WHITE PAPER

Revealing Four Key Secrets of the Mid-Market WMS Industry

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The Opportunity and Challenge in the Mid-Market Today

Today, shifts in supply chain businesses are significant and almost exclusively driven by eCommerce. Over the last few years, the news has focused on the striking growth of online commerce and the softening of traditional brick and mortar retail. Without question, businesses are focused on their supply chain's response to these shifts.

Interestingly, these winds of change most commonly impact mid-sized businesses. As an example, the growth opportunity for the Consumer Packaged Goods (CPG) wholesale distributor has never been better. These are the companies whose business models are best suited to fulfill directly to both consumers and the large distributor to customer (D2C) companies, such as Amazon. If distributors have the right product mix and willingness to take on the compliance requirements of doing business with large eCommerce brands, the growth can be spectacular.

This growth challenge is a response to compliance requirements and meeting "The Perfect Order," as demanded by D2C business models. Do these companies have systems in place that can make sense of orders that range from one line, one unit to having over two, three, or sometimes four hundred plus lines? Can they handle the label requirements that then need to be integrated with EDI? Will the opportunity to grow be eaten alive by the staffing levels required to overcome fulfillment system deficiencies?

The spoils are going to those best prepared to handle the multi-channel order fulfillment response in their warehouse; those that have a supply chain strategy that embraces workflow optimization and best-in-class customer service levels, in conjunction with integrated compliance; those that have best-of-breed Warehouse Management Systems (WMS) software.

Before we go on, there are a number of ways to measure the size of different companies; Fortune 500 is the obvious example.

The software industry tends to define company size within the market as:

- Tier 1 companies - companies with an excess of $5 billion in sales
- Tier 2 companies - companies that range between $1 billion to $5 billion
- The small to medium or mid-sized business (SMB) - companies with revenue up to $1 billion

This white paper reveals four key secrets of the WMS Industry as they pertain to the SMB within the context of the growth opportunity in global commerce… what the buyer must absolutely consider when evaluating software systems for the warehouse.

Secret #1 - Size Matters...false

For years, SMB companies have been told that they lack supply chain complexity, so less functional software is suitable given the absence of complicated workflows and processes. In comparison, companies have been told that large Tier 1 companies, by virtue of their revenue, require robust software solutions.

Nothing could be further from the truth. In fact, the opposite often applies in the warehouse.

Many larger companies have simple supply chains. It is not uncommon for larger companies to take orders that result only in case or pallet quantities and ship as truck loads (TL). This is especially true with manufacturing. These larger B2B companies leave it to the distributors and retailers to get the product in the hands of the consumer. As a company gets closer to the consumer, the processes are almost always greater and more complex.

Most CPG distributors and eCommerce companies fit the SMB profile. They must fulfill orders that span any size, from a single unit shipped to an online buyer by UPS, to multiple lines, picked, packed, palletized and shipped by common carrier to large eCommerce companies. Further, the SMB is challenged by value added services in which product may be personalized before it is shipped. Be it private labeling, drop shipping, kit building or other postponement services, mid-market companies must be agile enough to provide these services to stay competitive. Rarely do Tier 1 companies bother with these services; they leave that to the distributors.

Clearly, this hidden complexity within the SMB calls for robust processes and the software to enhance the workflow, not simplistic solutions that have to overcome the gaps through human intervention. That type of "low end" solution increases risk and undue cost…not a winning strategy in this high-growth era.

TIP#1: Do the homework needed to define the warehouse workflows and order profiles that drive variations in your fulfillment. Focus on what the customer compliance demands are, be it UCC128 labels, ASN information communicated via EDI, carrier rate shopping or value added services and evaluate the WMS software's capabilities accordingly.

Secret #2 - All WMS Vendors Can Deploy to the Cloud or On Premises...false

The growth towards SaaS (Software as a Service) and Cloud deployed solutions has enjoyed dramatic growth as of late. The ability to deploy these solutions rapidly and not incur continuous IT staffing, annual maintenance and daily administration costs is attractive. No wonder all the WMS vendors say they can do this, but it is just not so. First, a review of the options…

Deployment of a WMS comes in four flavors:

- Enterprise Instance (centralized installation, perpetual license, managed by the buyer)
- Site License (installed at the DC, perpetual license, managed by the buyer)
- Private Cloud (hosted by the vendor, subscription license, single tenant environment for the buyer)
- Public Cloud (subscription license, multi-tenant environment provided by public Cloud vendors)

The above deployment options each have their strategies and associated costs, but ask the WMS vendors if they can do all four and the list begins to dwindle, fast. The reason you won't find a Cloud offering from every vendor is the Cloud is not just another trend. It's not "simple" for software providers to hop on board. Cloud deployment (or SaaS) is a strategy that goes to the heart of the software company's technology and revenue structure. The technology portion of the equation is that the company needs to be well-versed in deploying, securing, and supporting their software in a Cloud environment. The revenue piece is that SaaS pricing becomes an issue for more established WMS companies that have always booked and recognized revenue based upon perpetual licenses. The SaaS model may have adverse financial effects unless the company is truly committed to the Cloud market.

Why is the question of deployment so important? As a company grows, deployment considerations will be reviewed almost annually, and mid-market companies need software partners that have the ability to shift their deployment without shifting the software functionality.

TIP#2: Challenge WMS software vendors to provide customer references across the various deployment models. If a public Cloud offering is proposed, ascertain the level of modification and challenge the vendor on how this will be kept to the latest release without incurring risk.

Secret #3 - Using the shipping software provided by the shippers is free...false

UPS, FedEx and others gladly provide shipping portals, software, hardware, supporting rate shopping, service charges, tracking numbers and shipping labels, without cost to the customer, to ensure they maintain the core relationship. And why not? Clearly the main business is the shipping service.

Mid-market companies that want to optimize their workflow and get the best possible shipping rates and service options need a solution that has rate comparisons and the full range of shipping services, integrated within the WMS.

When shipping is integrated within the WMS, optimized workflow is greatly enhanced. For example, carrier labels, including track/trace numbers, can be systemically rate shopped and generated before picking begins; here, the need for downstream packing and manifesting is eliminated. The benefit for companies picking parcel orders is obvious; the picker packs and ships upon confirmation of the pick, this is expedited workflow. If Electronic Data Interchange (EDI) is required, the Advanced Shipping Notice (ASN) details, in combination with the shipping details, can be integrated seamlessly – what an advantage for the whole company.

As a comparison, the shipper-specific solution is an island, a silo. The picker has to bring the picked product to the station, weight it, get the rate and then print the label. If the company uses multiple shippers, then the rates need to be compared manually and the packer has to decide which carrier to use. The opportunity to make the wrong decision, and incurring cost, is significantly higher. If EDI is required, that means another system requires ASN information that is not integrated.

So while the software may be "free," the mid-market company that embraces this strategy will dearly pay.

TIP#3: Challenge the WMS vendors to demonstrate a seamless WMS/multi-carrier solution. If the WMS vendors use other multi-carrier solutions developed by a partner, be sure to ask about the cost of integrating and annual maintenance as well as the license of the multi-carrier solution.

Secret #4 – "I don't need a best-of-breed WMS until my volumes grow."…false

The emotion behind this secret is really a concern about the solution's cost. The company that embraces this position may simply lack an understanding of the value in a best-of-breed WMS. Given this, there is a need to develop a purchase strategy based upon an accurate return on investment, driven by the WMS software.

There are multiple factors at play:

- When is it OK to operate with the ERP's bin/inventory control module, using data collection versus deploying a best-of-breed WMS?
- Does the management have confidence that taking on demanding compliance driven customers can be managed by the current system?
- What is the transition time and effort from my old system to the new best-of-breed system?

The answer to number one, above, factors in consistency in the company's order profile, SKU mix and overall steadiness of the business. If the company is growing, it will start evaluating a best-of-breed WMS; this is typically done when the company reaches at ten warehouse users.

Confidence plays a strong role in the supply chain industry; it defines a management team's willingness to embark on growth initiatives, or to stay competitive. Confident companies will ask the warehouse fulfillment team if they can handle a new customer. Typically, if the answer is a resounding yes, they have built a strategy that includes a best-of-breed WMS. If the team lacks confidence, the company either walks from the potential growth, or takes a significant risk.

When companies are hiring personnel due to high volumes based upon a successful season or new relationship with a customer and the cost of distribution is going up, often they'll look to a new WMS. The problem here is they have often waited too long, and as a result, profits have taken a hit and they may have lost customers. The message here is simple, waiting until the volumes are upon you to make the decision to invest in a best-of-breed WMS means you will likely lose money and possibly worse; customers and market share. That said, it is best to implement in a slow season and expect to take three to four months from the point of contract signing to get the new WMS live.

TIP#4: Build the metrics of your fulfillment in the form of Key Performance Indicators (KPIs) and order profiles. Understand how your customers see you; are you on time and in full with your orders or not? Align your order profiles with your workflows so you will be efficient and accurate. These efforts will aid in developing a "value" paradigm about your business and the decisions made impacting the supply chain.