

Reduced IT Budgets Favor Small Projects, On-Demand Models

BY JEAN V. MURPHY

As the economic downturn shrinks budgets for supply chain IT investments, companies turn to smaller projects with fast implementations and on-demand delivery models.

In line with the declining economy, analysts have adjusted downward the 2009 outlook for the supply chain technology market. As recently as last November, AMR Research was predicting a 7 percent growth for this sector in the current year, but it now has reduced that expectation to a mere 2 percent.

"There are several trends driving the supply chain software market, but clearly the most prominent is that cash is king," says Greg Aimi, research director at the Boston-based firm. "Priorities will vary by company, but businesses are looking for small projects that can be quickly implemented and provide a fast return on investment."

Vendors say their market experience supports this conclusion.

"There is no appetite for big projects," says Richard Howells, senior director, SCM global marketing at SAP, Blue Bell, Pa.

"Companies are identifying key business issues and looking for targeted solutions that will give them a fast return." Howells does note one customer response that differs from past recessions, however. "Any investment in the supply chain is being looked at not only for short-term gains, but for long-term benefit as well," he says. In response to the current market SAP has begun deploying individual components of its software to meet specific challenges, "but we always keep in mind the big picture of where a company needs to go once this recession ends," he says. "There will be light at the end of the tunnel."

Another difference is that customers are insisting on more accountability from technology providers, says Anand Iyer, vice president for global process consulting at i2 Technologies, Dallas. "Customers are not interested in looking at Power Point slides or hearing about a tool that

requires them to bring someone else in to implement it," he says. "They want a vendor that can quickly fix their problem, from software recommendations right through to execution, including process changes and implementation."

A growing number of companies are avoiding traditional implementations altogether and seeking out solutions with alternative delivery models such as software as a service (SaaS), or they are looking to vendors to run the software for them as a managed service.

Iyer says that i2 recently entered into the latter type of engagement with a customer in the fast moving consumer goods market. "The hardware is ours, the software is in our building and we are basically delivering plans to them on a weekly basis that they execute," he says. "Even nine months ago, something like this would have probably been unthinkable to



this generally conservative company, but customers are a lot more open today to anything that gets the job done.”

This means that vendors also have to be more flexible and creative in their go-to-market strategies. Those that already have adopted a SaaS model appear to have an advantage, based on reports of corporate spending plans. In a recent survey by Gartner Group, Boston, nine out of 10 companies said they plan to increase their use of SaaS or on-demand solutions this year. More than a third plan to replace on-premises software with SaaS to bring down total cost of ownership.

Reduced cost of ownership is the big reason that SaaS is quickly gaining traction, says Clay Perry, senior vice president, global markets at Integration Point, an on-demand global trade management software provider based in Charlotte, N.C. “SaaS allows people to buy by the drink, rather

enabling us to concentrate on how to improve our offerings and best support our customers,” he says.

Kinaxis, Ottawa, Ont., is another on-demand vendor that had strong growth in 2008, doubling its subscription revenue and generating strong, positive cash flow. The company looks for that trend to continue in 2009. Kinaxis’s primary product, RapidResponse, is aimed at companies with extensive third-party manufacturing operations, and enables supply chain visibility and response. This economy “acts as an accelerant for on-demand services,” says Douglas Colbeth, chairman and CEO. “In a down market, operations performance goals—inventory cost reductions in particular—and customer retention and satisfaction are more important than ever.”

Inventory reduction, which is always a focus of supply chain efficiency efforts, gets even more attention when cash is king

(RIR), this solution “is a direct response to what we perceived as a market change — companies wanting very fast time to value and solutions that can very rapidly address the problems at hand,” says CEO Joe Shamir. “Those problems generally revolve around improving working capital and reducing cash needs,” he says.

Rather than a normal software implementation, RIR uses the ToolsGroup inventory optimization tool in a hosted fashion, with a ToolsGroup team of experts doing the modeling and generating optimized outputs to the customers’ system, where these results then drive performance improvements. “This is the fastest way to value that we can offer to the customer,” says Shamir. “The idea is to get the benefit quickly and allow the customer to move through the implementation and change management processes only when it is ready.” A beta customer of RIR reduced inventory by 25 percent in just two quarters of use, he says.

A focus on freeing working capital tied up in inventory also is fueling continued growth in solutions that support sales and operations planning. “We see continued acceleration and adoption of S&OP,” says Johnston. “There has been no pulling back in that area at all.” JDA last year partnered with Oliver Wight, the leader in S&OP consulting, to incorporate Oliver Wight’s methodology and processes into its software solution.

Howells agrees that S&OP interest remains strong. “The whole concept of synchronizing supply and demand through an S&OP process is a high focus in this type of economy,” he says. “If you can get true demand visibility throughout your organization, which S&OP enables, you are going to save money because you will be producing the right products to meet that demand.”

The inventory issue also is driving growth in network connectivity applications that help companies get timely data from trading partners. This benefits companies like E2open, Redwood City, Calif., which provides a network integration and communications platform. Not surprisingly, E2open is another solution delivered on a subscription basis.

“Our view is that companies, ironically, have plenty of software horsepower, especially in terms of planning,” says Rich Becks, senior vice president of strategic

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than buying or building the entire drink machine,” he says, adding that it also offers fast implementation and is less expensive to maintain and upgrade.

“Not having to commit dollars upfront removes a lot of risk involved in acquiring a solution,” adds Cedric Guyot, vice president of marketing at Retail Solutions, Sunnyvale, Calif. “With less risk, companies are much more comfortable giving something a try. And if they don’t get value, they can turn it on or off at will,” he says.

Guyot says Retail Solutions’ on-demand applications, which help CPG companies turn point-of sale and other retailer data into actionable information, has proved to be “very sticky,” with a 95 percent renewal rate. This helped the company achieve record revenue in 2008 and has it “well positioned to grow organically in 2009,” says Guyot. “Our scale and pure SaaS model gives us a large and stable foundation of recurring revenue to build onto,

because it represents non-working capital.

“We definitely see an increase in the adoption of solutions focused on optimizing inventory and more strategically managing inventory levels,” says David Johnston, senior vice president for JDA Software Group, Scottsdale, Ariz. “With these tools, many customers see a very significant reduction of working capital, while still meeting service levels that customers require.”

“Eliminating excess inventory and getting the right product, to the right place at the right time is key to survival,” says SAP’s Howells. “Companies have to keep a close focus on inventory levels and really scrutinize not only what should be made but also where and when it is made.”

ToolsGroup, a leading inventory optimization provider based in Boston, has launched a services-based version of its product in response to current market conditions. Called Rapid Inventory Rightsizing

supply-demand solutions at E2open. “The question is what kind of fuel are they putting in? If you put in bad fuel, you will get bad mileage and the data that companies are using to feed these planning systems is just not good enough.” A lack of good data, he continues, results in a continuing misalignment of supply and demand. “Companies often have more than enough products in aggregate around the world, but goods are not positioned properly. Why? Because their data is not good enough.

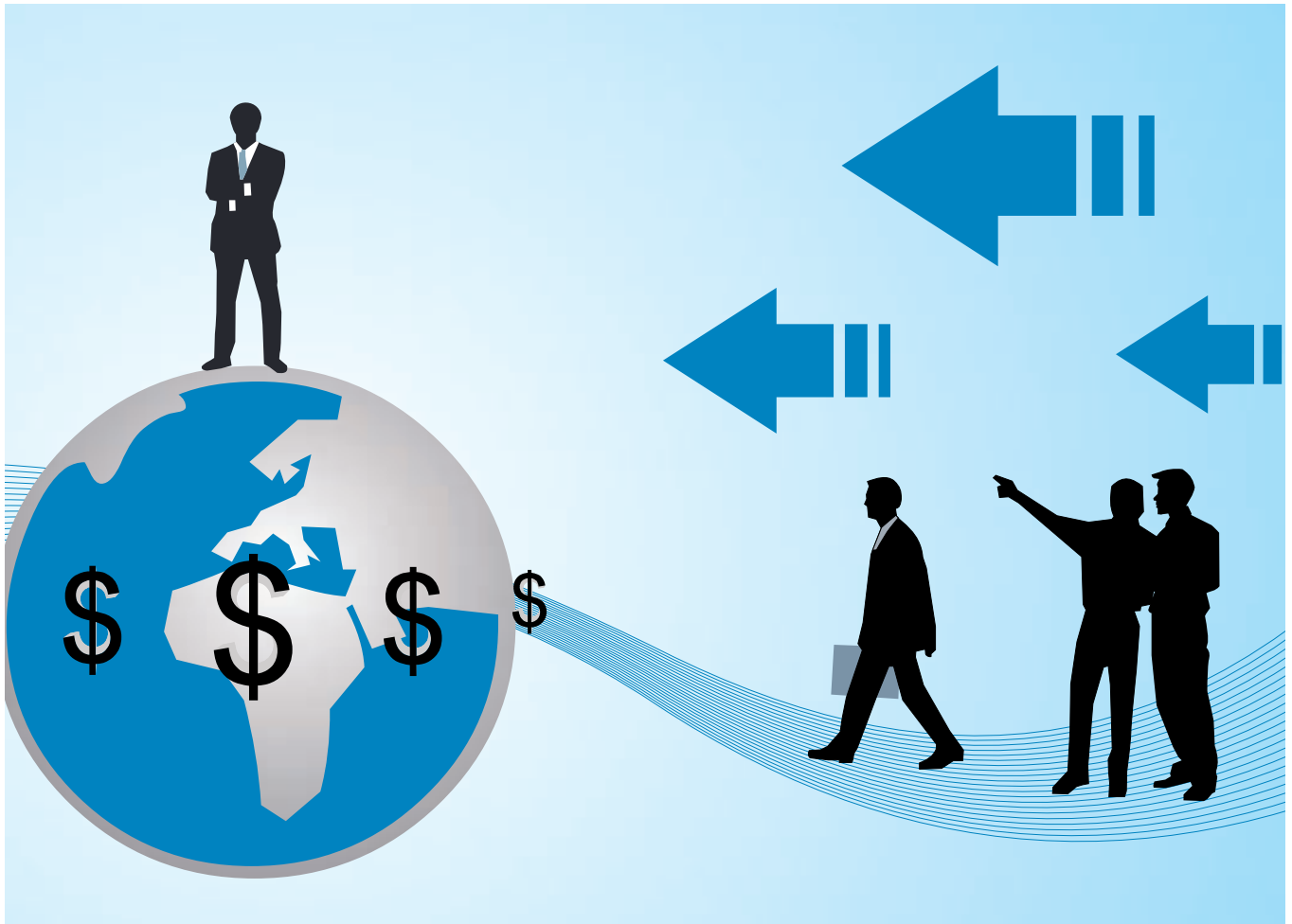
“So in time like this, when companies

E2open provides a conduit for enabling companies to easily share information even if their systems and formats are totally different. It translates the data into the receiver’s protocol of choice. As a result, “our customers have only one pipe to maintain and they don’t need an army of IT people,” Becks says. “Their costs go down, their service levels go up, their visibility improves and they become more flexible and responsive.”

GXS, Gaithersburg, Md., also enables business-to-business communications

quantify the cost and resource savings associated with outsourcing B2B services.

“Cost savings have always been a factor in supply chain projects but we are seeing that boil up to become the primary driver and decision criteria around B2B projects,” says DeVries. “Customers are struggling to get a comprehensive picture of the costs of B2B programs as well as the savings potential. We thought it might be helpful to customers if did we able to provide them a total cost of ownership comparison, but we wanted it to be based on



need all the cash they can get and can’t even afford to borrow money, they have capital tied up in inventory they can’t sell. And that’s not the end of it. You have to discount that product to sell it through and by doing that you set a new floor for that product in the market, so when the next generation of product comes out you will have to initially price it lower.” Becks estimates that companies are losing hundreds of billions of dollars in reduced margins due to a failure to effectively supply the market with what it really wants.

across a network of trading partners. An increasing number of its customers are looking for a complete managed services solution, says Marco DeVries, director of market intelligence. GXS recently partnered with an independent research vendor, Hobson and Company, to develop a model that makes it easier for companies to identify and compare the total cost of ownership associated with managing a B2B program in-house versus outsourcing to a company like GXS. The model results, which are based on actual GXS customer expenses,

objective criteria which is why we were brought in Hobson.” The TCO model gives companies a side-by-side comparison of in-house costs and services vs. the costs and services of outsourcing.

Another area holding up well in this economy is software that supports global trade management and trade finance—solutions that also are typically delivered on a subscription basis. “Regulatory, security and compliance requirements, along with a desire to better calculate and manage landed costs, are promoting growth in this

area,” says Aimi. In addition, he adds, automating trade processes can improve productivity, enabling companies to meet trade requirements without hiring additional people.

“Companies are realizing there is a disconnect between their strategy of going global and their capability to make it happen,” says Nathan Pieri, vice president of marketing at Management Dynamics, a provider of on-demand global trade management solutions based in Rutherford, N.J. “For that reason they continue to invest in global trade management and we continue to see projects with strong value propositions being funded.” Management Dynamics, had its best year ever in 2008 and continues to see consistent quarter on quarter growth, he says.

The company also continues to launch new products. “One issue challenging our customers is the proliferation of trade agreements,” says Pieri. Management Dynamics recently enhanced its offering in this area to enable companies to manage up to 26 different preferential agreements with their varying rules-of-origin requirements. “Companies that leverage these trade agreements effectively can realize substantial savings,” says Pieri. He cites one customer in the high-tech sector that reduced costs by more than \$2m under just the U.S-Singapore trade pact.

Integration Point’s Perry says that many customers are finding it more economical to handle compliance themselves rather than outsourcing it to a logistics partner. One reason is use of the SaaS model. As an example, he says that Integration Point has informally surveyed customers and prospects on the issue of the new 10 + 2 security filings. “People outsourcing this function are expecting to pay between \$20 and \$35 per import security filing,” he says. “With our product, the cost typically ranges between \$1 to \$5 per filing.” Even though service provider fees also include human resources, he says the savings potential of doing this in-house using an on-demand solution “are substantial.”

The on-demand model also is gaining traction among vendors of other supply chain execution solutions, including transportation management. “With up to 4 percent of a company’s revenue committed to transportation this is an area that continues to receive attention from end users,” says the AMR supply chain market outlook

report. “SaaS providers are bringing services to the market with price points that allow shippers with freight spending as low as \$2m to generate a return on investment.”

One area of transportation technology that is particularly hot is spend management. LeanLogistics, the first TMS solution built on the SaaS model, reports that its Carrier Procurement Services last year saved clients an average of 11.7 percent. It is so sure that it can replicate these results that in 2009 it is offering clients a no-risk guarantee. “Simply put, there is no cost for our services unless LeanLogistics reduces annual freight expenses by three percent or more,” says Dan Dershem, president and CEO.

The on-demand delivery model has more recently extended to warehouse management systems, which traditionally have been available only as install-on-premises solutions. “WMS traditionally has been associated with big, expensive systems,” says Aimi. “But with new on-demand systems like SmartTurn, businesses don’t have to think of it that way anymore. SmartTurn gives full control over inventory very effectively and dynamically without big upfront costs.”

SmartTurn, a four-year-old company based in Oakland, Calif., experienced significant growth in 2008, adding new customers among 3PLs, wholesale distributors, and manufacturers. “We see the milestones of 2008 as just the beginning, and as more companies evaluate their supply chain priorities, they will realize SmartTurn offers the only WMS they need,” says Jim Burleigh, CEO. SmartTurn packages start at \$500 per month per warehouse, allowing for an unlimited number of users, support, upgrades, training and maintenance. Traditional, on-premise software, in contrast, can cost hundreds of thousands of dollars annually in consulting and licensing fees alone.

Deposco is another new supply chain execution vendor built on the SaaS model. Based in Atlanta and just launched last year, the company has benefited from an investment by the UPS Strategic Enterprise Fund. “We’re very excited about how far Deposco has come since we launched our go-to-market plans,” says CEO Chris Clark. He notes that Deposco’s solutions are deployed in 30 to 90 days and allow for constant and continual enhancements over time. Deposco’s solutions “allow for low up-front investments with robust function-

ality and support,” he says.

Traditional warehousing solutions also are finding ways to stay attractive to potential customers in this tough market. RedPrairie, Waukesha, Wisc., experienced its most successful year ever in 2008 with revenue growth of more than 15 percent and “solid profits.” While customers certainly are scaling back, they continue to implement smaller projects and look to RedPrairie to help them “peel the onion on optimization,” says Tom Kozenski, vice president of product strategy. “Customers are asking us for operational audits to make sure they are getting full value out of what they have. Secondly, they are looking to what incremental additions they can make to add value.”

HighJump Software, based in Eden Prairie, Minn., has responded to the current climate by releasing a pay-as-you-grow version of its popular warehouse management system. With Warehouse Advantage Express, which is available on a licensed or subscription basis, companies can configure a solution to their specific need and be up and running in as little as 45 days. They can later add more complex capabilities without implementing a new system. Chad Collins, vice president of marketing and strategy for HighJump, says this solution was designed to meet the needs of companies “during a time when value and return on investment are more vital than ever.”

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