

## CUSTOMER COMPLIANCE DEMANDS

BEAST OF BURDEN, OR NEW BUSINESS OPPORTUNITY?

David Hurwitz  
*XFactor Consulting*

## WHAT IS COMPLIANCE

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First, let's define 'compliance' and consider its meaning. How does Webster's Dictionary define the word?

Main Entry: com·pli·ance

Pronunciation: (kəm-ˈplī-əns) Function: noun

- 1) The act or process of [complying](#) to a desire, demand, or proposal coercion; conformity in fulfilling official requirements
- 2) Disposition to yield to others
- 3) The ability of an object to yield elastically when a force is applied; [flexibility](#)

This is significant, as the title of this paper basically poses a question...really a choice in disguise. Choose to look at 'compliance' as a 'beast of burden' or choose to look at 'compliance' as an opportunity. What is interesting is that Webster's has multiple definitions for 'compliance'. They offer three different definitions, some of which seem inconsistent with each other. Definitions one and two define 'compliance' in a somewhat negative light, a form of acquiescence to coercion or submission to a demand. Definition three however, defines it in short as 'FLEXIBILITY'.

This paper will present 'compliance' not only as opportunity, but an enormous opportunity, for the small to medium size (\$5M-\$100M) business owner. This paper will also review 'compliance demands' within a Distribution environment, however, the majority of the content applies to any business if adapted properly.

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## IS THE GLASS HALF EMPTY, OR HALF FULL

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Today, compliance pains come from three sources: Government (SOX, etc), large industrial or retail customers (Wal-Mart, the reigning King), and even smaller customers who are asking for unique delivery, packaging, assembly or other services. The compliance burdens within any of these groups can be significant and generally non-productive...or are they?

Often, meeting these compliance demands simply allow you to keep your current business steady. But, are you missing buried sales opportunities that these demands provide access to? At worst, these demands drain resources and cause a substantial cost burden. Perhaps, at best they provide an abundant source of opportunity for economies of scale.

So, you can choose to look at the glass half empty, or choose to look at the glass half full...it's your choice. But, why not turn compliance requests into a strategic advantage?

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## WHAT THEY DIDN'T TEACH US ABOUT BUSINESS IN COLLEGE

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On my way to college in 1985, my Father bought me what I thought was a fancy computer, an IBM 386 XT with an amber monochrome monitor. It had one of those 5.25 inch floppy drives. It cost over \$2,000. Of course, DOS was the operating system. The very first version of Windows had not even been released yet. I used this computer primarily to do word processing.

During my tenure as an undergraduate, I took the only computer related course offered, 'Basic Programming'. This class taught me a few basics about computers, but not much. As part of my degree requirements, I took all the entry level MBA courses offered at the college I attended. Accounting, Finance, Marketing, Organizational Behavior...you know, the basics. Not once was the topic of Information Technology (IT) discussed. The field had just emerged and was still in its infancy. How was the small to medium size business owner going to work with IT? Wasn't it just going to be for Fortune 500 companies anyway?

At that time, even the students working towards their degrees in Computer Science were being taught programming languages like COBALT and FORTRAN which have long since been replaced with other more intuitive programming languages.

It is no wonder that most business owners and senior executives today have not established a strong relationship with their company's IT departments. In the 80's and 90's, universities did not teach us to relate to technology as a strategic weapon in business. However, that has all changed today. But for most of us, college was years ago so how were we supposed to have learned all those skills? While that argument is easy to make, there is no excuse for today's business owners and senior executives to sit back and let the 'Technology Train' pass them by.

It is critical that the modern business owner gain knowledge in this arena. It starts with learning enough about IT at a high level to be able to manage the IT function as an advanced strategic weapon, not a mysterious black hole sucking cash out of their business.

After graduation, I started my own business which grew to a \$50 Million Distribution company over 13 years. As a founder of the company, I played the role of CTO from 1990 to 2003, and then sold it. As I look back I can clearly see that all of the knowledge I gained in the area of IT came from working in the trenches, not from any college course. Over 13 years I spent a great deal of my time focused on creating, maintaining and continually evolving an IT infrastructure that over time ended up running the operations of the whole company. Looking back, I can see the huge impact IT had on my business. As a strategic weapon, it gave me ultimate control over all facets of the operation. It allowed me to maintain the integrity of business rules and policies anywhere and everywhere within the internal transactional flow as business 'moved' through the company. It allowed me to mine the continual collection of data and, analyze virtually any nook and cranny in the business. Without it, my business would have simply failed.

The Distribution business model requires an intense focus on continually streamlining the business process. It is critical that today's Distribution company think hard about how to keep the operations on an ever-increasing efficiency path ...or risk being eliminated by the savvy IT executives who run the competition.

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## HOW DO I LEARN ABOUT IT...DO YOU EXPECT ME TO GO BACK TO SCHOOL

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No...no more school. What you need to understand about IT is not heavy duty technical learning. It's more of a philosophy and an attitude sprinkled with a small amount of high level technical understanding. That's all. So let's look at a few key points and suggestions of how you can create a new relationship with your IT department in a way that allows you to see a whole new world of possibilities.

- Know Your IT Staff

You either have in house IT staff, or, you outsource your IT needs to a local small company that you can call when you need assistance. Regardless of who is maintaining your existing IT infrastructure, they probably have some ideas that you have never entertained. Talk to them. Meet with them. Ask them questions. Ask them what they would do to improve your IT system. Ask them to

explain where the system bottlenecks. This is where your IT education begins.

- Learn about and Understand Your Current Accounting System

You are most likely using some type of accounting software to run your business and should get to know your current software intimately. Learn ALL it can do. What you will most likely find is that most software running in businesses today is just that, accounting software, not an enterprise wide solution.

This software manages the accounting functions, but as any Distribution business owner knows, accounting is but one facet of the business. What about Inventory Control? What about Purchasing? What about Marketing, Sales and Human Resources? And, of course...the infamous Warehouse? Does your accounting software touch those departments? Probably not. If it does, most likely there's only a slight association. The point here is to get out the user manual, search and review the software company's web site and LEARN everything you can about the software you have.

Most software companies out there today will offer case studies on customers who have successfully implemented their software and are achieving great results. Read these case studies. Learn from them. It will not take long before you begin to see the limitless possibilities of utilizing IT within your company. You do not need to re-invent the wheel. Just look outside of your field of vision and into the realm of IT.

- Understand the Business Community Supporting Your Software

In most cases, there are third party software developers who offer add-on modules that boost the features and functionality of your stand-alone software.

Long-term, you should only invest in a software package that has substantial developer community support. If you do not follow this advice, down the road, you may find yourself severely constrained by your infrastructure. They say there are only two

things you can count in life...death and taxes. A third thing you can definitely count on is CHANGE. You know that the future holds plenty of change and if you choose to trust your existing software without proof that a significant developer community supports it, you will ultimately end up paralyzed by your software...end of story. So, spend ample time investigating this issue. You may find yourself pleasantly surprised. There may be a host of options already available to add new functionality to your current system.

Determine the top three 'time wasters' in your company, purchase an add-on module that will work to fix these operational inefficiencies, and work with your IT staff on its implementation. This will be a good exercise to help you better understand the power of IT. It will help you view your IT role as an architect; you are the architect using IT as the backbone of your finished design.

- Understand the Technical Aspect

I know I said you would not have to learn a lot of technical stuff. And you won't, although if you choose to, you may find that you want more and more knowledge about it every day.....I certainly did.

Get familiar with the 'relational database' concept. Scan SQL for Dummies. Simply read the first few chapters and you will understand the basic power of an enterprise wide database. If you actually read the entire book, you will gain an even better understanding of the powerful tools available to the savvy IT executive.

Most software today will run on top of some type of database application. Microsoft's Great Plains, for example, uses Microsoft SQL as its underlying database. In the end, it is the database under the hood that will manage all facets of your business. The software running on top is simply a prettier user interface that manipulates the data in the underlying database. Thus, if you can build a relationship with the underlying database and how it really functions, you will begin to see the unlimited possibilities at your fingertips.

You do not need to fully understand a program language or how to write program code.

You simply need to identify the possibilities and discover the software that will support the potential. As a result, you may begin to transform your entire IT strategy.

As the business owner, it is critical you understand the 'big picture' of your IT department; unlike you, they do not identify with the intricacies of the entire operation.

It will be highly beneficial to integrate yourself into your IT department and get closer to its technology applications. With the understanding that in today's world, technology is the driving force of successful business operations, carefully consider the time you currently spend in that area. A new approach—creating a new vision from the perspective of IT possibility is absolutely crucial for survival in the current competitive marketplace.

Don't let your IT staff determine your overall business strategy. This is your wake up call.

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## COMPLIANCE DEMANDS CREATE THE OPPORTUNITY FOR OPERATIONAL ENTRENCHMENT

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Senior executives and business owners should look at each opportunity to serve 'compliance demands' as a golden egg. When a trading partner comes forward with a special request, the opportunity to operationally 'link' them is right in front of you. Seize the opportunity immediately. Of course, there are those customers and vendors that may make ridiculous compliance demands...but most of the time it is opportunity knocking.

In many ways, compliance demands create great opportunities to instill good business practices that will ultimately help many companies gracefully evolve into the technology age. These new compliance requests will create best practices that over time result in financially stronger businesses. It is interesting that many companies view these demands as a money losing battle. Those who scrutinize are not considering the long-term vision of the company. Not to worry, these companies will be buried soon enough by smarter competition.

As FedEx demonstrated, electronically 'connecting'

with customers or vendors causes 'Operational Entrenchment' to occur. Operational Entrenchment transpires when one company 'links' itself electronically to another company causing specific business processes to be seamless and automatic. FedEx developed a campaign years ago to put their PC-based shipping software inside its customer's operations. In many shipping departments across the world, FedEx has supplied computer software and hardware for its customers free-of-charge. By equipping their customers, FedEx eases the shipping process; their customers do much of the work necessary to prepare the shipment. By the time the FedEx driver picks up a day's shipments from a Distributor running the FedEx software, the manifest has already been electronically submitted to FedEx via modem.

FedEx has operationally entrenched itself into their customers. If a customer were to switch shipping companies, they would have to disconnect part of their own internal operations by switching computer software for the shipping function. As opposed to 'barriers to entry', in this example, the FedEx customer who wants to leave FedEx and switch to say UPS will experience 'barriers to leaving'.

In a highly competitive Distribution marketplace, the opportunity for Operational Entrenchment is a key secret weapon. Imagine your trading partners literally building their operations to connect seamlessly to yours. It's a long-term, never-ending process that has many, many long-term benefits.

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## LAYING THE PROPER FOUNDATION

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In today's business environment, compliance issues are no longer an exception, they are becoming more and more an expected part of business up and down the supply chain. With the proper IT foundation, changing and adapting on the fly is possible and in most cases, not that expensive.

Implementing a flexible IT infrastructure allows you to easily maintain and meet different compliance requirements from different customers or vendors without expensive and complex custom solutions for each new requirement.

Forward thinking Distributors are those who can grasp and understand the value of implementing an enterprise wide computer system which actually facilitates virtually all aspects of their company's

operations. The foundational piece is a database (in this case, we will discuss Microsoft SQL Server as the database platform). This database runs virtually 24/7, capturing and facilitating virtually all business flow as it moves through the company. Here are just a few examples of the workflow processes that a system such as this can easily facilitate:

- Automatic entry of inbound customer orders, then pick, pack and ship
- Automatic creation of replenishment purchase orders for all SKU's
- Automatic management and tracking of all A/R and A/P functionality
- Enterprise wide reporting on virtually any criteria you could ever dream of...
- ...and many, many, many more.

The opportunity to master the collection, maintenance, and manipulation of your enterprise wide database provides a significant strategic advantage over the competition. While many business owners don't really understand the power of technology and how to use it, if you are still reading, you must be interested in better educating yourself on this topic.

The power lies in understanding the various ways that software can manipulate databases—from sharing electronic data with trading partners to software that can manipulate a database for compliance; opportunities can be exploited to their full potential when they arise.

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## AREAS OF OPPORTUNITY

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Ok...you have heard enough generalizations, now let's review real world examples. First visualize this following scenario. We will build our own micro supply chain using three different companies:

- 1) ACME Distributing (AD) will be our middleman Distributor.
- 2) Smith Manufacturing (SM) will manufacture goods which will be bought by AD to sell to our third company.
- 3) Jones Retail (JR).

This is a 'supply chain' in a nutshell. Keep in mind that this is the basic model. But stop and take a deep

breath. Count to three. Now visualize the scenario again...see the three companies in this micro supply chain as defined earlier...all serving a different purpose, yet in the end all working towards the same goal...TO SELL MORE WIDGETS!. Observe the three companies as they all begin to focus their energies on sharing information with their supply chain partners...see the business seamlessly flowing through all three companies like water as they effortlessly pump goods down the supply chain. If you can visualize that, then you can begin to understand the power of the examples to follow.

Below are many examples of how IT can be used to not only comply with a demand, but to build a menu of electronic services that will benefit your company, your customers and your suppliers long-term:

- EDI, Inbound and Outbound

EDI, which stands for Electronic Data Interchange, is probably the most common compliance demand today. Understanding it is actually quite easy. Any standard business document that one company would exchange with another (such as a purchase order, invoice, shipping schedule, inventory inquiry, or payment remittance) can be exchanged via EDI between two parties, or [trading partners](#), as long as both have made the IT preparations.

The use of EDI is not limited by differences in companies or communication methods. Instead, EDI bridges the information gap that exists between companies using different computer systems.

First, let's discuss the initial setup of the software and hardware that will be required to add this EDI functionality. Many software companies today offer EDI software and hardware. In fact, if you prefer, you can have them come in and set up EDI for you right now. The question here goes back to the size of the developer community supporting your existing software package.

An EDI transaction is actually very simple. One company sends the other company an electronic text document that usually contains only the most rudimentary information—fields like Customer Number, Date, PO Number, Invoice Number, Credit Memo Number, Quantity Ordered, etc. These are all fields

that can be transmitted into a simple EDI document. One company sends the file while the other company's computer system captures, translates, and processes the data directly into the company's database...as though it had been keyed in by a human being. Think how much more efficient you can be using IT. You just need to better understand it.

Once the electronic bridge is built between the two companies, business can flow back and forth literally without human intervention. This is the true power of EDI. Virtually any information can be passed seamlessly from one company to another via EDI. Whether it be a report of something that took place (a shipment was sent, an invoice was sent, etc) or one company simply wants to query the other company for certain data on demand (such as a price quote, request for proof of delivery, etc). Basically any information requested on demand, EDI can make it happen. It takes a little work to set each scenario up, but once it is setup, the connection will exist for the long-term. Following are some detailed examples of how a few different types of EDI transactions can be setup between two companies:

- Sales / Purchasing

JR wants to submit its purchase orders to AD via EDI. AD in turn, also wants to submit its purchase orders to SM via EDI. Both scenarios are possible and cost effective. Let's also say that JR wants to know immediately what items AD has in stock to ship once the PO is processed into AD's system. That's possible too. Short term benefits include an immediate labor savings to place and accept customer purchase orders.

Long term benefits are many including improved accuracy rates as computers make exponentially less data entry mistakes than humans. Also, there is the annual savings of all that fax paper and long distance telephone charges to send all the faxes. More, there is faster turnaround time on orders placed via EDI as the order is instantly entered into the inbound system as soon as the file is received electronically. With the speed of the Internet, this can happen within seconds of sending the file. Faxed orders can sit in an order

entry tray for hours before getting manually keyed in. This will cut delivery times down overall within the supply chain.

- Inventory Control Planning

All three companies mentioned can exchange data to examine the quantities each has in stock at any given moment. Imagine getting complete and accurate inventory information from your supplier every 15 minutes. Not only will you know what they have in stock, you will also know what they have on order with their vendor, and when it is due to arrive. JR could help AD by sharing consumer trends data. AD could in turn, share data with SM to help them better plan for AD's upcoming orders.

In a manual, disconnected world, sales information will ultimately get back up the supply chain via word of mouth from the front lines, specifically in the form of re-order information. In most instances, the only way a manufacturer can really monitor their consumer product's sell-through is by assuming that replenishments are automatically garnered due to sales on the front lines. Often, this crucial data ends up traveling back up the supply chain MONTHS later. By building EDI connection points around sharing product sales information, the action happening on the front lines will be immediately seen and heard by those in the back, allowing them to plan for their future production more efficiently...without any guesswork.

Many large retailers like Wal-Mart and Target have built intricate vendor managed inventory systems. For example, the supplier of goods to Target is responsible for keeping the shelves in Target stocked with their product for consistent sell-through, while minimizing on-hand inventory and maximizing inventory turns. With these systems in place, these and many large retailers have moved to a model where they basically rent shelf space to the supplier and the supplier does the rest.

The primary short term benefit –all three companies can better manage their inventory levels and increase service levels at the same time. Long-term, this will drive a great deal of waste out of the macro supply chain of today's economy. As inventory turns more rapidly and waste is eliminated, Distribution companies will make more profit. As order lead times are reduced, inventory needs can be minimized as fill rates increase. This translates to better cash flow. More profits, better cash flow...sounds good.

- A/R and A/P

There are many opportunities for automation via EDI within the functional areas of A/R and A/P within your company. Let's say that AD ships 100 individual orders to JR each month. That's 100 to track...100 payments to reconcile. Let's also say that JR pays AD one check per month for all 100 invoices. Typically an accounting clerk would need to receive a check as well as remittance advice from JR in the mail to then manually match up the invoices being paid and reconcile the full payment to AD's A/R system.

A manual system, or even a disjointed computer system, can make this process cumbersome and time consuming. In most instances, the A/R clerk will be able to reconcile the account properly. But, what about that one invoice last month that JR paid short by \$67.00? Many accounting clerks will apply payments to the oldest outstanding invoices to keep the account up-to-date. But what if that \$67.00 amount is in dispute? What if the clerk does NOT apply the cash using the exact cash application instructions as noted by the customer when they sent their check? This will cause AD's A/R and JR's A/P records to be out of balance. This could take hours of phone calls and faxes back and forth (and three months) to ultimately reconcile the issue.

ARRRRGGGGGHHHHH!

When payment information such as a remittance advice from a customer is transmitted via EDI, all the frustration goes away. The short term benefit is that there will be much less workload placed on the A/R department. Long term, this will reduce errors, keep the company's books much more accurate, increase customer service, and overall reduce payroll for the A/P and A/R functions within the company. Keep in mind that much of the typical A/R and A/P clerk's job is to do rather repetitive mundane tasks. This is a great area to automate through EDI long-term. It can really minimize the need for additional accounting staff as you grow.

- Marketing

While this area may seem a difficult one to attack via EDI, there can be significant opportunities here, especially in the area of co-op marketing dollars being moved up and down the supply chain.

Let's say that JR has several in-store co-op marketing opportunities that SM wants to participate in. In this case, AD becomes the clearinghouse for these marketing dollars to pass through from SM to JR. This can be an extremely complex process consisting of co-op marketing proposals that need approval and co-op billing that needs to pass through all three companies.

An EDI system can be designed to automate the process entirely allowing JR to make co-op marketing requests to AD, which can then be routed automatically to SM for approval. JR can then bill AD for the co-op marketing program once executed and AD can bill SM for the same. The payments for the co-op can move seamlessly up the supply chain from SM to AD to JR.

The short term benefit is again, the significant labor savings to facilitate

this process. Long-term benefits include more accuracy throughout the entire process, better customer service, and in many cases, a boost in cash flow pending the lag time it takes for the current manual system to process all the paperwork and move the co-op funds up the supply chain.

- ASN, Inbound and Outbound

ASN, which stands for Advance Ship Notice, is a way for you to send your customers an electronic file which contains notice of what has just been shipped to them. This is just another type of EDI transaction that can take place between two companies.

Short term benefits can be seen within the warehouse operations of your company, as it allows the receiving department to know the contents of an entire inbound shipment while it's still in transit. With this information available to the receiving department, the manager can better forecast upcoming short term workload, thus allowing them to prepare for shipment processing well before it arrives.

Long-term, ASN can help you understand the issues suppliers are experiencing during order fulfillment. If you know what a supplier shipped against purchase order X a week before it arrives, ASN allows you to make better purchasing decisions regarding items that may not have been fulfilled. More often than not, you do not know what items were filled on a specific purchase order until the shipment lands in your warehouse. With the knowledge of ASN, you can place an order to supplier X in case supplier Y did not ship a specific RUSH item you need.

ASN can make you more responsive to the items left unfilled on the purchase order. It can also help the warehouse staff pre-assign bins for inbound items so the put-away process can flow smoother when it finally arrives.

## EDI SUMMARY

There is really no end to the possibilities of EDI. For more information on EDI and how it works, go to the following web sites:

Data Interchange Standards Association:  
[www.disa.org](http://www.disa.org)

The Accredited Standards Committee X12:  
[www.x12.org](http://www.x12.org)

- Compliance Demands Involving Customization

In many instances, customers will ask suppliers to customize their shipments. They may ask you to pack their boxes a certain way or put specific custom labels on products you sell to them. A large chain purchasing department may ask your Distribution company to drop ship the same exact order to several, maybe hundreds, of their individual retail locations. They may even ask you to create special 'bundles' or 'kits' for them by taking several of the individual SKU's you offer and create a new SKU containing several other SKU's as components of this new 'kit' item. Whatever the demand may be, having a flexible system running on a fast reliable database is the foundation that must be implemented into practice to make this all possible. Following are some examples:

- Custom Kits or Bundles

Perhaps JR wants to make special holiday gift packs for their retail customers looking for gifts during the busy retail holiday season. JR asks AD to bundle Items X, Y and Z into a pre-packed box. They are willing to pay extra for this service. They want the service and have heard that some of your competitors are doing it. With a strong and flexible infrastructure, this is all possible with a little programming. Some Distributors even specialize in this type of product bundling.

Costco is one of the biggest retailers to maximize the use of special bundling. Their buyers cherry pick strong selling items from a given supplier, and then ask the supplier to create a custom made value-pack by bundling a quantity of them together. They actually custom order their own exclusive SKU's. Their suppliers cannot sell that particular new SKU to anyone else. Next time you're in Costco, check out their product labeling. A lot of products display the Costco Item Number pre-printed on the package. These are the exclusive packs made just for Costco.

Costco has mastered the creation of large volume bundles. If you ever plan to sell to them, it is advisable that you have an efficient infrastructure primed and functioning at high speed.

The short term benefit is enhanced customer service which will ultimately help you and your customer sell more as you both work together as a team.

Long-term, offering services such as this can greatly improve your reputation in the Distribution field. It can also drive bigger customers your way as they hear that their competitors are buying from you. In many cases this may just be a requirement to do business with some of the bigger companies trading in this arena. Finally, there are huge economies of scale to be gained by picking bulk quantities of an item at once to sort into custom packs or bundles.

- Custom Labeling

Along with custom kits, customers may ask for custom labeling of regular items you sell them everyday. Some larger retailers ask their suppliers to affix the actual retail price tags to the goods they are about to ship out to their stores. The logic here is two-fold. First, affixing mass quantities of price

tags centrally before distributing to multiple store locations is much more cost efficient. Second, it's one more thing that a retail clerk does not have to worry about. Basically, the entire process is easier to manage from a central point.

The short term benefit is a reduction in costs for your customer, which scores you bonus points and makes it just that much harder for the customer to buy elsewhere.

Long-term, the word will get out that you offer this and the companies that demand it will begin to come knocking. Many Distributors couldn't even come close to being able to offer this service given their infrastructure. It's a great way to lock some large customers in.

Back to the theory of 'Operational Entrenchment'. Offering labeling services is a serious weapon on this front. Another long-term benefit is that no one expects custom labeling to be free...at least not yet. A Distributor moving large volumes, but working on low margins can make a nice extra profit by setting up these types of add-on services. It's not an overnight project, but the opportunity is there.

- Custom Packing

In my business, I experienced one large consumer electronics retailer ask me to ship them no more than 50 lines on any given packing list. This means even if they placed one purchase order for a quantity of one of 147 different SKU's, they wanted me to split this up into three shipments -two with a packing list with 50 lines, the third with 47 lines. One packing list was not good enough for them. They explained they had designed a very simple and manual process to receive the shipments at their retail locations, but the receiving clerks could only receive 50 units per receipt within this system. They wanted the clerks to deal

with only one piece of paper. That was basically the issue. I cringed as I knew I could transmit an ASN document to them to allow them to pre-receive the goods and post them to inventory once they were physically received. This would make their clerk's job extinct, let alone easier. In this case, we actually walked away from the business.

This company showed us signs they were not taking advantage of technology to create profitable trading relationships. Instead they were taking advantage of their vendors by forcing their inefficiencies up the supply chain in the form of higher cost of goods. Here I was making my business more efficient by the day, and a prospective customer was asking me to consciously make the business inefficient to serve them. It's a crazy world. I bring this point up to illustrate that companies who do not technologically evolve soon will suffer the long-term consequences. They will soon be the dinosaurs of the new supply chain world.

This encounter does not mean that offering creative custom packing solutions is a bad thing. Customers asking for customized case-packs and master-packs, or even custom shipping pallet configurations can make your business more efficient. These are the customers you want long-term.

- Custom Reporting for the Customer or Vendor

Up to this point, imagine all the data that AD has about JR. JR's purchase orders, payments, credit memos, etc. have been moving through AD's computer system. Now imagine this. Add functionality to your web site so that customers and/or vendors can login on to your system and query their own data. They could choose to see their own best sellers, based on

what you sold them. They could look at their open account balance, make payments, pull down past invoices via PDF file, and so much more could be done to provide instant customer service.

Now imagine they can export that data back to their own system as an Excel file and analyze it any way they want. They can also setup certain reports to run on a set schedule (such as weekly at 9pm, Thursdays) and automatically e-mail the report back to themselves as an attachment.

This tool can be used to automate a ton of silly, basic, customer service tasks...like customers that call for their shipment tracking number. It's easy to put this on your web site so customers can have access to your company 24/7. And, the SQL database has a slick tool that can send e-mails based on set triggers. You can be at home sleeping while your distant customers are on your system serving themselves. Perfect!

- Bar-coding and RFID

These are well known buzzwords to most business owners today, but that doesn't mean that most business owners understand how to use these tools to improve the efficiency of their operations. A well designed bar-coding system can yield tremendous return in a short period of time, eliminating the need for additional warehouse staff.

The single largest line item expense in a typical Distribution company is warehouse payroll. It can very easily equate to tens of thousands of dollars each month; large companies may incur a hundred thousand per month plus.

Bar-coding and RFID will be the best ongoing cost reduction weapons within your new technological arsenal. From a solid Automated Data Collection (ADC) software package

on the low end to a more robust Warehouse Management System (WMS) on the high end, short term return on either of these systems can drop a chunk of cash into your company's bottom line.

Radio Frequency (RF) handheld computers equipped with internal bar-code scanners can be easily utilized. Each warehouse picker carries a wireless 'input device' which typically instructs them what to do next. It literally guides them through the business processes you will design. This handheld device has a constant wireless connection to the company database. The software tells them what item to pick next, where to put an item away, and tracks each movement of the item throughout the whole fulfillment process. Your sales staff can watch their computer screens and see customer orders fulfilled line by line LIVE as they are picked off the warehouse shelves! Also, each worker's individual productivity can be tracked through the RF device for later analysis.

With RFID, a small adhesive radio frequency identity tag, about the size of a nickel, can be placed on a pallet for tracking. That pallet can now move through the warehouse while the system automatically keeps track of where it is at all times automatically. While bar-coding requires a user to scan an item so the system can see it, RFID tags emit a continuous radio frequency signal like a small homing beacon detected by the system at all times. Each tag is unique, thus the system can keep track of all items with an RFID tag anywhere inside the four walls of a warehouse.

A critical long term benefit of Bar-coding and RFID is the limitless opportunities available to adjust, fine tune, and streamline the operations of the warehouse. Remember, warehouse payroll is your SINGLE LARGEST LINE ITEM EXPENSE. Be sure to manage it with that in mind.

The topic of Bar-coding and RFID is vast. To really understand it, search the Internet for 'bar-coding system case studies'. Due diligence in this area is definitely worth the investment! Also, check out the following web sites for more information:

- Supply Chain Systems Magazine [www.scs-mag.com](http://www.scs-mag.com)
- Warehousing Education and Research Council [www.werc.org](http://www.werc.org)
- Frontline Solutions [www.frontlinetoday.com](http://www.frontlinetoday.com)

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## THE FLAW IN YOUR ROI ANALYSIS...THE MISSING 'X' FACTOR

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Most likely, in the past, you have attempted a cost/benefit analysis on your IT investment. Did you take into account the long-term benefits that will transpire over time? Do you even know the future possibilities? In my experience, I had no idea how much return was in store by implementing a new flexible IT system. Once I had spent the time and money to build it, I realized that we could take on a whole new level of business. We could sell to the big guys, and even make money doing so by continuously streamlining the operations.

The foundation I had built was strong and fast. Thousands of orders could move through it everyday. Bigger and better customers came on board; more customers in general committed to our company. They appreciated our services. They trusted their business to ours. Can you place a value on that? Does the goodwill created by good customer service show up on your balance sheet? Probably not. And it usually does not show up in your ROI analysis either. That's why you get stuck attempting to analyze your ROI. Here is the key takeaway:

There is money to be made by focusing your energy on streamlining your Distribution operation...you'll never really know your exact ROI...and you'll never be able to come up with all the possibilities your investment now will create in the future. Pick up the weapons sitting before you and do it anyway.

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## CONCLUSION

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The movement towards highly advanced electronically collaborative supply chains is well underway. Companies in denial of this are simply going to fall further and further behind in the race for business. No matter what market, what product or what service you offer, it is critical that business owners and senior executives understand the opportunities that an enterprise wide system known, as Enterprise Resource Planning (ERP) software, affords. They must also see compliance demands as the wave of the future, and build a strategic relationship with them rather than fight the inevitable.

Compliance demands set by the Wal-Marts and Targets of the world have broken huge ground on the future use of technology in the supply chain. They are the pioneers forging new trails, opening up boundless opportunity for the true entrepreneur so that they may build their IT infrastructure to support the compliance standards set by these leaders. A small Distributor can compete with a competitor ten times its size by simply using IT as a strategic weapon. It's that simple.

Back to the question as to whether the glass is half full or half empty. It is... and always has been...your choice.

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