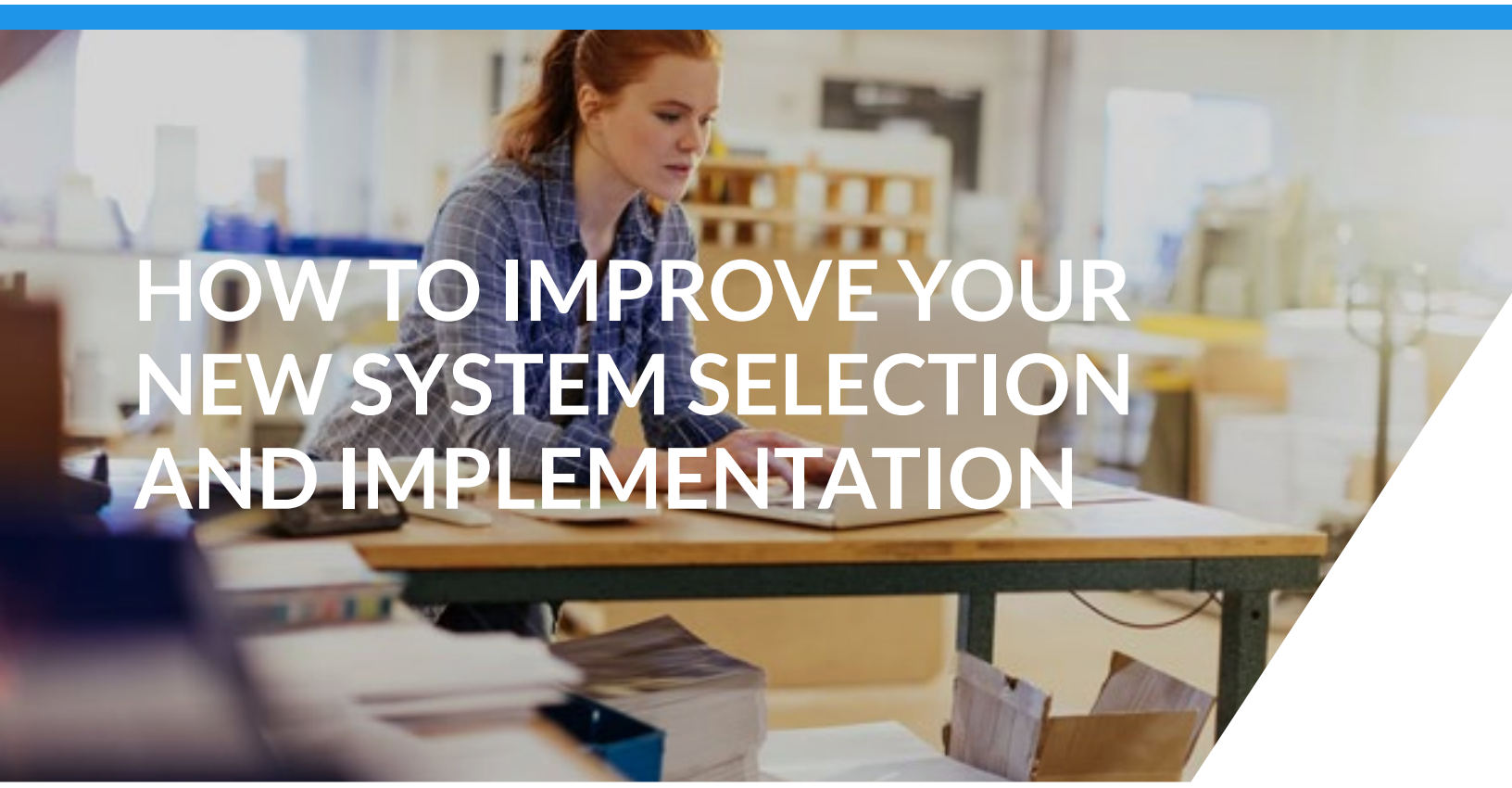
F. Curtis Barry & Company

Solutions for multichannel operations & fulfillment



HOW TO IMPROVE YOUR NEW SYSTEM SELECTION AND IMPLEMENTATION

“We don’t have time to develop user requirements...”

“We don’t have time to go through the process of demoing vendor systems...”

“We don’t have time.”

We hear statements like this from companies like yours all the time. Think about it though. When you take a road trip from Atlanta to Chicago, there are many different routes you can take to get there. Without requirements, it’s like not having a map or GPS—any road will do. Requirements are the only way to compare systems and vendors.

International studies of major project selection and implementation shows that 50% of all major projects are not implemented on time and within budget. Unfortunately, this has not changed in 20 years. We are hopeful if you adopt these principles and ideas that you will improve your success. We have seen these concepts work in hundreds of companies.

Timing and budget aren’t the only issues. Labor costs are rapidly increasing. Companies are holding on to major systems longer than desirable. These antiquated systems actually constrain analysis and fail to improve productivity and growth. A good example is that management may buy an OMS or ERP hoping that it will increase productivity (e.g. picking lines and units per hour). But systems often lack the ability to capture units of work produced and the individual hours worked. This goes back to factually understanding the requirements and prospective system.

Major systems most often require major changes to your company’s process and culture. There isn’t enough testing done. Companies are not doing enough to think through how the new system will change their culture; how you want the employee to use the system as they do their work; and how it changes your operating procedures. As a result, new systems may take 6-12 months to be absorbed and have the company back to productivity.

Another common shortcoming we see is that management doesn’t decide early enough how the system will be implemented from a project management perspective. Smaller companies expect this will be done by the vendor.

Project management is your responsibility. The vendor doesn't know your company, processes, growth plans, pain points, etc. and they shouldn't be managing your employees. Who will be leading the change in your company?

We are thankful for the many direct-to-customer clients we have had in the past 33 years. We also are indebted to the editors of Multichannel Merchant for the hundreds of articles and blogs we have written and they published.

The articles that follow apply to any major systems undertaking—whether it's selecting and implementing an Order Management System (OMS), Enterprise Wide System (ERP) or a Warehouse Management System (WMS).

We hope this this e-book will greatly benefit your company.

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10 Critical Mistakes in System Selection

By Brian Barry

I had a call from a multichannel company just this past week about why its order management system selection process had failed. In this merchant's case, it had signed the vendor agreements prematurely, only to find out two weeks later that the bid was incomplete.

There weren't any estimates for modifications, interfaces, conversion and training costs. As a result, the marketer had been pushed by the vendor to "get into the implementation queue and work out the details later." Now that the implementation is planned, the company discovered its costs will be 50% higher than originally thought!

Here are the 10 major mistakes we see companies make in selecting these systems:

1. **Not having the right project team in place to select and implement a new application.** It is critical to make sure you have a team that can work together with representatives from each department, and a strong project manager. The project team must be able to make timely decisions and keep the executive sponsors up to date with the progress of the project.

2. **Failure to develop detailed business requirements with current and future business needs.** Developing a request for proposal (RFP) is necessary for comparing multiple vendor applications, modifications and services, and in developing a gap analysis based on RFP responses. Applications are not always comparable with one another, and understanding which is the highest fit with your business is paramount.

3. **Limiting the search to a few vendors too early in the selection process.** Keep your options open and work towards documenting the business requirements. Once the vendors have your RFP and have responded, you can then base your decisions on how well various applications address your functional requirements.

4. **Not conducting a competitive bid process.** Not comparing multiple vendors, their product offerings, services and maintenance plans can be a major point of failure. How do you know that you are getting the best application and partner company for your investment? Are you blindly willing to sign a contract with a vendor because a salesman is enticing you with deep

discounts? Chances are, you are leaving something on the table, and it might not be the best decision for your company.

5 **Picking technology over application function.** Technology has its place in the decision process, along with functionality. IT departments are having a greater say in the decision making process due to the necessity for communication with other applications.

On the other hand, having leading edge technology doesn't always mean that it has the best application functionally. Balance your IT requirements with functional requirements and make a decision that moves the company forward overall. Buying an application with the latest and greatest technology will become a very expensive endeavor if it's limited in functionality.

6 **Planning too many application modifications vs. adapting your business processes to the application's functionality.** At times, modifications are necessary and critical to managing a business. But more often than not, companies are quick to modify an application instead of challenging departments to see if they can change a business process to fit an application. Modifications can create unnecessary risks and become expensive. We often see companies modify an application, only to remove those program changes a season or two later after they fully understand the vendor's application. Companies should only plan to modify the application if all other avenues have been discussed and no alternative is suitable.

7 **Relying on superficial demos to cover your most critical requirements.** Letting the vendors determine what will be reviewed and discussed in a demo means you will see what they do really well. But the demo will not address specific areas of concern to you or the areas in which the vendor may not be so strong. Use your RFP responses to develop a demo agenda, as this will ensure that your business needs are covered. These demos in conjunction with the RFP responses will help you to better perceive the gaps between applications.

8 **Not putting enough time and effort into vendor reference checks.** This is one of the most critical steps in the process. It is where you get a feel for how other customers use the application and vendor support. Once you have narrowed things down to your finalist, the reference checks with their user base will allow you to understand how strong the vendor's support is. Ask:

- How problematic are the vendor upgrades?
- Is the user group active?
- How is the implementation process?
- Did they stay on budget?

Try to reach out and talk with as many of the finalist's customers as possible. Ask for the full customer file, not just the handful of customers they want you to talk to.

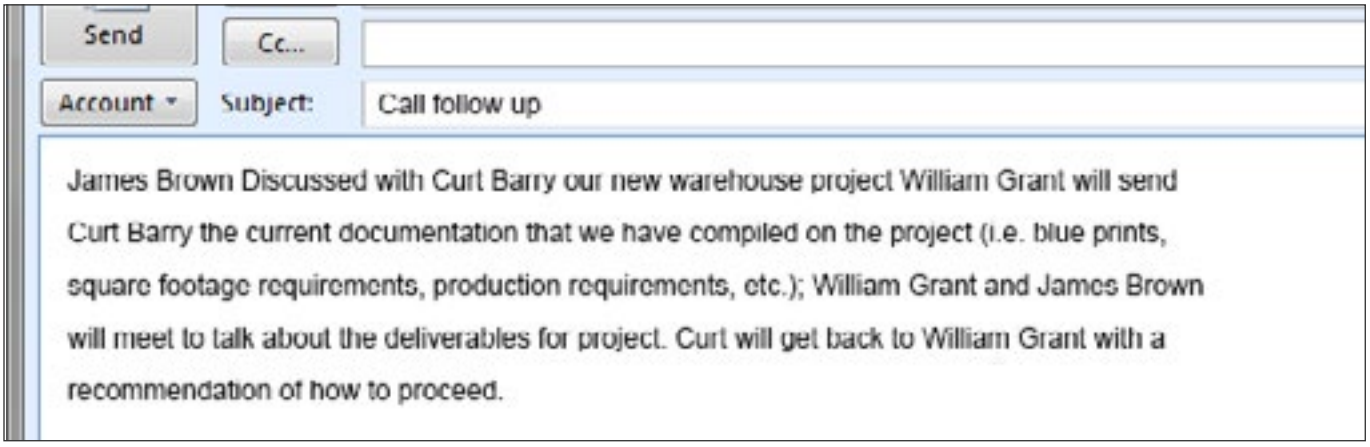
9 **Signing vendor contracts before the total investment for hardware, software, maintenance and services has been identified.** Oftentimes companies do not know the full investment necessary for the various solutions. Vendor proposals aren't always so clear and easy to understand. You need to make sure that you understand the full year-one investment from hardware to software as well as maintenance (due in year one and all future years), project management fees, implementation fees, integration costs, file conversion costs, modifications, etc.

Compare the fully loaded year-one investments and extrapolate them out to three years. Make sure you know the pricing models for licensing as you grow. A solution that has a low year-one investment may become more expensive after three years than one that has a higher year-one investment.

10 **Not having an intellectual property attorney review the vendor contracts and statements of work before signing them.** Vendor contracts for the most part lean in favor for the vendor. Knowing what to look for and how to negotiate the best contract for you will insure that all the homework you have done to date doesn't go to waste. An intellectual property attorney understands software licensing and services contracts, which are vastly different from any other contract. Not all attorneys are capable of thoroughly reviewing these agreements. A good lawyer will show you how to work towards a fair and balanced contract for both you and the vendor.

Improving Your Project Management with the Right PM Software

By Curt Barry



That's the message in my Outlook Inbox after my call with my client James Brown, communicated via their project management and collaboration tool. Saved in their project management system, are all the notes and emails from their Strategic Planning Meetings earlier this year. Within a day, I had access to the current project documentation. "Open Update in Project Management System" is the client asking for an update on the usability of these materials.

Having worked with this client on several other projects, I can attest to managing a project with a collaborative based project management tool, greatly increases the quality, timeliness and execution of projects.

Typical software tools today combine collaborative content tools and project management tools. You often do not have to use all functions to get started in order to gain benefits. You may start with collaboration and then move towards detail project planning, tracking hours, etc. Collaboration and project management is a "mind set", a management disciple, a way to do your project work. It should not be an opinion to allow managers to work outside the system.

Here are the reasons I see for the increased quality and project success:

- **Develop more complete project plans.** Design the project plan and track all project tasks with personal responsibilities assigned; start and end dates, critical path dependencies, etc. We would broaden involvement to all participants, vendors, and contractors that have deliverables;
- **Progress tracking.** Time tracking hours planned and worked; completion percentages;

and update of tasks on-line. Allows project plans, progress and often Gantt charts to be automatically updated;

- **Collaboration.** Ability to disseminate, share and append project plan materials including emails, documents, drawings, video and images, etc. to the project structure.
- **Team contributions.** All project team members have the ability to view the project materials, project plan, correspondence, etc. The team members stay current with project progress, assumptions, questions from team members and provide input from their knowledge, perspectives and progress;
- **Transparency.** This one aspect has tremendous value to identifying problems early, and the need for additional resources and skill sets. Resources and skill sets for systems implementations might include additional programming hours for conversion programming; procedures writing and training, testing, etc. In expanding your facility, or building a new facility, additional resources might be needed by the contractor to overcome weather problems; or speeding up ordering and installation of equipment in the DC;
- **Follow up reminders.** Among your hundreds of "to dos," you have a way of being reminded to follow up on critical project steps;
- **Accessibility.** Most tools are web based, allowing team members to work world-wide.

While all of us do a lot with Excel, it is inadequate compared to today's collaboration and project management tools. If you haven't used these tools in the last couple years, don't equate them to the hard to use tools of 5-10 years ago. Today's tools are generally easy to navigate with graphical interfaces. Many are fairly low cost and SaaS based.

Additionally, many are integrated to other software products including Google Docs and Apps, Microsoft Outlook and Excel, Dropbox, Apple Mail, Box, and others. Mobile apps are important and are available for handhelds.

There are literally dozens of collaboration and project management tools. I do not endorse any specific collaborative and project management system, four I have used in recent years are:

- Microsoft's SharePoint part of the Office 365 suite
  https://products.office.com/en-us/sharepoint/collaboration
- Wrike (www.wrike.com)
- Smartsheet (www.smartsheet.com)
- Basecamp (www.basecamp.com)

I don't believe that we need to use these tools for every project that we are working on. However, I think that most companies need to implement new generation tools to improve the quality, timely tracking, and on-line updates—as well as to budget and project performance critical to larger projects. My recommendation is to get a team together; do your research; experiment and learn how collaboration will benefit your company and manage a smaller project with these tools. Use the software with a small project first; then you'll be ready to use your new collaborative and project management software and approach on a larger, high value and important project.

Beware of Unneeded OMS, ERP, WMS Modifications

By Curt Barry

Recently we had a chance to follow up with a client and vendor on the outcome of their seven-month system implementation negotiated last year. There are some unique lessons learned about making modifications to order management, ERP and warehouse management systems for all of us.

The prospective client felt strongly that it needed to hard allocate inventory because of the size and timing issue associated with its B2B customers. They agreed that for the direct customers, soft allocation would be better but because of the size and growth of the B2B business they needed hard allocation too.

I want to emphasize that an exception list of requirements was answered by several vendors, and two days of scripted demos were conducted with each.

In negotiations with the vendor finalist, they agreed to several unique approaches. The vendor liked the client's ideas and agreed to handle the modification as a no-charge item if the client attended week-long first-level classes so both sides could better understand how the current system worked. This also allowed the vendor to better understand the scope of the issue and suggest options. If the client did not like the design outcome, they would be released from the contract and refunded their deposit.

I want to point out how unique this approach is. In almost all cases once you sign license and services agreements and pay the deposit, which can be 50% of the total license cost and a deposit on the professional service, you're committed.

If the vendor had made the programming changes as first designed and estimated, the modification would have required 300 hours for design, programming and testing. By completing the education and having the extended discussion, the parties were able to find an acceptable compromise that delivered most of the desired functionality while avoiding negative consequences.

The results:

- Programming took around 120 hours vs. the original estimate of 300. At a programming rate of $150/hour, this saved $27,000;

- The vendor did not have to make unwanted changes to the software application's core structure;
- The vendor is confident the application can now better handle both B2B and B2C operations, and the client got most of the changes it felt were needed;
- The modification was added to the application for all users and did not create support issues with future releases;
- The project was completed on schedule and the go-live date was met.

We have often seen clients demand many changes without completely understanding functionality. In this case the client was deeply involved in design and implementation. There has to be a sense of trust between the parties for any successful implementation, with both understanding each other's issues before making unnecessary program changes.

We advise against any modifications that make the new system look or function like the old one. Use the new system for six months or more, if possible, to better understand its functionality. In a lot of cases the modifications you thought you needed aren't necessary, as the "vanilla" version works fine and requires just minor changes to your business processes. Most of all, there is always room for some creative, open-minded solutions.

One of the biggest reasons for go-live delays and cost overruns is modifications, which happen for a number of reasons. Some of the most common involve an incomplete or insufficient requirements definition. These modification specs need to be defined in detail and signed off on internally by vendor and client management. Delays are also caused by a lack of testing to ensure the modification is working according to the spec definition and can support the business process. It not only needs to be unit tested, but should be incorporated into your conference room pilot testing to make sure it hasn't adversely affected any other functionality.

Because ERP, WMS and OMS systems are so complex, you can't always understand the functionality by just reading documents or seeing demos. Neither will this help you fully understand the potential effects of modifications on other system functions.

Memo to Mr. System Vendor: Please Show Me What I'm Asking For

By Curt Barry

I was walking through a trade show's exhibit floor this week and met some "new to me vendors" we can consider for our client's projects, after we thoroughly check them out. Understand me, without reliable vendors and their solutions, I don't have a business. But I'm not into taking risks with projects.

It caused me to think about how much the new wave of 21st century warehouse system vendors are trying to change how they sell their products and services, and how much more difficult it is for clients to be sure what's recommended will actually be the right solution. Let me give you five examples from the last six months:

1. In a large client project to integrate a content management system to an ERP, the ERP VAR and the content management developer swore up and down that it would fit the client's complex parts business. When it didn't, after months of specs and written guarantees, the client is faced with trying to get $150,000 back for failure to perform.

2. A month ago we had a partial demo of an order management system but to date the vendor has failed to give us a completed RFP and financial proposal. They couldn't get around to finishing it, so the client said "move on."

3 A client called about trying to implement a cloud-based system with one week's web-based training. Can you imagine sitting and listening to a week-long webinar, then trying to implement it yourself from this training?

4 A "new to me vendor" wants to bid on an apparel client's project. They claim they have many direct-to-customer clients but the subsequent demo showed they didn't have a returns processing system. They said they would consider putting this into a future release! Hey, this is a B2C catalog and ecommerce project. The system has a wholesale/manufacturing legacy.

5 System vendors are often trying to avoid face-to-face sales calls or have any on-site demos. Instead demos are done online for a couple hours in multiple sessions. Doesn't acquiring an expensive product or service that you're going to keep for 5-10 years merit a discovery process and due diligence?

Mr. Vendor, show me what I'm asking for, please! What can you do to insure that order management, ERP and WMS applications meet your requirements?

Have them written down. The requirements process gives you the functional check list of what you're looking for. It's the vehicle to create buy-in in your company, too.

Form a steering committee. Owners and management, as you delegate the system selection process to department managers, be sure they know in detail what you expect of them upfront as they review and offer system selection recommendations. Many people in our companies have never selected a major system—how would they know? Use a steering committee to issue monthly reports on progress, schedule, costs, questions, etc.

Ask for a demo. If the vendor can't show you the functionality through demos, assume it doesn't exist. This often spurs more earnest effort. Yes, I know about "agile software" and feel I've been "agiled" to death. I have great trust and faith in people but I don't want to risk client's businesses.

Trust your instincts and do your homework. I have had vendors hand me an impressive list of client names. Contact those who have had recent installs as well as older ones. I have actually heard vendors say, "We don't want to fatigue our clients" with reference checks—are you kidding? Rely on detailed reference checks and site visits to similar businesses, and see the system in use. Politely ask the vendor and the client to have the vendor stay away from this exercise, creating a more open environment.

The Deal. As we approach year end, major discounts are granted for signing and making contract deposits toward implementation costs. The deposits are not generally refundable if, say, you discover in January it doesn't fit as well as you thought. If you can speed up the process and get the discount, great, but don't let the lure of the deal shut down your due diligence effort.

Again, I don't have a business without reliable vendor partnerships and solutions. There is always a trustworthy way for prospects and vendors to both get what they want from the selling process. With that said, happy hunting!

Selecting the Right Enterprise Resource Planning System VAR

By Brian Barry

It is a daunting task to decide what order management system (OMS) or Enterprise Resource Planning (ERP) system is the right one for your business. Now there are even more options with ERP systems, as there are many Value Added Resellers (VARs) for the same ERP system. Why are there so many VARs for the same system, and how do you make a decision on which VAR to use?

The vendor landscape is getting increasingly challenging when multichannel businesses look to replace their current order management system (OMS). There are still the traditional order management system (OMS) vendors, but depending on what additional features you may require; a number of Enterprise Resource Planning (ERP) and Retail Management System (RMS) vendors have expanded their system offerings to try and accommodate multichannel businesses.

The ERP systems from the "Big Systems Vendors"; Microsoft, SAP, Oracle and the like; can have literally 100's of VARs for these major vendors. Why so many you ask? Well in a number of cases a given VAR will create additional functionality that sits on top of a particular ERP system offering, based on the business niche (specialty) of the VAR. For example, most ERP applications were designed for specific industries; manufacturing, wholesale distribution, retail, etc. Let's say that I am a VAR and my specialty is the Direct (catalog and eCommerce) industry. The VAR would set out to build an order taking process that is geared towards direct response; catalog, space ads, infomercial, etc. Developing this specialized enhancement to the base ERP system allows the VAR to target a niche type of industry/client with not only their unique enhanced system offering, but also with the full complement of the rest of the ERP system.

All ERP VARs are not equal, so now the real challenge begins for someone in the Direct industry who is looking at these VAR enhanced ERP system offerings. It is not always easy trying to find a VAR in your business' niche. What is even harder is finding multiple VARs for the same ERP system that also offer a similar type of specialized enhancements—such as enhanced specifically for a product category like aftermarket auto parts, apparel, consumer electronics, etc.

One thing FCBCO recommends is interviewing the various VARs to better understand if they can meet what you desire in a new ERP system; but this is only the start. What FCBCO has also learned over the years is that even if the VAR states that they have similar clients to your business and that they can meet your requirements; it is ultra important to then ask for viable references specific to your industry and product line. This is extremely important to you and your business so that you can understand not only how the VARs' performance was—on time, within budget—but also how close does this business match with how you want the system to perform.

Doing this initial due diligence will save you time, head off a potentially wrong investment, and frustration before you send out your Request for Proposal (RFP) and begin conducting your detailed deep dive into each potential vendor's system. These initial pre-qualification steps will assure you, to the best that it can, that you are sending your RFP to the best qualified VARs that can meet your businesses requirements.

Is Your Management Analysis Inhibiting Growth of Your Business?

By Curt Barry

Recently I have spent time with a client evaluating their sales and EBITDA growth. Sales have been increasing 20% annually over the last 4 years; EBITDA is growing very nicely. Typical of many companies today, they are omnichannel—they have catalog, Internet, wholesale and a single retail store for liquidation. Fueling their growth they have designed and developed their own product line which is manufactured off shore. Wholesale is 30% and direct (catalog + Internet) is 70%.

We had to go to 13 different reports in order to get sales and gross margin by channel; marketing costs by channel; and operating expenses including cost per order and shipping cost per package. Some were annual reports and in order to get key history, we had to generate and compile a report for each year.

Let me ask you, is your ability to analyze your business confounded by endless listings and reports? Do you have to have a full time person, trying to create spreadsheets with the pertinent management analysis?

Does your key management reporting give you the results you need to grow and manage your business?

Here are a few key points:

Channel sales and gross margin: Does your management reporting show sales and margin by channel? The blended margin for this company is mid-50%s. Wholesale is a major part of the business and therefore dilutes the profitability of the catalog and e-commerce channels.

Cost of Goods (COGS): Is COGS and Gross Margin accurate? Whether you purchase open stock product, develop exclusives or design and manufacture proprietary product, does COGS include all of the components including internal costs to design product, inbound transportation, commissions, duties, quality assurance and testing, etc. Or, are some expenses understated because they are recorded as General & Administrative expenses.

Marketing Expenses:

- Wholesale channel has its own “picture book” catalog, pricing sheets and trade shows;
- Catalog Marketing Costs: Fixed Cost Per Page to design, create, photograph and color separations. Variable Cost Per Copy to print, paper, acquire names, mail and distribute books.
- Internet business: Cost of the website design and maintenance; Pay- Per- Click, SEO, marketing consulting, etc.

The Operating Expenses: Do you see cost per order processed and customer service for Call Center support and fulfillment?

Outbound shipping cost per channel: Catalog and E-commerce are similar but the wholesale orders are much larger and heavy. Blending these channels’ costs together distorts analysis. Can you see easily the S&H revenue received versus the cost of shipping identifying how much “free shipping” is costing you?

What industry KPIs should be added to assist in understanding results? Cost per order in order processing; 12 month customer counts seasonally/annually to see house file growth; inventory turnover, weeks of supply (WOS), etc.

History: To identify trends and progress being made.

Plans: Where reasonable, to measure the month, season and annual results.

Here are five action points to take to improve your management analysis:

1. **Appoint a Task Force to identify key analyses—online, dashboard and reporting—you need as a management team.** Make part of it their task to identify all reports generated and available and whether they are system generated or Excel. You will be surprised how many there are. You may find how key the IT staff is to running key reports. What reporting can be eliminated?

2. **What changes in organization do you need to make to insure the right data that you select is available on a timely and on-going basis?**

3. **Is IT a bottleneck to the users getting the analysis they need?** This comment isn't meant to be a slam against IT. Older systems reporting was often totally print report based. Today there are still many limitations in some organizations.

4. **What needs to be provided to your organization so that the department managers and super users have the software tools available and are trained?** Realistically, not all department managers are as savvy as they need to be in using these tools.

5. **What software would benefit your business rather than simply exporting to Excel data from order management, fulfillment and accounting systems?** This may range independent data repositories, to dash boards and to Business Intelligence (BI) tools for larger companies.

10 Point Readiness Assessment to System Go Live

By Curt Barry

Sad but true. This past week, a friend of mine called to say one of her favorite companies was having severe order fulfillment problems. We called the company and in the words of the Director of Operations, "It's a disaster. Go Live was May 18 on a major ERP system and it hasn't worked right since Day 1. They have hundreds of pallets of merchandise coming in daily but we're running out of space, because the order processing is a mess. The call center and web customers can't see customer orders to tell the customer where their order is in the process. We have dozens of stores we need to ship to also but they're caught in the quagmire too".

Unfortunately, flawed "Go Lives" happen more times than we want to think about. You might say, after dozens of people work for months on an implementation, how does this still happen? My answer is many companies do not have built into the project plans a Readiness Assessment to Go Live. To assess the readiness and risks of converting to the new system.

It's one thing to be running behind on programming mods, testing and implementing your systems project. It's another to unknowingly commit the company to Go Live without management review, risk assessment and agreement and sign-off that everything is ready. This isn't a day- long meeting before Go Live. This is a process built into the project plan that everyone works towards and knows in advance what the plans are and the criteria for Go Live.

The following 10 points should be part of your Readiness Assessment before management gives its blessing to convert and Go Live:

1. All testing of modifications first by IT and then department management;

2. Complete "end to end testing" and conference room pilot testing from origination of orders, returns, receipts, shipping, etc. through to systems processes. This includes inbound product flow processes and outbound shipping functions. Be sure to process "live data" through to accounting and management reporting systems.

3. Have the necessary files been successfully converted on a test basis and visually spot checked

to the files on the current system. Then on a test basis convert 10% of the file and calculate how long the actual conversion of all files will take. With SQL systems in large multichannel environments this may take days to convert customer files. How does this affect your plans?

4 Do volume testing with website and call center phone orders to get a feel for how the system will respond when processing actual transaction volumes;

5 Have all the interfaces been tested to vendors, ASN and EDI services, marketing services, credit processors, etc.?

6 Have all the employees in various departments been trained? Are new Standard Operating Procedures in place?

7 Is IT ready to support the company with knowledge of the daily processes and is all equipment installed in IT and user departments?

8 Agree upon the conversion process and Go Live responsibilities of everyone;

9 Senior management and department management should sign off that they have reviewed their respective processes, testing results and critical processes are ready.

10 And most importantly, create an open communication environment where your employees are empowered and have the courage to say, "No, we're not ready."

For sure, there is intense pressure in missing "Go Live" dates, incurring additional project costs and needing for more resources, etc. But the pressure is much worse when you have risked the company's profitability and customer service.

Inventory Systems, Availability Key to Serving Omnichannel Shoppers

By Curt Barry

For national retail chains that are growing ecommerce as omnichannel businesses, there are three elephants in the room. The first is of course the behemoth of Amazon, with its far-reaching tentacles and effects on customer shopping behavior. Next is the customer's ability—and predilection—to shop anytime, anywhere and from any device of their choosing.

While both are truly big challenges, the biggest elephant of all is the retailer's own supply chain and infrastructure. More specifically, it's their order management system and inventory reservation against all distribution points (i.e. stores, warehouses, drop ship vendors, 3PLs, etc.) to provide inventory availability to the customer.

I'm not chiding big retail. Make no mistake—my bet is on big retail. To accommodate this sea change, these infrastructure changes are requiring major investment and process changes for omnichannel orders to be efficient and provide customer service.

Here's why Inventory Systems and Inventory Availability is the biggest elephant of all:

Inventory has become a customer-facing application vs. a back-office function

Traditionally, brick-and-mortar stores are primarily self-service. If the store has the item, you make the sale. Inventory systems were labeled back office and they were often updated after store closing.

However, omnichannel put the customer in charge and made inventory a customer facing function:

- Through the device of their choosing, the customer accesses the inventory availability through the order management (OMS or ERP). In essence behind the scenes, OMS reserves the SKU online from all distribution points (stores, warehouses, drop ship vendors, 3PLs, etc.);
- The customer makes decisions about personalization and other value-added services;
- Customers accept or abandon the order based on shipping/handling charges, total transaction price, item availability and if the retailer can get it to them when they need it via shipping or in-store pickup.

This is no small feat. In Walmart's 2014 report, the company said it had 10,900 distribution points globally. Kohl's 2014 annual report mentioned inventory being used in stores, DCs, 3PL partners and drop ship vendors. From our experience with implementing systems and processes in stores and DCs, for smaller retailers these changes take several years to complete.

Communicating item availability by location and SKU

A small footprint specialty store doesn't generally have large SKU quantities by color-size. And it's not uncommon for retailers to have inventory system inaccuracies when on-hand gets down to the remaining "ones and twos" by SKU by store.

Also, historically merchants have not religiously maintained well the expected receipt dates on purchase orders. Senior management is enforcing this disciple to get the customer experience up.

New store responsibilities and costs

Pick up in store, order fulfillment from store to customer or transfer to another distribution point has created new store-level responsibilities as well as system needs (e.g. shipping systems, OMS access, etc.). Most retailers now have store associates filling orders within a couple hours.

Returns logistics and costs

Return rates have always been higher for direct commerce than at retail stores, where a customer can see, feel and try on the product. Before ecommerce, a retail store might have a return rate below 5%. In today's omnichannel world that can easily double depending on the product. Fashion apparel and shoes can have a 20% to 30% return rate.

Other drivers of higher return rates for omnichannel companies include "no hassle" return policies which are necessary to maintain shopper trust. While a high percent of returned products are re-salable, some need to be refurbished or repackaged. Omnichannel companies like Cabela's and L.L. Bean have set up centers to process returns; refurbish product, potentially repackage the item; and redistribute to stores or return to stock in DCs. Other companies use reverse logistics 3PLs such as GENCO or Newgistics to pick up returns and process them.

Understanding omnichannel fulfillment costs

The inherent costs of dealing with small customer orders—infrastructure and systems, store responsibilities, transportation—are new and not clearly identified in retail companies. For example, in direct businesses we work with, the fully loaded cost to fill a customer order can range from $3

to $4.50 per order of three items or less for efficient companies, not including shipping costs. This includes management, direct and indirect labor, DC occupancy and packing costs.

Transportation costs can range from $4.50 to $10 and up per order depending on weight and carrier rates. “Free” shipping is a major expense, and new to most retail operations.

We live in exciting times! Omnichannel AND brick-and-mortar are here to stay. Now we need to become efficient as we offer high levels of customer service. Item availability managed throughout the supply chain is at the heart of making or breaking the sale.

Do You Really Need To Make Those System Modifications?

By Curt Barry

Recently we had a chance to follow up with a client and vendor on the outcome of their seven-month implementation negotiated last year. There are some unique lessons learned about making modifications to order management, ERP and warehouse management systems for all of us.

The prospective client felt strongly that it needed to hard allocate inventory because of the size and timing issue associated with their wholesale business to business customers. They agreed that for the direct customers, soft allocation would be better but because of the size and growth the B2B business they needed hard allocation too.

I want to emphasize that an exception list of requirements was answered by several vendors and two days of demos were conducted using scripted demos with each vendor.

In the negotiations with the vendor finalist, they agreed to several unique approaches. The vendor liked the client's ideas and agreed to handle the modification as a no-charge item if the client attended week-long first-level classes so both sides could better understand how the current system worked. This also allowed the vendor to better understand the scope of the issue and suggest options. If the client did not like the design outcome, they would be released from the contract and refunded their deposit.

I want to point out how unique this approach is. In almost all cases once you sign license and services agreements and pay the deposit, which can be 50% of the total license cost and a deposit on the professional service, you're committed.

If the vendor had made the programming changes as first designed and estimated, the modification would have required 300 hours for design, programming and testing. By completing the education and having the extended discussion, the parties were able to find an acceptable compromise that delivered most of the desired functionality while avoiding negative consequences.

The results were the following:

- Programming took around 120 hours vs. the original estimate of 300. At a programming rate of $150/hour, this saved $27,000;
- The vendor did not have to make unwanted changes to the software application's core structure;
- The vendor is confident the application can now better handle both B2B and B2C operations, and the client got most of the changes it felt were needed;
- The modification was added to the application for all users and did not create support issues with future releases;
- The project was completed on schedule and the go-live date was met.

We have often seen clients demand many changes without completely understanding functionality. In this case the owner was deeply involved in the design and implementation. There has to be a sense of trust between the two parties for any implementation to be completed successfully, with both understanding each other's issues before making unnecessary program changes.

We advise against any modifications that make the new system look or function like the old one. Use the new system for six months or more, if possible, to better understand the functionality. In a lot of cases the modifications you thought you needed are not necessary, as the "vanilla" version works fine and requires just minor changes to your business processes. Most of all, there is always room for some creative, open-minded solutions.

One of the biggest reasons for go-live delays and cost overruns is modifications, which happen for a number of reasons. Some of the most common involve an incomplete or insufficient requirements definition. These modification specs need to be defined in detail and signed off on internally by vendor and client management. Delays are also caused by a lack of testing to ensure the modification is working according to the spec definition and can support the business process. It not only needs to be unit tested, but should be incorporated into your conference room pilot testing to make sure it hasn't adversely affected any other functionality.

Because ERP and OMS systems are so complex, you can't always understand the functionality by just reading documents or seeing demos. Neither will this help you fully understand the potential effects of modifications on other system functions.

Finding the Best Partner to Install Your ERP is as Important as the System Functionality

By Curt Barry

The major software companies, especially enterprise wide systems from Microsoft, Oracle (JD Edwards EnterpriseOne), Sage and SAP, have made huge head ways into the order management system marketplace for moderate to large e-commerce and catalog companies. It's important to remember that the ERPs have a development legacy outside this marketplace. In most cases these software companies reply on Business Partners or Value Added Resellers (VARs) to develop industry specific functionality which gears the base ERP/order management system to your order management, distribution, marketing, merchandising, etc. requirements.

To sell to widely different market niches, today's ERP systems have flexible configuration set up and often "layers" to provide standardization of functionality and unique requirements at the same time.

For example Microsoft AX has eight software layers in total and uses 5 layers for customization by Partners and customers.

Customizations can be easily inherited during upgrades and the deployment of add-ons within multiple sites. This architecture allows you to customize the system without affecting other layers.

Additionally, large VARs or Business Solution Partners may actually sell and install more than one software manufacturer like Microsoft and Sage.

There are a couple key points here. The selling agent is the Business Partner or VAR representing the software manufacturer as well as their company as installers and your first line of support for the system. Initially you may say, "These are big software companies with lots of experience, what's the problem?" The reality is that you are contracting with both the software manufacturer like Microsoft for the base software and the Business Partner or VAR for the implementation, services and on-going support. So you have to evaluate not only the ERP/order management system; the VAR layers specific to your industry niche; and the capabilities and experience of the VAR. Most VARs specialize in one or more industry niches such as wholesale, retail, government, manufacturing, direct commerce (part of retail), etc. The VARs develop industry specialized functionality which makes the ERP system more effective to that industry niche. All of this adds

complexity to the selection process but it's key to having a successful implementation and long term adaptation for your company.

As you can see selecting the right Business Solution Partner or VAR is as important as the selection of the software itself. There is a wide range of experience among these Business Partners in terms of the customer size, number of employees and complexity of direct to customer businesses installed.

Another disconcerting fact is often the initial Business Partner selected often gets fired by the customer. From one of the major software vendors they told us often it is as high as 30%. This reopens the Business Partner question. Or in some cases the company decides to hire consulting firms, freelance developers or decides to take the remainder of the implementation in-house. Ultimately, this elongates the installation time frames considerably and also increases the cost. The initial Business Partner has collected much of the initial budgeted monies.

Through our consulting with large direct to customer companies installing ERPs, here are some key questions you need to answer about the Business Partner you will ultimately select:

1. Which Partner has the best application fit for your company? This can only be determined by drafting requirements, writing RFPs, directing scripted demos and talking to qualified references.

2. Is the Partner's main marketing focus to install the order management system in companies of your sales volume? There are many Business Partners to choose from and some specialize in very large retail and e-commerce entities. As a result their costs and experiences are only geared to those companies. They may not be open to trying to sell and install their system in smaller businesses.

3. How many referenceable installs do they have that are similar in operation to yours (e.g. e-commerce or B2C)? We have had situations were a Partner's experience and installs is not the e-commerce and catalog vertical. Yes, a vertical may have warehouses and ships small packages, but when you look at their industry experience in multichannel , it may be lacking.

We believe that there is tremendous future for ERP/order management systems used in the ecommerce and direct to customer businesses. Do your due diligence pick not only the best ERP but the best VAR for your business.

Assessing IT Skill Sets Needed to Install Your New Order Management or ERP System

By Curt Barry

With the implementation of a new ERP or Order Management System, companies need to assess user department and IT skill sets as they plan their system conversions. The skill sets are often dramatically different from what is required to support the current legacy systems. Additionally, the user department manager will have the challenge of learning the new applications and potentially upgrading their knowledge about using the new platforms, data repositories and reporting applications.

It behooves you to assess how much change there will be for the IT staff and user management. This learning curve impacts not only the cost of the project but the timeline to install the system. Here are 5 points to assess:

1 **What are the changes in IT operation and support the new system will create?** On-line versus batch processing? SQL vs. proprietary data bases that you may currently be using? New systems may use HTML, .net and other modern languages vs. C, COBOL and others that have been obsoleted. Client Server software used for transactional processing may be new to your organization. Assess how changes in IT platform changes IT skills required?

2 **Does the IT staff have conversion experience?** They may have implemented other types of systems in your company. But order management or ERP replaces many of the systems and changes the processes in the call center, warehousing, inventory control and accounting. Most IT personnel don't have this experience on their resume. Here are some challenges to deal with:

- **Proper sizing of hardware from legacy systems to new systems.** It's not simply a matter of "the current system has this configuration and storage and we'll need something comparable". Vendors will give you specs but this is often an area of under estimating the amount of equipment. Will reports be run from production servers or a report server? Are you setting up separate incidences (or copies of the systems) for production, test and training? System redundancy, backup and recovery options? We often see systems undersized by a factor of 2X plan vs installed.

- **System integrations.** Most conversions have at least 15-20 interfaces with other corporate systems (e.g. e-commerce sites, data warehouses, accounting, etc.), outside

services (e.g. catalog printers, marketing services, etc.) and vendor systems and portals. When considered at the transactional level, these data flows explode into dozens to hundreds of individual data flows. Integrations become one of the longest lead items. Does your staff have this experience? Or should you use contracted or free-lance services?

- **File conversions.** Another long lead time item. The most common misconception is to convert all of the legacy data via programming. In many systems there are hundreds of data files and tables required to make the new system operational. Look critically at what files you will convert (examples of files: customer, item or product, 2 year's order and return history, etc.). Other major files such as inventory, new promotional files, chart of accounts, etc. should be manually entered. It will be faster, cheaper and more accurate. In the planning, agree with VAR on which files, data feeds and history. Does your staff have this experience? Or should you use contracted or free-lance services?

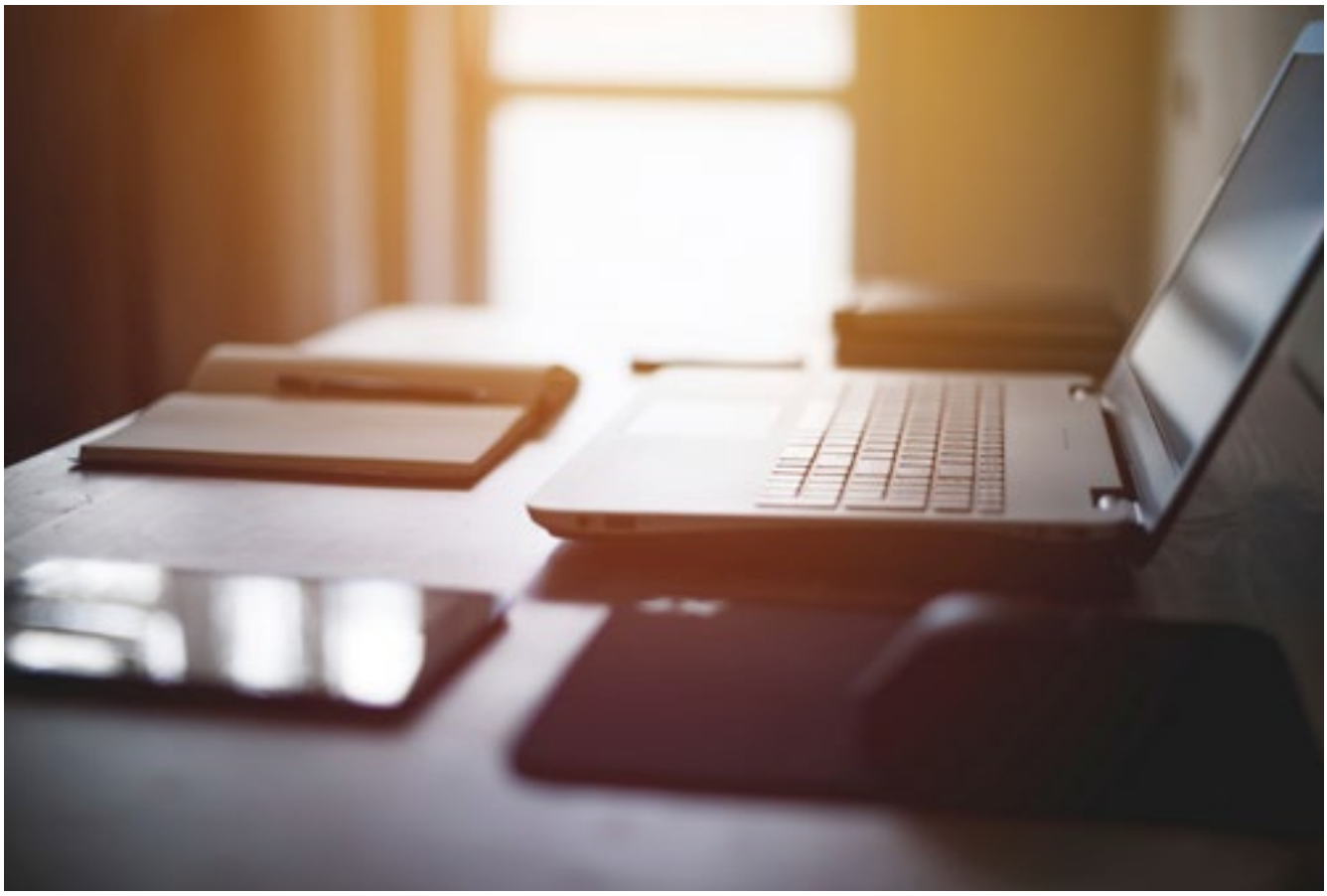
3 **What formal courses does the vendor have?** Are they on-line (self-taught), classroom training (on-site or away)? Review the courses' curriculum. Self- taught, self -paced programs abound but they are tedious and I don't think as effective as classroom training. ERP training by the software manufacturer will not include the specifics for the VAR layer. For a major ERP system conversion we have seen training cost $50,000 for IT and user department training. Be sure you know the extent and content of the courses. Include the training time and learning curve in the project plan.

4 **Hire new personnel?** That's easier said than done. You can hire managers and programmers experienced with the language and data base. It's hard to hire people experienced with the application system, especially the VAR layer. You can hire IT managers experienced with conversions which will be helpful. New people don't know your current systems and your culture. Understand what skills sets are needed and time required for the implementation. Look to the VAR to provide services at an additional cost.

5 **Remember your staff's day to day responsibilities.** Recognize IT skill sets may become the limiting factor in how quickly you can implement the new system and support yourself without additional implementation expense.

Are You Holding on to Your Fulfillment System Too Long?

By Curt Barry



In many cases, businesses are holding on to installed order management and ERP systems more than 10 years—many cases 15 years or longer—if the systems are the "right fit" for their business. On the face of it, this is sound thinking considering the expense and time frame to implement new systems.

Your order management or ERP system maybe the right system for your call center, the merchandisers' management of inventory, accounting systems, integration to your web platform, etc. But are your fulfillment system requirements the same as 10-15 years ago? For many businesses the answer is a resounding "NO". Maybe it's too conservative a position to expect to get incrementally more productivity out of your distribution center each year without additional functionality. Direct and indirect labor accounts for more than 50% of the total cost of fulfillment excluding shipping costs in most companies. "People productivity" in our distribution centers is largely based on the feature/function set designed into the systems we use.

What are your distribution center requirements as you look forward? Here are 15 major areas to consider:

1. Supply Chain management of vendors and partners including vendor portals, Electronic Data Interchange (EDI) and Advanced Shipping Notices (ASN)—to gain visibility of incoming receipts; management of vendor compliance requirements; communication of forecasts, purchase orders and invoices, etc.;

2. More accurate four walls inventory (up to 99.9%) —full bar coding of products, customer orders and returns using bar code scanning and controls;

3. Improved methods of velocity and hot pick slotting of merchandise reducing picker travel time and increased order throughput;

4. Better management of warehouse cube utilization with directed put-away and on-line location control;

5. Additional picking options increasing orders, line items and units picked per hour and order throughput;

6. Department and employee productivity standards and reporting;

7. More effective management of customer orders for multi-warehouse operations;

8. Improve management of outbound transportation costs and best way shipping to reduce costs;

9. Support for voice enabled applications throughout fulfillment and distribution processes in receiving, put away, picking, returns, cycle counting, etc. This requires and Radio Frequency and bar code technology as a pre-requisites to voice enabled applications;

10. Real-time KPIs and dashboards to manage fulfillment workflow;

11. Omnichannel requirements from distributed order sources (call center, web, stores, etc.);

12. Meeting supply chain requirements as a wholesaler to “big box” retailers (e.g. vendor compliance interfaces for ASNs, bar code standards, etc.);

13 Interface to Material Handling Equipment and sortation systems;

In addition to the fulfillment and distribution center requirements, there may be IT requirements important for the future:

14 Replace ageing technology that is becoming more expensive to support. Reasons include the original software manufacturer is no longer developing the base software. Or the application companies have moved on to current standard platforms SQL, .net, etc.;

15 What benefits might your company gain from adapting a cloud based or Software as a Service (SaaS) platform? These include transaction pricing or "pay-as-you go"; reduced IT costs and lower upfront investment.

What are the system options for gaining these benefits?

- **Internal development:** Given the budget and project time, internal IT staff can add these functions to existing ERP or order management system;
- **Standalone commercial systems:** Many of the above requirements can be met by interfacing pecialized systems to your ERP or order management system. These include slotting and management of space; time collection and labor management; supply chain EDI, ASNs and vendor portals; real time KPIs and dashboards; enterprise shipping systems, etc.;
- **"Best of Breed" standalone Warehouse Management System (WMS).** WMS systems vary in functionality and price. The Tier 1 systems will have the "highest fit" to the above requirements.

The requirements of each multichannel company will vary. Take the time to do your systems requirements and to understand which of these areas of warehouse management will give you the most return on investment. To incrementally reduce costs and improve service levels each year, is your ERP or order management software company adding feature/functions to make your fulfillment and supply chain systems more efficient and nimble enough to meet ever changing requirements? Will the current software be the platform your fulfillment can operate on for 10-15 years forward?

Selecting the Right Software Vendor For Your Business

By Brian Barry

Selecting software, be it an Order Management System (OMS), Warehouse Management System (WMS), Enterprise Resource Planning system (ERP), E-Commerce solution, or some other system, is a challenging task. The process normally begins by documenting a set of requirements, constructing a Request For Proposal (RFP), identifying vendors, viewing web demos, and conducting site visits and reference checks. Recently a trend appears to be emerging to select vendors based on word of mouth recommendations and two-hour web demos. Is that really the right approach? Selecting the right vendor is critical to the success of your company. The choices in the software marketplace are overwhelming, and if the software solution meets your requirements, how do you determine if a vendor is the right vendor for your business? Here are a few points to consider.

Full Cost

No matter how many times I've heard businesses claim that cost is not the primary factor in the selection process, in actuality it always becomes a prime factor after RFP responses are returned. But is enough information provided in the RFP to ensure the vendor's pricing is accurate? Does the pricing include the software, hardware, number of user licenses, transactional volumes, upgrades, maintenance, training, integrations, modifications, conversions and implementation services? I've seen instances where clients developed what they thought was a good RFP, which the vendor responded to appropriately with an initial cost based on the defined requirements—but after due diligence determined the real cost was more than double the original. The best course of action is to have an RFP that not only covers all the requirements but also identifies any and all unique business processes. The more detail provided to the vendor, the more likely the pricing will be closer to actual. Key areas that affect pricing are data conversions, integrations and implementation services.

Stability

When investing in software, either purchasing a licensed software solution or using a Software as a Service model, vendor stability is key to ensuring that the vendor will be around in the future. Does that mean a vendor has to have been in business for 25 years? No, but there are questions that need to be answered. Besides how long the vendor has been in business, consider if the executive team includes proven industry leaders. What is the size of the vendor? What is their core business, and

does their software support your industry? How is the vendor staff organized? How many people are within the organization? Is their software solution proven in the marketplace? Inquire about where the vendor stands in the market: Do they consider themselves a top-tier, mid-tier or low-tier player? Inquire if the vendor is being acquired or acquiring other companies. Are they involved in any litigation or lawsuits that may affect their services?

Financials

Along with stability, you should try to determine if the vendor is financially secure. Is there an investment group backing them? Are they public or private? Have the vendor describe their ownership structure, including any parent or holding company. Ask for their total billings/revenue and the revenue for the type of business segment you are in.

Client Base

The client base will indicate the vendor's experience relating to your business segment or industry. Is the vendor a strong player in Business to Business or Business to Customer (Direct to Customer)? Do they specialize in apparel, gifts, furniture, electronics, etc.? Most vendors are willing to share their entire client list. Other key questions to ask are:

- Does the vendor hold annual user meetings?
- What size are most of their clients?
- Would you be the largest or smallest client?
- How many of their clients are in your business segment or industry?
- What modules of the software are clients using?
- How many clients are currently being implemented?
- How many clients have left the vendor in the last 24 months?

Reference Checks and Site Visits

A critical aspect to identifying the right vendor is conducting reference checks and site visits. Vendors will typically provide a list of 3 to 5 clients for reference checks. It's best to take that a step further and contact clients outside of the list the vendor provides. And don't just ask typical simple questions such as, "Does the software work?" or "How did you configure order entry?" Ask more revealing questions, such as, "Did the vendor do what they said they were going to do?" "How did the vendor treat you?" "How did the vendor respond when things went wrong?" "Did the install meet

the implementation schedule?" The face-to-face with a client using the software has always proved to be worth the investment in travel and expense. Visiting at least two client sites will provide a good indication of how well the vendor does what they say they are going to do. Not only is it recommended that you visit at least two client sites, you should also consider visiting the vendor's headquarters to meet with the executives of the company, the implementation team and the application developers.

Vendor Strategy

Does the vendor have a long-term development strategy for the software? Do they utilize user input for implementing new features, or do they require that each client fund modifications, which are then incorporated into the core application? How does the vendor prioritize new features?

Implementation

It is equally important to meet the implementation/project manager along with the account liaison or future account manager. You will want to know the project plan, timeline and the number and amount of resources needed to keep the project on track, on time and within budget. If the vendor cannot provide any of these it usually indicates that they don't use a proven methodology for implementation.

A Successful Partnership

Last, but not least, one of the most important keys to successfully selecting the right vendor is having a good culture fit. Creating a partnership with a vendor that understands your business, is willing to work with you and "gets you" is paramount to a successful relationship. That is why you want to spend the time onsite at the vendor's location to meet with the executive team, project manager and account manager to make sure the "fit" exists. Doing so will give you a clear understanding of what it will be like to work together. At the end of the day, creating a successful vendor/client relationship means being able to look them square in the eye and trust them to deliver on whatever is promised.

13 Steps To Help You Plan An ERP System File Conversion

By Curt Barry

File conversions "don't get no respect," as Rodney Dangerfield would say. Everyone knows they need to write programs and convert files. However, it's not uncommon to leave off detailed discussion of which files and tables to convert, what data fields and how much data (this year's only or how many years' history) until the implementation.

In an order management or ERP system there are literally hundreds of files and tables that need to be discussed. It doesn't mean that many of them are going to be converted by program to the new file format. Smaller files and tables (e.g. shipping and handling tables) are not worth the programming, test and conversion time. It's faster with some to learn the new system and build the files manually.

Here are 13 considerations to help you make the right warehouse system file conversion decisions:

1. **Start your file conversion planning early:** If you're still in the selection process, start this discussion immediately. Are there unplanned professional services you need to take into account? If you are in the implementation phase, you'll find that this is one of the long lead time tasks. Not having the file conversion programs and test files completed will hold up the testing, conference room pilot and on-line training with test files in training exercises. As part of your project plan, go through what you think your file conversion requirements are and determine how this matches up with the software vendor's expectations and experience.

2. **Determine responsibility:** Ideally you should have an IT project person and a department user working as a team for each of the files. The IT manager will do the data mapping to the software vendor's specifications and programming. The department managers should be involved in identifying the data, reading specifications and looking at test results to validate the converted data.

3. **Be realistic about programmatic file conversions:** On the face of it, it sounds wrong to not automatically convert everything by program. But there are way too many files and tables. The effort, time and cost do not justify the programming.

- Files that are typically converted include customers, open accounts receivable (if it is a significant number of records), accounts payable, item/SKU, vendor and maybe general ledger account number. Large sites almost always convert order history and associated details (open orders, history related to returns, tracking notes/comments).

- Don't convert warehouse inventory files, instead count and load the inventory eliminating SKU errors. In small companies, rekey backorders with a programming change to accept their actual order date. If not too voluminous, rekey open purchase orders. On the new system, can you archive the old system data, and does this eliminate any need to convert files? Figure out the complexity, number of records, time and costs.

4 **What data?** Converting from your legacy system to the new ERP or OMS may create data fields which are not in the same named files.

- The new file may have to be built from two older system files. Go through each file and specify the data characteristics (data name, type of character, length, etc.) and map where the data is coming from.

- Over time users may have keyed data in free-form fields that need to be rebuilt into the new system's fields, such as substitute item numbers in a description field. User-defined fields will need to be identified and converted or rebuilt.

- One thing that companies often do is take user-defined data fields to have a specific meaning. Over time, many times data fields are often misused to create new functionality.

5 **How much history?** In working with large multichannel retailers, we find they often wrestle with how much customer and item/SKU sales history to convert. Much of this will depend on expectations, use in forecasting and whether the new system has history fields.

6 **Vendor file conversion programs and data mapping:** Ask your vendor for file mapping layouts they expect the data to be converted to. Does the vendor have standard conversion programs from vendor A to vendor B?

7 **Develop conversion control totals:** Develop hash totals comparing records between the old and new systems. Are all the records being converted and built, or are they being rejected?

8 **Visual validation:** Once you feel the programmatic conversion is working. Get some of the department members to visually review the exact records on the old system with the new data and format. What conversion errors do you find? It's never perfect on the first, second or maybe third conversion pass.

9 **Pass the file and correct process:** It's an iterative process. Write and test basic file conversion programs. Select "nth" samples. Test the file; correct the data and rerun again, then move to a larger sample.

10 **Translation of data:** A good example is the parts numbers of two different systems; they may be in totally different formats. For example, on the old system apparel items may be part/SKU oriented. On the new system maybe it's a style, color and size matrix. What changes need to be validated?

11 **Data cleanup:** An example is any standardization of data fields. For example, black may be denoted as BLK, blue as BLU, etc. Set standards for your codes.

12 **Benchmark the time it takes to run file loads: Test with every "nth" record for test file conversion.** We have found that that loading millions of records can be a very slow process in SQL. Don't think you're going to test with a full file. How long will the conversion take and how will you keep an online environment in sync between old and new systems?

13 **Be realistic:** What can your internal staff do and what do you need vendor assistance with?

Start planning the file conversion tasks early, and don't turn this over to IT. All the users of the new ERP or OMS—call center, inventory control, accounting, warehouse—have a major responsibility for accuracy and readiness for the conversion and go live.

On-Premise Software Versus Software as a Service or Cloud? Nine Factors to Consider

By Curt Barry

Software as a Service (SaaS) and Cloud based computing has taken the application world by storm. As you consider acquiring new systems—whether they are—new order management, warehouse management, marketing, telephone system or shipping systems—RWC

there nine factors to consider comparing SaaS and cloud to on-premise approaches. The chances are good that across your business you'll use a combination of the two IT business models.

The following comparison shows what I think the nine most important factors are.

Comparing On-Premise to SaaS and Cloud

Factors	Traditional On-Premise	SaaS or Cloud
Intellectual property	Perpetual, non-exclusive license to install and use system. Acquisition of source code additional cost.	Ability to use system for contract time frame—anywhere from month to month to multi-year agreements. Highly flexible.
Ability to Customize	More flexibility to develop and support customized business systems	Many times all users are on same release level or version and function. Some providers will interface to other commercial subsystems.
Hardware and Operating Software	On-premise or outsourced operations.	Resides with a hosting provider, which may or may not be the developer.
System Upgrade	Internal responsibility. Can contract with the vendor (or other third party). Internal IT responsible for planning and implementing resources.	Vendor performs regular upgrades as generally all users are on same version of the application. May be more frequent updates. Provider manages hardware and software scalability.

IT Operations	Generally internal staff. Can outsource operations for additional costs.	Outsourced operations included in monthly fee
System development	On-going expenses for internal programming staff or contractors.	Provider responsible for developing application.
Adapt new technology	Major responsibility for internal staff working with vendors.	Look for outsourced partner to stay up to date with server versions, database changes, communications, back-up, etc.
Vendor maintenance and support	Annual support costs 18% - 25% based on license costs.	Usually included in monthly service fees
Application costs	May be more expensive implementation initially considering total cost of ownership. Asset purchase.	After several years, may be more expensive over the long term. Service rather than asset.

One of our clients migrated from an on-premise Order Management System (OMS) and POS to two cloud providers. The CEO and IT Director pointed out the benefits. "Going to the cloud platforms got us out of the daily IT operations - we loved finding partners that could support us. Our small IT staff now has time to work with the users to gain greater benefits from the applications."

"Initially our OMS provider's POS was not strong and we implemented POS with a separate cloud provider. Our OMS cloud provider eventually enhanced their product so that it was far stronger. Because we were on a month to month agreement with the POS provider, we could implement the new app and drop the first POS vendor. Much more flexible than if we had paid for an on-premise POS app. We'd be looking at the depreciation still on the books, learning new apps from a development and operations aspect to support the users."

Additionally the OMS provider acquired a strong cloud-based Warehouse Management System. It is far more functional than our on-premise OMS apps have ever been."

For larger multichannel companies, it's prudent to be entirely sure of how well the SaaS and cloud based systems will handle your transaction volumes and the disaster recovery preparedness of the providers. But then you can make the same point about internal staff supported systems and on-premise applications.

Another key perspective to take into account is the total cost of ownership including initial implementation, servers, license and annual support. Our experience with some clients is that often the SaaS or cloud model is much lower costs in the first couple years. However, SaaS or cloud may have a higher cost the longer you keep the service. The service fees are on-going and in the on-premise model licensees, customization, equipment, etc. and depreciated and amortized. My client cited above says, "I feel it's worth the difference in terms of flexibility, nimbleness and scalability."

But do your due diligence and see how this works out for the vendors you are considering. Talk to references for both approaches. Do they have multichannel customers like yours, with your type of merchandise and sales volume? I think you'll find that these nine factors spawn many pros and cons as you do your research.

An Order Management System Installation: How Bad Could It Be?

By Curt Barry

That's the rhetorical question Matt Jordan, CEO, Premier Performance, Inc. asked of the audience at the Senior Executive Forum at Operations Summit 2015 about installing an order management system. Matt is an FCBCO client and he has gone through several ERP and order management system conversions and shared his experiences.

Matt quoted several findings from a study of ERP systems by Panorama Consulting that parallels our experience with order management systems involving call center, fulfillment and ecommerce. This Panorama study parallels other major systems studies and FCBCO's experience.

Comparing On-Premise to SaaS and Cloud

Year	Cost	% of Cost Overruns	Duration	% of Duration Overruns	% Receiving 50% or less benefits
2013	$2.8MM	54%	16.3 months	72%	66%
2012	$7.1MM	53%	17.8 months	61%	60%
2011	$10.5MM	56%	16 months	54%	48%
2010	$5.5MM	74%	14.3 months	61%	48%

Source: Panorama Consulting, 2014 ERP Report

The Panorama report says, "Over the past four years of Panorama's independent ERP research, the average duration has been 16.1 months. In this period, approximately 54% of projects have exceeded their planned budgets, 72% of projects have exceeded their planned durations and a full 66-percent of respondent organizations have received less than 50% of the measurable benefits they anticipated from their ERP software initiatives."

Matt went on to say that, in his experience, these are *Factors Inhibiting Success*:

- Most common problem: "organizational issues"

- Weak project management
- Too narrow a scope for budgeting
- Too little understanding of the impact of a new system on processes
    - » Not capturing all the requirements for all areas of the business
    - » Not understanding how the new system works

Matt's observations about *Mitigating Factors That Inhibit Success:*

- **Staff buy in / sell the rationale for the change.** We have seen many times that the staff complains about the existing system, but they may not fully commit to successful implementation.
- **Adequate resources (right people):** In one case, Matt's company chose to upgrade the positions and skill sets for the new system implementation.
- **Third-party project manager:** Independent / speak truth to team / focused. Managing implementation of an order management system isn't something most managers do but once or twice in their careers (thank God!). Plus, they have full-time positions managing the day-to-day operations. In our experience, the vendor's don't have the broader experience in your business and they should not have the broad responsibility for success. Matt felt that a third-party manager gave the independence about staff and vendor progress and issues.
- P**artnering with the right VAR.** FCBCO experience shows that 30% of the time, the selling VAR gets fired, and contractors, internal staff or another VAR implements the system.
- **Expand scope of implementation budget beyond VAR quote:** What other costs are likely? Matt and FCBCO would recommend including:
    - » Overtime that will be required;
    - » Accounting write down on prior purchased equipment and systems;
    - » Additional staff added that may have more expensive skill sets than in-house personnel; and
    - » Lost productivity in the first couple of months where temps may be required.

- **Take time to understand software functionality:** Don't assume anything. Just because others in ecommerce use the system, it doesn't mean the system is full functioned or will meet your needs.

- **Minimize customization:** A recent FCBCO client project showed that two-thirds of proposed modifications the client staff felt were mandatory could be dropped after fully understanding the vendor's system, processing and functions.

- **Manage expectations:** in small steps. Most organizations fail to do detailed implementation planning before they make the recommendations on cost and schedule to management and sign the contracts. In our experience, without better planning, the initial expectations you create are faulty. Vendors are notorious for giving overly optimistic schedules that fail to get met.

"How Bad Could It Be?" I think Matt Jordan's observations about installing large-scale systems like an order management system or ERP system are right on target. You're changing the way almost everyone in your company does their work. Studies like these show you can't over plan or over manage the implementation of an order management system. I know many readers have the same experience.

Need Help?

If you'd like an expert assessment of your multichannel business to identify ways to reduce costs and improve productivity, we're here to help. I'd invite you to use the link below to request a time for us to have an introductory phone conversation where we can explore your questions and situation.

REQUEST MORE INFORMATION

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