

THE PRICE OF SUCCESS

MANUFACTURING LESSONS FOR RETAILERS

*The manufacturing sector is a prime example of an industry vertical that has embraced technology. MRP & ERP systems have transformed productivity and efficiency in a sector whose margins were squeezed by globalisation. Now retail is under similar pressures with the growth of online retailing. Here **Anthony Doesburg** uncovers the lessons that the retail sector can learn from the way manufacturing uses technology...*



Technology has proved a lifeline for many manufacturers that could easily have gone under as globalisation - outsourcing to factories in parts of the world where labour is cheap - has swept through the sector. And for those not vulnerable to low-priced knock-offs, the global recession and other market pressures have forced them to seek savings through IT systems.

Now retailers are facing similar challenges. Overseas online shops such as Amazon, with its slick ordering, vast distribution centres and speedy delivery network, are threatening the livelihoods of retailers as distant as Australia and New Zealand. Not even the possibility of applying GST to small overseas purchases might be enough to save local shopkeepers, many of whom are struggling to match the prices and product ranges of their new online competitors.

To have a hope of getting close to the prices Amazon and its ilk can offer shoppers, they need to be looking at fundamental system changes. In other words, they need to be taking a leaf out of manufacturing's book.

Pet food maker Butch found big cost savings when it began using financial system Greentree, which was implemented to pull together data from the 50-year-old company's sales and marketing, administration and dispatch departments.

The system has helped the export business slash raw material costs, says office manager Carl Jeffery.

"Raw materials are our biggest single expense,"

Jeffery says. "Now we can better measure our input and output, we won't have to hold so much. Instead of holding \$NZ1.5 million worth of raw materials at any time, we might be able to drop that by half. That's going to be a major saving in running costs."

Implementation of further Greentree modules will help the company meet its growth ambitions, which have seen it begin shipping its dog and cat food rolls to several Asian and Pacific markets.

Carbon fibre marine components maker C-Tech successfully kept one threat to its business at bay thanks to a modern enterprise resource planning system. Now it is grappling with getting sales online. But it has the advantage of being able to apply lessons learned during the implementation of ERP system SyteLine to its latest challenge.

"Inventory is the cornerstone of a web-shopping solution," says C-Tech administration manager Lyn Holland. "We put a lot of work into getting our product codes right, including splitting some of our products up into components that can be sold separately. However, we are revisiting some of our processes around bar-coding, serial and lot numbers to make us more web-shop-friendly."

C-Tech had built up a business that depended for three-quarters of its \$NZ5 million annual turnover on sales of sail battens, many of them to America's Cup teams. SyteLine showed its value when a design-rule change to the world's richest regatta made battens obsolete, with fixed wings replacing sails. »

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LYN HOLLAND, ADMINISTRATION MANAGER, C-TECH

The ERP system helped C-Tech make the transition to producing a range of tubular composites for applications as diverse as telescopes, guitar necks and gun silencers, as well as control components for the wings of the 2013 regatta's yachts.

"Without the costing information we gained from having an ERP system we could have gone down some wrong tracks very easily," says Holland. "We also have a much clearer picture of product cost versus sell price at a time when people are taking a lot more care over what they buy." It is also proving a useful platform as C-Tech, as a matter of urgency, develops an online selling capability.

As Amazon demonstrates, once online retailers have the appropriate technology platform, they are limited only by their imaginations and marketing budgets. From starting out as a bookseller 20 years ago, it has become the Harrods of internet shopping, with sales of all manner of things expected to top \$US60 billion in 2013.

Google, not to be outdone, is also making its mark in online retail. From what began life as Froogle, a price comparison service developed by Kiwi Google engineering high-flyer Craig Nevill-Manning, Google Shopping is the search giant's latest e-tail offering, leading shoppers to

merchants who buy ads on the site.

Shoppers these days need little persuasion to part with money online with total worldwide e-tail sales counted in the hundreds of billions of dollars a year. As they get used to the internet as a sales channel, they are also asking for access to more and more information electronically, says C-Tech's Holland.

"For instance, even without a web shopping solution, it is now essential that we send tracking details for each shipment, empowering the customer to track their own order. We are now implementing part of the ERP system to capture and store this information electronically, something that was previously viewed as an unnecessary overhead – our paper-based system worked just fine.

"Full visibility of order stages is already commonplace in web-shopping solutions, but may be less so in the supply of manufactured goods. It is customer-driven expectations driving this business change."

The last thing a retailer should do, however, is let technology lead them by the nose, says Grant Taylor, chief information officer at outdoor gear chain Kathmandu. But technology as a change-enabler certainly makes sense.

"It's all about the customer," he says.

About 1 million shoppers belong to Kathmandu's Summit Club loyalty programme, and like

increasing numbers of retail customers, they want to do their buying at stores, online and via mobile devices.

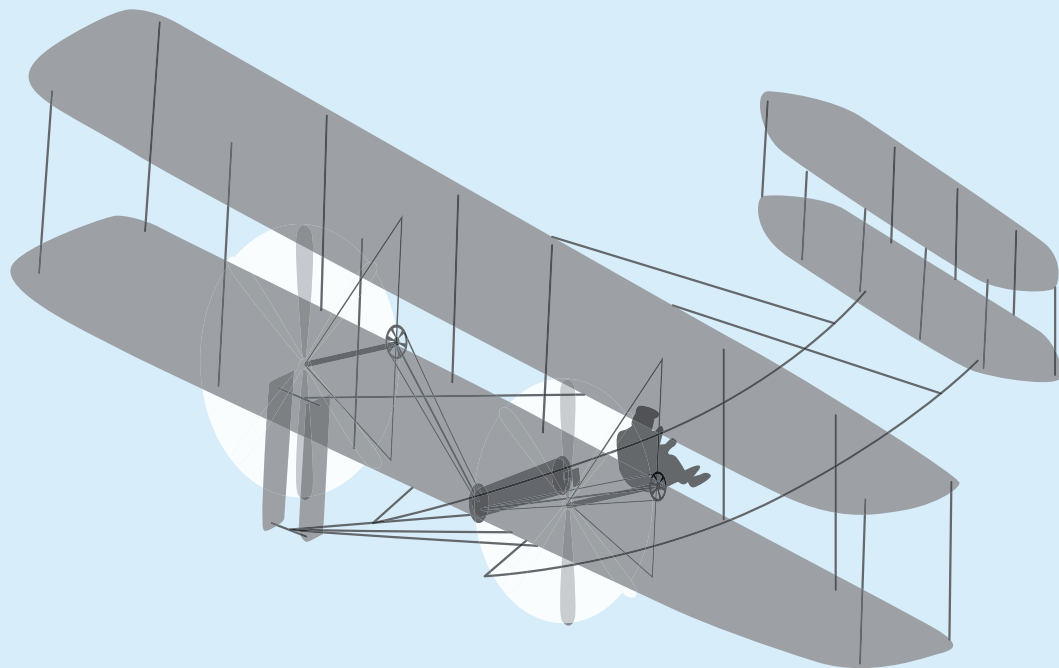
Kathmandu began doing mail-order and web sales in 2008 and last year launched a mobile website and app. Integrating the lot into an "omni-channel" shopping experience is the goal of a \$NZ2 million project now under way.

The publicly listed chain is replacing legacy ERP, point of sale and customer loyalty systems with Microsoft Dynamics AX and CRM. The immediate benefit of consolidating records in a single database, Taylor says, is a higher level of customer service.

"Having the data in one source that is updated in real-time means you can achieve things such as sign people up to your loyalty programme and instantly have the discounts available.

"It means that when you buy online you know what your stock level is and where because it is all in one place, so you can actually create a very good omni-channel presence in the market and create a much better customer experience."

Call centre staff now have a full picture of a customer's interactions – whether online or at one of the company's 140-plus stores. "Transaction history and customer details are at their fingertips so they can provide a service through the 0800 number."



Imagine how the **Wright Brothers** felt taking off for the first time.

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DOLLARS AND SENSE

Greg Casey makes no pretence of being an expert in online sales. And why would he be, as systems development manager at manufacturing company Varley Group. Not many customers in the defence, aerospace and railways industries trawl the web looking to place online orders for the services Varley provides.

“We don’t do much in retail,” says Casey.

However, a bit of wisdom he will willingly impart to any retailer planning a big-bang online store implementation is to make sure the process is business-led rather than driven by technology. That’s a pearl Casey gathered while leading a major enterprise resource planning project at Varley that went live in March 2013.

“Sit down with everyone from the shop floor to senior management and say ‘what do you want, what’s your wish list?’. To get a return on your investment, you need to find out what is wanted from the system to make it worth your while.”

The answers need to be put into a form that can be taken around vendors so a system with matching functionality can be selected.

“The technology is secondary. When you’re talking millions of dollars to implement a large system, the

technology share of the cost is going to be reasonably low – probably only 20-30 percent.”

A crucial element of any big system implementation is easing users into it.

Varley took a highly deliberate approach to schooling staff in their use of the new system. Every business process – from initial customer contact to final service delivery, in all its diverse forms – was written on a Post-it note and stuck on a wall. Those were then condensed and plotted into a process map, every point on which was described as a set of actions in the ERP system.

“We then said to staff, ‘we’re not going to train you in the system, we’re going to train you in a set of instructions’, because we’d put the resources in place so they could do everything they needed to.

“It’s a very involved process that takes time to put together because the difficulty is that at the beginning you don’t know what you don’t know. And if you don’t know what you need to know, you might get some unpleasant surprises.”

There were no such surprises for Varley.

“Ours was a very successful implementation, almost to the point of being an anticlimax. It all comes down to doing your homework.”

Taylor says the plan is to reach shoppers through in-store mobile tools and to segment the CRM database to enable targeting of offerings at specific customers. “We’re not wanting to open a store on the moon or anything, we’re just wanting to get the basics very right.”

The return on the latest IT investment is less about a measurable revenue increase than giving Summit Club members what they expect, he says. But there will also be tangible benefits such as being better able to anticipate stocking requirements – both volumes and locations where goods are needed – thanks to a new sales forecasting system that is part of the systems upgrade.

Showing return on systems investment is certainly not an issue for Staci Scott, online manager at menswear chain Barkers, who has a clear mandate: Barkers’ web store will become the 41-year-old firm’s biggest outlet.

“Barkers online is huge. It drives a lot of in-store sales as well as online sales and our goal is that it be our No. 1 store in terms of revenue.” That day is not far away, Scott says.

If the managers of the chain’s 27 bricks-and-mortar stores might struggle to get capital for refurbishment, Scott has no such difficulties. When she developed the latest five-year online development plan, the company’s board rubber-stamped it.

“Barkers is very proactive in terms of prioritising online. We never shy away from investing in it.”

It made the move online about six years ago and today money goes into continuous site development. “We’re always tweaking and improving it.”

But for what will before long be Barkers’ most lucrative outlet, the online store is a lean operation. Staff consist of Scott, who works with the company’s e-commerce suppliers to keep the site updated with fresh products, and a pair of warehouse staff, who oversee stock replenishment and dispatching of online orders.

The interface between the website and warehouse is everything, she says. But a well-integrated operation – in which products are



batch-loaded onto the site – doesn't require a lot of manpower.

"Nobody loads products one by one these days, which is the time-consuming part. You can get a lot done with a relatively small team."

Selling online not only avoids the costs of operating physical stores, it opens retailers up to the international market. However, that cuts both ways, with Australasian-based chains suddenly in competition with enormous overseas merchants.

For Barkers, says Scott, it comes down to the brand. An Australasian-based online retailer is going to battle to make export sales when overseas rivals can offer free worldwide next-day delivery.

"That's something Australian and New Zealand retailers can't offer. But as a brand, not just competing on price and product, it's a different offering.

"Our brand is our most valuable selling point. It's what gets people coming back to the website and how we sell our products at a good margin as opposed to being a discount retailer."

Of those, there are hundreds in China alone that

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STACI SCOTT, ONLINE MANGER, BARKERS

will ship \$10 items to Australia and New Zealand free.

"Online is a huge part of our business and we're willing to continue investing in it to make it our No. 1 store. Because we're competing in a world market, we can't just deliver a so-so experience."

For C-Tech, building that capacity is urgent, if a little scary. "We feel there are definite efficiency gains to be made if we can implement a shopping cart system integrated with our ERP system,"

Holland says.

But exactly the form it will take isn't yet clear, with Facebook-style communications perhaps pointing the way. "Crystal-ball gazing and big picture views of technology directions might be important in making the move into web-shopping. At the very least, make sure the system is as flexible as possible." ■



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