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## SIFTing Through Your Technology Choices

By Jeff Gusdorf

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There are many factors that must be taken into consideration when buying new technology. It's important to have a checklist or framework to use in order to be confident that you are making the "best" decision.

I recommend using the following SIFT framework for purchasing technology. This framework helps to organize all of the factors so that alternative choices can be compared. I consider these four factors to be critical in determining the best solution:

- **Suitability** - is the vendor providing an appropriate solution based upon your needs and company culture?
- **Investment** - have the current and future costs for purchasing and implementing the solution been accurately determined?
- **Functional Fit** - does the solution satisfy the critical business process requirements of your company?
- **Technology** - how mature is the technology? How does it fit with your company's existing information technology and management capabilities?

Let's examine each one of these factors in more detail:

**Suitability** addresses key issues that will help to determine if you are buying the product from the "right" vendor. This is a critical element that is often ranked below some of the other factors discussed in this article. Surveys show that first time buyers rank this as the 7th most important factor. Second time buyers rank this as the 1st most important factor.

The software vendors' ability to help you successfully implement the solution is critical. Not only will the software vendor will become your partner, but their involvement will be critical to the successful implementation of the software, training of current and future users, and the ongoing development of new features. Their ability to maintain and enhance the functionality of their software as well as keep up with changes in technology will determine the useful life of the software. You want to use your software for no less than 10-12 years before having to think about a replacement. You want your software vendor to be a profitable and dynamic company during this period of time.

In the early 2000's it was common to refer to software as Tier 1, Tier 2 or Tier 3 referring to the size of the company that they were a fit for. Tier 1 companies were the largest (\$1B+ in revenue or over 1,000 users)

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and needed the most complex software. They were served by a group of companies referred to as "JBOPS" (JD Edwards, Baan, Oracle, PeopleSoft and SAP). As all of the big companies acquired ERP packages and the market became saturated a wave of consolidation occurred. Oracle acquired PeopleSoft and JD Edwards and Infor acquired Baan. Today, SAP and Oracle are considered the "Big Two" suppliers. These remaining Tier 1 suppliers have aggressively marketed to the small and medium sized business as that is where the growth potential is.

At the same time other software companies that were once considered Tier 2 (for medium size companies) and Tier 3 (for small companies) have evolved:

- Activant, which was big in hardware stores and building materials acquired Prophet 21 and 15+ other distribution centric packages and rolled them all into a Wholesale Distribution Division. Last year they bought Eclipse and now have an even larger WD footprint.
- Infor is now a \$2B company built by acquisition. Their Wholesale Distribution Group includes long time distribution centric software vendors NxTrend, Daly.commerce and Aperum.
- Microsoft entered the ERP marketplace with the purchase of Great Plains and a Danish company named Damgaard which owned two packages called Navision and Axapta. Now branded under the Microsoft Dynamics banner, there are thousands of partners selling these solutions.
- Sage Software, another very large company, also has thousands of partners who sell their MAS, Accpac and X3 products.

While these giant companies have changed, smaller, privately held software companies such as BCR, Computer Insights, Distribution One, INxSQL, IST, VAI and others have continued to expand or solidify their customer bases by focusing on specific sub-verticals while training the next generation of managers.

So how do you make sense out of all these companies to determine which might be right for you?

### Domain Expertise:

Wholesale distribution is a special way of doing business that involves buying from hundreds or thousands of suppliers, stocking thousands of SKU's and selling to thousands of customers. Order processing, pricing, replenishment and purchasing are different than in any other type of business. Within wholesale distribution vertical market are sub-vertical such as fasteners, electrical, electronics, building supplies, power transmission, food, pharma that have additional unique business process requirements.

This knowledge about wholesale distribution and the sub-vertical is referred to as domain expertise. Just as your knowledge about operating a fastener or electrical distributorship is acquired over many years the same is true for the software vendor who will become your partner in implementing an ERP software system.

You can assess the software vendors' expertise by learning how many customers they have, how long they have had them and by the size and sophistication of their customers. Their involvement in the industry can be assessed by what trade associations they work with, which trade shows they attend and where they advertise. Some vendors have developed industry councils for organizing and prioritizing development ideas.

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### Resources:

In addition to evaluating the software vendor's degree of domain expertise it is important to understand who at the vendor has the expertise and how you can tap into it. Look at executive, sales, development, implementation and support personnel. The more places you can find the expertise the more likely you have success with the implementation. In software companies that are focused on one or several related sub-verticals the executives will usually have expertise that they can bring to your experience. Often times, the senior sales people will have significant experience in your sub-vertical; this will become apparent to you during the sales process when they can talk to you about your problems and how their systems can help to solve them. Most importantly you want the implementation consultants and the support staff to have the necessary knowledge of your unique business process in order to be able to help you to successfully implement and then support your efforts to improve your utilization of the new system.

If you are buying software from a reseller or partner be sure you understand the depth of the resources that exist. The right partner will add a lot of value to the software package. Be sure that you are working with the right one.

**Investment** addresses the total cost of ownership for the software. It's easy to focus on negotiating upfront license fees and consulting services but don't overlook ongoing costs such as training and future purchases of licenses as well as the internal cost of staff for the project. Maintenance, the fee paid for software updates and help desk support, is charged annually and over a 5 or 6 year period it will equal the total initial license fee. The complexity and cost of software has made Software-as-a-Service attractive to some companies since the software is paid for on a subscription basis. But this new approach also has extra costs that need to be understood and quantified.

For traditional On-Premise software Total Cost of Ownership (TCO) should include:

- Hardware - Servers, workstations
- System Software - Operating system, databases, utilities
- Application Software - Users licenses, Module licenses, third party software
- Custom modifications
- Maintenance - software updates, support calls
- Implementation Services - installation, application consulting, data conversion, reporting
- Training
- Travel
- Go-Live Support
- Internal IT Staff costs

I suggest projecting costs over at least 3 years.

For Software-as-a-Service (SaaS), TCO should include:

- Initial consulting fees
- Initial integration fee
- Feature surcharges
- Subscription fee

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- Extra resource surcharges
- Upgrade fees
- Internal IT Staffing

I suggest that you project these costs over a 5–7 year period. Some studies have shown that the cost of SaaS is equal to the investment in On Premise software over a 7 year period.

**Functional Fit** addresses how well the software meets the functional requirements of the business. There are thousands of features built into today's ERP systems. It's impossible to evaluate every feature and it's not necessary. Frankly, I find using the commercial features lists available for sale to be a waste of money. These lists were developed in the 1990's when ERP software was still new and immature. This was when it was necessary to be sure that software packages could perform all of the basic tasks. Those companies not providing this level of functionality have gone out of business or have been acquired.

I strongly suggest identifying the critical business functionality that makes your company unique or that provides a competitive advantage. Functionality in Order Entry, Customer Service/Order Processing, Purchasing/Replenishment, Warehouse Management and Business Intelligence are of critical importance to a distributor. Each vertical market in distribution such as Fasteners, Electrical or Building Materials requires specific functionality. Focus your attention in these critical areas when evaluating how well the software works.

Don't base your evaluation of functionality on the use of a Request for Proposal (RFP). Software vendors won't really respond to RFP's anymore as the first contact they have with you. They will want to understand your company and the opportunity before committing to spending thousands of dollars responding to a RFP. I have also found by analyzing the scoring of these responses that the scores all come out the same. So engage the software vendors with a more open and interactive process that allows you to really learn what they have to offer.

**Technology** addresses the actual software and hardware architecture that is used to build and host the application software. This includes the database, programming language and tools, user interface, operating system, and hardware. You will want to ensure that the software vendor is using mainstream tools that are well accepted in the marketplace to minimize the risk of obsolescence. "Non-standard" development tools require extra due diligence to understand if there is greater risk.

The Microsoft technology stack has become extremely commonplace; SQL Server database, Server 2007 Operating system, .Net development language. Many vendors are using this standard. But others using Oracle, SAP, or Progress technologies are equally acceptable. The Open Source movement has been very successful with the implementation of the Linux operating system as a cheaper alternative to UNIX.

Selecting software is a complex task. There are a tremendous number of factors that have to be considered in order to determine which software package will be the "Best" one for your organization. Using this SIFT framework will ensure that you have assessed all of the most important factors and will help you be more confident in your software purchase decision.

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### About The Author

Jeff Gusdorf, CPA is a Principal in Brown Smith Wallace's Consulting Group. He is the managing consultant and is responsible for IT strategic consulting, software research and evaluation. Jeff has more than 20 years' experience as a financial manager and technology consultant in the manufacturing, distribution and service sectors.

### About The Brown Smith Wallace Consulting Group

The Brown Smith Wallace Consulting Group has been serving the distribution community for more than 20 years through the publication of the Distribution Software Guide, speaking at industry programs, giving free telephone advice to distributors and providing fee-based consulting services to companies who need help selecting the best software packages for their business.

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