are defective. A customer service rep sees that the warranty is valid and issues a credit memo to the customer. She can see by the serial and lot number that these were the items that were shipped directly from the vendor and can therefore ask the vendor for credit.

**Transparency:** A level of access to information that allows organizations to coordinate supply chain interaction for maximum efficiency and adapt plans to meet changing market needs.

## TAKE IT ONE STEP **Further**

### Five questions to ask about customization

1. Will the software reseller be able to make modifications for us?
2. Will you be able to modify the system on your own, and if so, do you have to buy a special add-on kit in order to do so?
3. Will you and your employees be able to customize screens and add or remove fields to and from the database?
4. Will you be able to pull information into the system from other systems?
5. How will upgrades affect any customizations you have made?

In addition to strengthening traditional customer service, some integrated business solutions give you the ability to connect more closely with your supply chain. This includes support for customer and vendor Web self-service and automated interactions.

You can give customers, vendors and employees direct Web access to real-time inventory information. Supply chain partners buy, sell, seek information and serve themselves. You define their particular role and access rights to information and business functions. You can also exchange trading documents, such as sales and purchase orders, credit memos and shipment notification, with supply chain partners – without human intervention. The level of interaction and automation depends on the nature of your relationship with the partner.

### Build on core competencies

You can get closer to customers by providing them with quality information. You can also gain a competitive edge through the unique value you add in the process of delivering your products or services. You might, for example, specialize in managing inventory for customers, assembling or repackaging products or offer after-sales service and maintenance.

In this respect, it's important that a business management solution can be adapted to your way of working, rather than your organization having to adapt to the constrictions some software solutions impose. A flexible system should allow you to add users and database space, upgrade smoothly to newer versions, and in general, it should support you as you refine your business processes and develop new ones.

### CASE IN POINT:

Crown Leisure, one of the UK's leading operators and distributors of amusement equipment, customized the fixed assets area in their Microsoft Business Solutions system to match their business.

The company sells machines from its distribution division to its own operating division. For the operational part of the business, it was important to process items as fixed assets. But what was best for the operational side was a drawback for the distribution side, where it was important to classify them as stock.

The customization allows Crown Leisure to transfer a machine from stock into a fixed asset with depreciation handled automatically.



# Control COSTS AND EARN CUSTOMER Loyalty

Keeping distribution costs down and customer service up doesn't have to be an either/or proposition. You can control costs and earn customer loyalty with an integrated business management system. Such a system helps you implement smart business rules that improve your distribution processes, and you can get closer to customers by providing them with quality information and services.

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Microsoft Business Solutions brings together information from every corner of your company and lets you analyze it any way you choose.

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