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From the pages of Logistics Management

Supply chain software: It's investment time

By Bridget McCrea, Contributing Editor -- 4/1/2007

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If there was ever a question as to the value of supply chain software in the eyes of logistics professionals, it has been cleared up by *Logistics Management's* 5th Annual Software Users Survey. Sent via email to subscribers in February, the survey of 295 shippers found that 60 percent are planning to purchase or upgrade their supply chain software in 2007—up from 41 percent in 2006. Sixty percent also responded that their dependence on supply chain software has increased over the past two years.

Considering the challenging domestic transportation environment shippers are facing, compounded by the race to stretch their supply chains around the globe, we were hardly surprised to find that respondents are realizing operational value in software investment. In turn, shippers report that they're planning to purchase or upgrade this year in order to improve inventory visibility, order management, and collaboration with vendors and suppliers.

As expected, [the survey pinpointed Warehouse Management Systems \(WMS\) and Transportation Management Systems \(TMS\) as the most common types of software planned for purchase or upgrade](#), and they are also the two most currently used systems at respondents' companies. According to our findings, the top reasons that logistics and supply chain managers are upgrading existing or buying new WMS and TMS remain in line with last year's results. [The top three WMS drivers are inventory deployment, real-time control, and labor management](#). Routing and scheduling, shipment consolidation, and routing and rating are the top priorities for [shippers purchasing TMS](#)—a market that's on a hot growth streak.

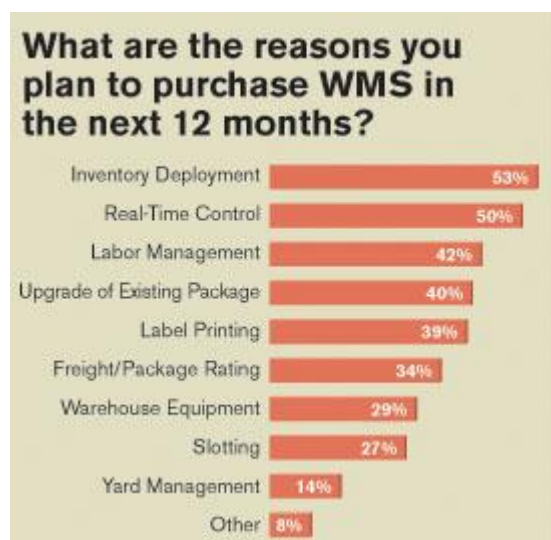
[As we reported in February](#), the TMS market grew to \$989 million in 2005, according to the ARC Advisory Group ([download PDF of ARC Advisory Group report](#).) ARC expects annual sales to exceed \$1.3 billion by 2010.

Beth Enslow, vice president of enterprise research at Boston-based Aberdeen Group, says the reasons cited above correlate to those revealed in a recent survey conducted by her firm. From TMS, she says shippers are increasingly looking for visibility across the supply chain, and want solutions that can provide that visibility in real-time and deliver it enterprise-wide, not just to the warehouse.

"That's the key reason we're seeing a lot of companies investing in TMS and on-demand solutions that allow shippers to leverage and exploit the value of the information generated by these systems," says Enslow, who sees [inventory optimization as a "hot button" issue for shippers right now](#). "Companies want to transform their distribution and manufacturing networks, and are rethinking exactly where they need to hold inventory in order to make that happen."

Tightening purse strings

But while shippers are telling us they're eager to purchase or upgrade in 2007, the amount they're willing to spend has decreased from last year. The survey found that shippers are planning to spend an average of \$230,000 on supply chain software over the next 12 months, down from \$500,000 in 2006—but over half of this year's respondents are already evaluating vendors or kicking off the buying process.



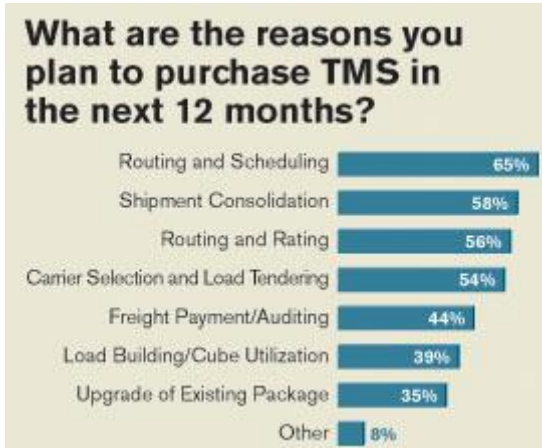
Which of the following types of software do you currently use, and which will you be purchasing/upgrading in the next 12 months?

	Currently Use	Plan to Purchase/Upgrade	Both (NET)
Warehouse Management System (WMS)	55%	36%	69%
Transportation Management System (TMS)	35%	41%	61%
Enterprise Resource Planning (ERP)	36%	19%	47%
Supply Chain Planning (SCP)	23%	29%	44%
Global Trade Management Software (GTM)	11%	14%	22%
Yard Management System (YMS)	9%	15%	22%

Thirty-nine percent of firms plan to spend less than \$100,000 over the next year, while 34 percent expect to spend \$100,000 to \$500,000, and 13 percent plan to spend \$500,000 to \$1 million. [The remaining 15 percent are looking to drop \\$1 million to more than \\$5 million.](#)

Fifty-five percent of shippers interested in purchasing WMS this year are currently evaluating vendors, while 25 percent of that group report they're in the selection process. For those in the market for TMS, 61 percent say they are evaluating vendors and 21 percent are almost ready to choose.

Other supply chain software options currently under evaluation by respondents include Yard Management Systems (YMS), Global Trade Management (GTM), Enterprise Resource Planning (ERP), and Supply Chain Planning (SCP). In terms of the number of software packages used, 51 percent of shippers report that their companies rely on more software packages this year than they did for the past two years.



This year's findings say return-on-investment (ROI) expectations remain reasonable at 13 months, a number that Adrian Gonzalez, director of Dedham, Mass.-based ARC's Logistics Executive Council, says is pretty much on target. "In this day and age, most people plan for about a year," says Gonzalez, who points out that actual ROI depends on the scope and scale of the technology implementation. "Companies do want some quick-hit returns, where maybe they don't expect to see the entire value in three to six months, but at least some value within that timeframe," says Gonzalez. Those expectations have led to an increased interest in on-demand solutions that require much less installation and integration time than traditional "purchase-and-install" options. "Particularly in the TMS space," he says, "companies can at least start getting value within 60 days of implementing an on-demand system."

But the survey found a lower percentage of shippers are using on-demand this year compared to last year. Just 20 percent are currently using an on-demand supply chain solution, down from 28 percent in 2006. However, 43 percent are considering an on-demand solution, with the key drivers cited as price/cost/startup costs, customer needs/service, management/efficiency, and ease of implementation.

"Our findings show on-demand TMS adoption at about 30 percent among companies," says Gonzalez.

Same as it ever was

A few numbers remained consistent from 2006 to 2007. When it comes to buying decisions, 91 percent of respondents say decisions are made by a buying team, and more than one-third of respondents say the software is installed in-house. Twenty-seven percent use their software suppliers for installation, while 12 percent rely on business management/consulting firms, and 11 percent on systems integrators.

When buying supply chain software, the most important factors for the solutions' operational use include service, support, and configurability. Twenty-four percent of shippers say their biggest challenge when dealing with software suppliers relates to the supplier knowing their operational needs. Other challenges include accountability and cost/price.

How much do you plan to spend on each of the applications in the next 12 months?

	WMS	YMS*	TMS	GTM*	ERP	SCP
Less than \$100,000	55%	53%	50%	38%	35%	40%
\$100,000-\$500,000	24%	17%	25%	21%	24%	30%
\$500,000+	16%	20%	21%	13%	28%	12%
None	5%	11%	5%	28%	12%	16%

*Small base size, interpret with caution

Gonzalez says vendors have stepped up to the plate to address those issues, with most looking to differentiate themselves on human expertise rather than just the software's features and functions. "They know that companies are looking for not only the features and functions, but also someone who has knowledge about their vertical industry and the best practices related to transportation management or warehouse management," says Gonzalez.

Watch on-demand grow

With the majority of shippers looking to purchase or upgrade existing supply chain software programs this year, expect to see more use of on-demand—particularly on the TMS side—and more need for knowledgeable software vendors who can truly get inside their clients' operations to figure out how their solutions can best be put to use in managing the supply chain. Both Enslow and Gonzalez see more forward motion ahead for the sector as shippers continue to evaluate and buy solutions that provide the visibility, inventory deployment, demand planning, and order management that they're seeking in today's competitive environment.

"[Early TMS adopters are now looking to upgrade or replace their existing solutions](#) because of the new capabilities available today, such as leveraging the Web and wireless technology," says Gonzalez. "Going forward, companies will continue to focus on supply chain management solutions due to the importance of these solutions today, compared to just five or six years ago."

Shippers on the upgrade

This year's findings are an excellent indication that shippers have a better understanding of the value supply chain software can bring to their logistics operations. Realizing that software solutions are as varied as each company's operations, we asked two survey respondents about their purchase or upgrade plans. While their goals are similar, their approaches to the solution process differ considerably.

[Sport Obermeyer](#) of Denver is one shipper that is ready for a supply chain software overhaul. A worldwide distributor of skiwear that ships via small package, the company currently uses an ERP system that handles inventory control, purchasing, and packing slips for customer orders. In his mind's eye, Distribution Manager Kurt Gulder sees a time when buzzwords like "visibility" and "inventory deployment" become a reality. "We definitely need to advance from where we are now," says Gulder.



Kurt Gulder,
Distribution
Manager

In a perfect world, that would find Sport Obermeyer either installing—or using the on-demand versions—of supply chain software that can provide visibility; improved reporting on activity, trends, and summaries; and planning options for the company's transportation component. Being able to share that information among departments would also be beneficial, according to Gulder, who says budgetary constraints and a limited internal IT department are the two biggest challenges to getting that type of system up and running. "We have 50 employees, so everyone wears a lot of hats," says Gulder, whose technology wish list also includes a way to integrate shipping information from various carriers and freight forwarders in a consolidated place.

"We're able to track and trace now, but we have to go to each individual carrier's Web site," says Gulder. "It would be nice to be able to streamline that."

Source Interlink Company, on the other hand, has taken a different approach. Based in Bonita Springs, Fla., the worldwide distributor of magazines [grew from a \\$300 million company to a \\$2 billion enterprise due to several acquisitions](#), but was left using several disparate technology systems. Rather than shopping around for vendor-based solutions, Source Interlink has taken things into its own hands and is currently developing its own TMS and WMS. "We've been using an inventory management program that contained all of our shipment data, and have decided to turn it into a TMS system that will make decisions on carriers, rates, and performance," says Angel Valentin, director of logistics.

The shipper assembled a team of IT developers to create the solution and an operations group that meet on a weekly basis to decide exactly what will go into the system. Part of the project includes taking an existing WMS (used in the firm's magazine distribution facilities) and making it applicable for the company's manufacturing department, which makes racks that are used in retail stores. "We're moving that over in order to use it as a TMS for the entire operation," says Valentin, who expects the project to be completed within the next six to eight months.

Valentin says he'll be looking for improved visibility, particularly when it comes to time in transit. And, the company also wants to shave costs associated with carrier selection. "We want to incorporate all of the shipping rates and rates bases in a single location," says Valentin, "where all departments can view it and use the information to operate more efficiently."



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