Selling Supply Chain Software: Strategies for the New Millennium

Dr. David L. Anderson

Regardless of when and how global businesses emerge from the recession, the buying and selling of supply chain software will never be the same. This article examines the software marketplace of the 21st century, and offers insights on the characteristics and capabilities that will separate winning vendors from losing vendors.

In the 1990s, selling supply chain software was often as easy as showing up. Vendors prophesied huge savings and executives complied, fearing that they would lag the competition without the latest and greatest technology.

Unfortunately, many companies could not handle the huge operational shifts that generally were needed to make the new technologies work. As a result, legacy-replacement and integration issues didn't go away completely. Information-management concerns, such as data availability, consistency, and timeliness, often stuck around as well. Of course, a great many goals were met. But by the new millennium, executives' confidence in supply chain technology was seriously shaken.

So when is this "software winter" likely to end? And what will happen when it does? A few things are certain. CFOs, for example, will be far stricter gatekeepers for new software investments, subjecting them to evermore stringent ROI hurdles. Rules of engagement also will be different, with customers dictating more tightly how deals are structured. Supply chains will become even more complex in response to demands for higher service levels and lower costs. Lastly, new kinds of supply chain service providers will emerge as direct competitors to supply chain technology vendors.

For those vendors, different strategies will have to be developed and tested, such as partnering with new players, defining innovative deal structures, and focusing on value-added applications. The winners will be those that:

- Clearly demonstrate proven and rapid returns on investment
- Successfully integrate new capabilities with existing technologies
- Fully understand the customer's supply chain strategies, particularly emerging product, market, and channel requirements

Key Software Trends

Each of the above three tenets is essential, but the last is doubly crucial: Long-term vendor survival demands that more resources be devoted to understanding and meeting evolving customer needs with new product and service offerings. Looking ahead, a combination of four software technology trends will radically change how supply chain software is purchased in the future:

1. Tighter Scrutiny and Greater Selectivity

Supply chain software sales were one of the major drivers of the 1990s technology boom. Analysts estimate that, between 1999 and 2002, vendors sold more than $15 billion in supply chain software licenses. Interestingly, much of that software actually was "shelfware" – technology that was purchased but not installed. It also has become clear that new software and hardware purchases – often badly needed to remain competitive – were delayed or cancelled due to past problems and unmet expectations. In a recent survey of executives, 50 percent cited implementation problems during their most recent supply chain transformation (see Figure 1). As noted above, senior executives will be far more stringent about future purchases and the level of assured success that accompanies their choices.

2. More Powerful Customers

Publications such as *Fortune* and *BusinessWeek* often run articles about how customers are "flexing their muscles" with technology vendors by insisting on such things as lower prices, additional services, and performance guarantees. When asked about future expectations, these entities speak adamantly about standardization across software packages; plug-and-play capabilities for hardware and software; open system environments; and most importantly, the need for systems that provide immediate value by reducing overall supply chain costs (Figure 2). For cash-strapped vendors, the investments needed to meet these requirements are daunting, especially with venture funding moving to newer, hotter areas.

3. More Complex Supply Chains

Continued globalization and incessant customer demands for lower delivery costs and faster service have become the norm in supply chain management. Those same drivers also have contributed to the rapid growth of third-party supply chain service providers. Recent Accenture surveys show that 74 percent of U.S. companies now use third parties, compared to 38 percent a decade ago. Within three

__Dr. David L. Anderson__ is a recently retired partner from Accenture, where he was instrumental in building the company's Supply Chain Management service line. Over the course of his career, he has led scores of engagements in logistics strategy, customer service, logistics information systems, and operations outsourcing strategy, and is a renowned expert in the electronics and high-tech industries. Dr. Anderson is a frequent public speaker and has published numerous articles on new business models, supply chain strategy, global logistics trends, and outsourcing and operations management.

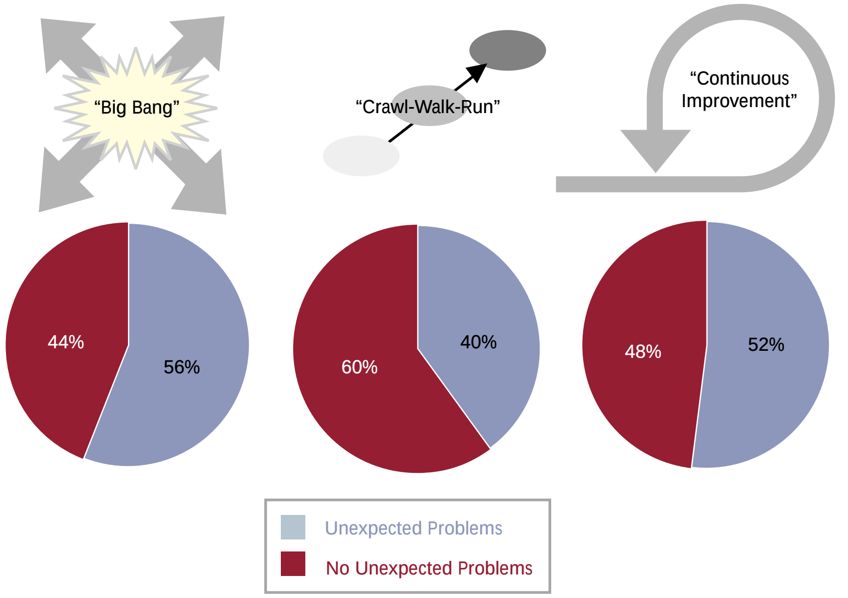

Figure 1 Problems encountered during executive-survey respondents' most recent supply chain initiatives. "Big Bang" speaks to a complex change effort, with many interrelated parts that are planned well in advance and executed during a yearlong or multiyear initiative. "Crawl-Walk-Run" takes a more phased approach, with limited parts implemented to pilot-test assumptions. "Continuous Improvement" involves converting large-scale efforts into shorter-cycle projects that are evaluated and modified to accommodate changing business conditions every 90 to 180 days.

years, third-party services are expected to account for more than 30 percent of the average company's supply chain budget.

Traditional warehousing and transportation solutions are still the foundation of supply chain outsourcing. But more and more providers are making full software solutions part of their outsourcing packages. Scope expansion also is driving them to go beyond execution software into new spaces, such as supply chain management and planning solutions. As a result, third parties are more likely than ever to offer bundled, state-of-the-art software solutions, often at prices far below what companies might pay for traditional software licensing and maintenance fees.

4. Supra Software Providers

A new class of supra (all-encompassing) software providers is emerging. These entities focus on easy-to-implement, variably priced supply chain software suites that are tailored closely to client needs. Accenture research shows that many are pre-integrated, simply priced, works-on-day-one solutions designed to meet complex supply chain problems. Supra providers also are more likely to provide outsourcing and remote-hosting services that leverage cheap bandwidth and inexpensive, overseas software-development and maintenance sites.

In the near future, supra software providers will provide formidable competition to the hundreds of vendors in the current software market space. The supras' key value proposition – a single, integrated, highly focused supply chain solution – should be quite attractive to companies tired of trying to integrate a mishmash of incompatible and overlapping solutions. In response, mergers, acquisitions, and alliances among software vendors will become more common and more essential.

The confluence of these four key trends can only increase the reluctance of supply chain software buyers to purchase new technology under status quo terms and agreements. Supply chain technology implementations that involve large, up-front licensing fees and substantial follow-on maintenance costs; require the

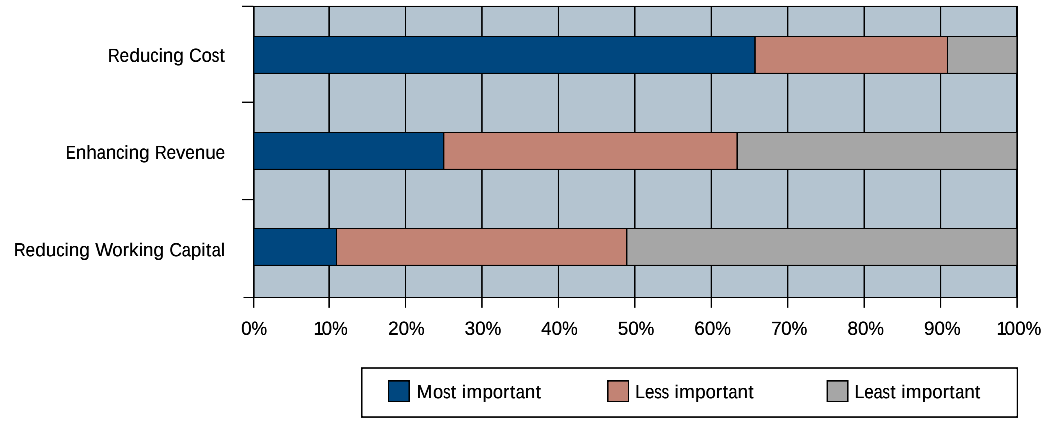

Figure 2 Executive survey recipients were asked to rank financial performance drivers in order of importance to the supply chain initiatives in their company over the last three years.

buyer to wait up to 18 months for results; and demand the commitment of significant internal resources will never again be an easy sell. At this stage of the game, simpler, cheaper ways to buy leading-edge software are not only possible, but they are also becoming a prerequisite to doing business.

Emerging Challenges for Vendors

Is the supply chain software boom over or is it merely on hold? Accenture's view is that the global push to reduce supply chain costs is nowhere close to abating. And since software is a fundamental way to improve efficiency, its role will remain central. In fact, as the impact of poor supply chain performance becomes more quantifiable (Figure 3), a new revolution in supply chain value creation becomes imminent. The shift to an extended enterprise strategy that emphasizes tighter supplier/customer partnerships has the potential to produce billions of dollars in new supply chain cost reductions and revenue enhancements. All the external pieces are falling into place, indicating that supply chain software purchases will resume as business capital spending picks up.

But in spite of the potential for rosy improvements, supply chain executives will face numerous internal barriers in their attempts to get software investments approved. According to the U.S. Department of Commerce, IT spending recently reached 40 percent of business-equipment capital expenditures. This figure may be somewhat of a ceiling, as more companies cope with the need to replace aging plants and production equipment. "Mining past investments" – especially in areas such as supply chain shelfware – is increasingly popular and is being successfully sold by some supply chain consultants. And "do more with less" also is a key theme that makes requests for new investments more difficult to obtain. Lastly, third-party providers are offering highly attractive alternatives to purchased software: outsourcing deals that require minimal or no up-front investment.

For vendors, third-party bundling of software into broader outsourcing offerings may pose the most significant challenge. The lower-cost, lower-complexity, lower-risk nature of these offerings (strategic sourcing, service parts management, product design, fulfillment, and manufacturing, for example) will be highly attractive. In fact, the lure of securing best-of-breed capabilities, not worrying about software upgrades or additional functionality, and enjoying performance guarantees for procurement, logistics, and customer service may be irresistible to many executives.

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Where to Go From Here

Once business spending picks up, supply chain software vendors should expect a new sales reality: They will have to help customers reduce initial software investments as well as customers' operating costs. Vendors also will need to focus more tightly on high-value-add, quick-return offerings; and they will have to partner more closely with third-party providers. Smarter, more aggressive vendors have already begun this process. Following are a few of their strategies.

1. Attack Established Competitors

A key, post-recession criterion will be the speed with which new software helps companies reduce supply chain costs, add new markets or products, and introduce new supply chain capabilities. Unfortunately, too many established supply chain solutions lack the flexibility to support rapid changes. This spells opportunity for nimble vendors to attack the major players by using the flexibility and focused solutions built into new generations of their software. A focused supply chain solution that can be installed in a few months and produce immediate ROI is a sure winner in the current and future market environment. Guarantees of compatibility with emerging technologies – open systems, legacy conformance, radio-frequency identification (RFID) – will be even better.

2. Address New Markets

Three new markets in supply chain software already are being addressed by forward-thinking vendors:

- For many companies, performance management will be the leading supply chain priority. This is the ability to quickly find and correct abnormalities in supply chain operations, particularly with respect to product supply and demand balancing. Adopting emerging "business intelligence" software to mine supply chain applications for relevant data to support real-time decisions on materials and goods flow is a critical part of this capability.
- Focused optimization is another hot new market, led by companies such as Apriso and Avere. Focused optimization subdivides broader supply chain optimization problems into high-value-added segments for rapid evaluation of options, such as inventory management (Apriso) and inbound product flow (Avere).
- The need for adaptive, rapid-response supply chain capabilities also is increasing, as companies shift to real-time-enterprise (RTE) business models. Within a few years, adapting material/product forecasts and goods flows to rapidly changing, real-world conditions several times per day will become a critical, differentiating capability.

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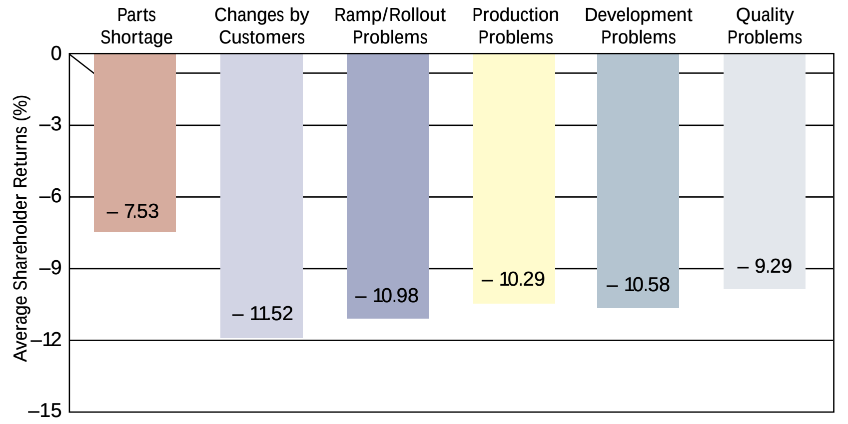

Figure 3 The impact of supply chain performance on shareholder value.
Source: University of Western Ontario and the Georgia Institute of Technology

3. Sell Solutions

Looking ahead, highly customized supply chains will become less common, as companies seek greater supply chain efficiencies and higher service levels through more standardized outsourced solution offerings. Most of these offerings will be full service, encompassing facilities, transportation, technology, and management capabilities; and they generally will be priced on a variable basis. As a result, vendor success will depend increasingly on how well their software integrates into new outsourcing solutions and how effectively they partner with third-party service providers.

At the same time, narrow vendor-to-customer software-sales models will become less prevalent and less effective. For this reason, supply chain software vendors will need to upgrade and expand their sales channel options, while developing even closer relationships with integrators and other service providers. For example, outsourced, Web-enabled inbound and outbound material/product delivery systems are fast becoming a major sales channel. However, many vendors have not established the innovative licensing deals and pricing policies that enable them to take advantage of sales opportunities in this space. Looking ahead, new alliances, partnerships, and deal structures – all focused on outsourcing – will be key to the software vendor's success.

All in all, successful technology vendors need to embrace the same basic guidelines as any other forward-thinking business: Acknowledge the need for – and implement – supply chain solutions that help customers achieve new levels of flexibility, economy, service, and profitability. At the same time, accept the inevitability of change. Trying to hold back the tide never works, but working adaptively and collaboratively on creative, value-added solutions usually does. ■