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RESEARCH NOTE NETSUITE'S IMPACT ON WHOLESALE AND DISTRIBUTION COMPANIES

THE BOTTOM LINE

When Nucleus examined wholesale and distribution customers using NetSuite, analysts found it enabled them to improve reporting and increase efficiency. Customers said NetSuite had helped them to improve margins, increase customer service and satisfaction, and reduce costs.

NetSuite provides a cloud-based business management application that supports accounting and financials, enterprise planning, manufacturing, e-commerce, customer relationship management, and reports based on a single customer record. This approach means that sales, support, billing, accounting, shipping, and business planning staff all access the same data. The Wholesale/Distribution Edition supports role-based customizable dashboards and self-service vendor, partner, and customer centers. Components of the Wholesale/Distribution Edition include:

- Automated order processing
- Inventory management
- Integrated shipping and logistics
- Product packaging and assembly
- Integrated e-commerce capabilities

To understand the impact of adopting NetSuite on manufacturers, Nucleus conducted in-depth interviews with 25 NetSuite customers in the wholesale and distribution industry.

BENEFIT AREAS

Nucleus identified a number of areas where NetSuite customers in wholesale and distribution could achieve cost savings and greater efficiencies, including IT and reporting, sales and customer service, and inventory and margin management.

IT cost savings

Before deploying NetSuite, most wholesale and distribution customers were using a combination of QuickBooks and Microsoft Excel spreadsheets to manage their businesses – although a few replaced other standalone applications. Many customers had evaluated other options such as on-premise applications and standalone accounting packages and found NetSuite could most cost-effectively scale to support their business:

TOPICS

E-Commerce
Enterprise Applications
Software-as-a-Service
Customer Relationship
Management

- *"Before we were constantly losing data and crashing the system. We don't grow out of NetSuite; we don't have to worry about limited ability or limited users. Backup and security are no longer my burden."*
- *"The hosted solution is a key part of the value. We eliminated the need for internal IT resources."*
- *"Between the electricity, service contract, software license, software assurance, and backup, it was costing us at least \$20,000 right there."*
- *"We had the choice between NetSuite and SAP. Our headquarters is a global SAP shop and they tried to implement it but the timeline wasn't possible and it was too expensive."*

Nucleus analysts estimate that an on-premise application providing similar functionality would cost at least \$50,000 in initial software fees, \$20,000 in hardware, and \$50,000 in license maintenance and support costs for a low-end on-premise ERP project.

The amount companies can expect to save (or avoid) on IT with NetSuite depends on the number of applications or modules that will be replaced or avoided and the related IT support and report-building costs.

Improved sales

Visibility into real-time inventory availability, the sales pipeline, and customer service issues provided by NetSuite can reduce the time sales people spend on manual tasks and accelerate sales cycles. Wholesale distribution customers found they could use NetSuite to increase sales without additional staff resources. Some customers noted they had accelerated their pipeline by 30 – and in some cases up to 50 – percent; others reported they were able to develop new channels because of the efficiencies afforded by NetSuite:

- *"Before NetSuite we had no idea how many opportunities or quotes we had. Now we have all that data."*
- *"Sales is enabled to do things they couldn't do before like real-time quote approvals. That has made them be more competitive."*
- *"Our entire sales lifecycle is streamlined and shortened. We've kept roughly the same number of sales administration people and sales have grown tremendously."*
- *"NetSuite has allowed us to open new sales channels – a couple of areas in the business where we couldn't dedicate staff because they were too busy managing customers. Now what was selling about \$40,000 a year sold \$13,000 last month."*
- *"Sales can log on wherever they are to a real-time work assessment while assisting a customer. It's helped with selling because it has cut back on searching for files and inaccurate documentation. We've reduced 30 percent of the time with each customer because of easier information access."*

Nucleus found that the sales force automation and CRM functionality in NetSuite can enable sales people to increase productivity by an average of 15 percent; those moving from completely spreadsheet-based or manual processes are likely to see more significant savings.

Some wholesale and distribution customers were also able to take advantage of NetSuite's integrated e-commerce features to develop a new sales channel on the Internet. One distributor that did not have an e-commerce site before deploying NetSuite told Nucleus it increased revenues by \$370,000 from e-commerce in the first year of launching its Web store.

Shipping savings

Integrated shipping and order fulfillment within NetSuite helps wholesale distributors manage multiple channels and shipping requirements while managing costs. Customers found they were not only able to provide faster, more accurate quotes on shipping; they were able to identify and correct shipping processes that were unprofitable:

- *"80 percent of shipping can be quoted at the time of the order using UPS."*
- *"Before we weren't realizing that we were undercharging our customers on shipping because it was disconnected – we wouldn't know until month end. Now we make about 20 percent on shipping (going from losing 15 percent)."*
- *"Shipping mistakes were the main reason we went with NetSuite. Now we've cut back on mistakes with packaging and shipping. We know what is in each box going out the door."*

Shipping savings is one direct benefit many customers found by using NetSuite; in some cases, customers saved as much as 35 percent on annual shipping costs.

Improved reporting and forecasting

Greater visibility into information and less time spent gathering and analyzing data was a significant benefit recognized by most NetSuite customers. Customers said that the centralized data store and pre-built reports and dashboards enabled business users to directly access the information they need:

- *"NetSuite has helped us to change our market focus and enter into some new markets because we have better visibility into our cost and inventory."*
- *"I can tell you exactly what payables are, cost fluctuations are, when a product changes price, and how it impacts costs. You can manage better pricing with the manufacturer when you can look at those numbers in front of you."*
- *"We've moved from annual budgeting and income reporting to monthly reporting."*
- *"The location manager doesn't have to wait for IT to get reports."*
- *"It's the common thread that everyone uses and everyone points to. We ask, is that what NetSuite says? It's given us a lot of efficiencies."*
- *"NetSuite has helped us to change our market focus and enter into some new markets because we have better visibility into our cost and inventory."*
- *"In negotiation with suppliers, reporting is extremely strong so in a couple of mouse clicks I can have a view of my activity with a vendor. They know I'm on top of it."*

Nucleus analysts estimate that wholesale distributors moving to NetSuite can expect to save or avoid at least one full-time resource through more automated reporting while providing greater visibility into information; many wholesale and distribution customers experienced greater savings.

Improved inventory management

Nucleus analysts found that demand-based inventory replenishment, serial and lot number tracking, bin management, and other capabilities enable NetSuite wholesale and distribution customers to improve inventory management. Most companies reported a reduction in overall inventory carrying costs by moving to NetSuite; typical savings were 15 to 30 percent while some reported even greater savings. Real-time visibility into stock also helped NetSuite customers manage inventory to reduce write-offs:

- *"Now we know how long we can go on a product. We can cherry pick the items that are not generating enough money."*
- *"Now our sales people have visibility into products that are going to expire so they can move it quickly. Everything is tracked by the lot and has product expiration dates on it – now we're tracking product obsolescence; before we had no capabilities."*
- *"We used to write off \$60,000 a year because of expired products. Now we've dropped inventory and can avoid write-offs and recall track situations."*

Improved margins

Wholesale distribution businesses are all about managing margins: to be successful, distributors must buy products at good prices and sell them at the highest price that is still attractive to customers. Nucleus analysts found that visibility into pricing, availability, and demand, and the ability to quickly make price adjustments by product or class, enabled NetSuite customers to actively manage margins, both in purchase negotiations and sales:

- *"We can go in and easily do price adjustments. There are a hundred different ways to spin it but if we want to make 40 percent gross margin on a class – like boots – we can. We couldn't do it any other way with more than 50,000 items."*
- *"NetSuite makes purchasing and negotiating easier because of more accessible information. We've customized it to tell us what vendors are late and how much it costs us, so we can hold vendors accountable."*
- *"NetSuite has helped with purchase because of better historical-level visibility by vendor and by unit. So we can consolidate purchasing to maximize discounts received."*
- *"Before we never captured costs at the production-run level. We put in place a method to capture that information to get a true cost of finished products to get a true cost of goods sold that feeds back into the income statement."*
- *"Now we can compare pricing to costing to track margins. We corrected some areas where margins were not as great as we would have liked. We're also more competitive in certain areas and markets by knowing what our true costs are. We have much better control of product cost – we never had it before."*
- *"There is information about the customer and what they ordered. They can see history without tracking people down and see a complete picture of sales, ordering, and fulfillment. That has made us 20 to 30 percent more profitable."*

Improved customer service

Nucleus analysts found that sales and customer service teams can use NetSuite to provide customers with up-to-date information on inventory availability, pricing, and shipping, accelerating the response to inquiries while increasing customer

satisfaction. NetSuite wholesale and distribution customers moving from manual paper and spreadsheet-based processes said they experienced significant savings:

- *"It used to take us about 30 minutes before to pull reports out of filing cabinets to fax information back to customers. Now we can answer questions in a matter of seconds."*
- *"Customer support takes half the time to do the same order it took before."*
- *"We give customers access to log in and see their own account, orders pending, bills, past payments due, and shipping time, which has cut down on phone calls from customers to our support center."*
- *"We've increased repeat business by 10 to 20 percent because when they call we can ship product right away."*
- *"We are in a price business competing against other manufacturers. Our increase in sales has come from identifying the needs of customers and opportunities as opposed to running transactions."*

Nucleus found NetSuite wholesale and distribution customers can expect to improve efficiencies in customer service by an average of 30 percent; one customer noted reducing customer service time by 60 percent while driving customer satisfaction up to 90 percent.

Reduced audit time and cost

An integrated view of information and the ability to rapidly run a set of standard reports within NetSuite has enabled wholesale distributors to accelerate the financial close process and reduce the time and cost associated with audits. Many smaller firms formerly using outside contractors for accounting were able to reduce or even eliminate those costs:

- *"Closing the books was a nightmare before. We stopped business for 1.5 days a month if it went well. It was a lot of time wasted."*
- *"Before, an audit occurred every three years and took 1.5 weeks for auditors on site. Now they are able to pull transactions so it went from three to four days to 20 minutes to pull reports for the auditors and we cut from a month to a week to close the books."*
- *"I don't pay my accountant any more. That's saving us almost a thousand dollars a quarter."*

Nucleus found that NetSuite wholesale and distribution customers are able to reduce the time to close the books by more than 50 percent and reduce audit preparation time by an average of 35 percent.

Ability for growth and flexibility

The most consistent theme among NetSuite wholesale and distribution customers was the ability to sustain or grow their business because they were more efficient by automating processes with NetSuite. Most customers Nucleus analyzed had developed new channels or product lines because they could be supported within NetSuite; some reported triple-digit growth. One customer noted, *"We have grown without having to add staff. When we started we had 15,000 SKUs and now we have 250,000. NetSuite allows us to process drop ship orders from 51 manufacturers at the same time, and it automatically produces the purchase order right out to manufacturers. It's all automated."*

Other customers found that in the unpredictability of the economic downturn, the visibility and efficiencies NetSuite provided were critical to keeping their business profitable. As one customer said, *"Our business is tied to housing starts and that has slowed business. If we hadn't gone to NetSuite I'm not sure how we would have survived."*

CONCLUSION

Wholesale distributors must master the buying and selling game: they must pick the right products, get the right price from suppliers, and attract and retain customers while managing margins. In examining the experiences of NetSuite customers, Nucleus found that a single integrated suite enabled distributors to drive greater efficiency and visibility while reducing costs. Greater visibility and automation enabled wholesale distributors to grow their business while improving margins.