

Case Study 17 of 20 Supply Chain Management Industry: Wholesale Distribution

>> THE BUSINESS

The Rocket Group is a nine year old wholesale distribution business specializing in the warehousing and distribution of home entertainment products such as CDs, DVDs and games. It comprises three key businesses of Rocket Export, Rocket Replacements and Rocket Distribution.

The Rocket Group is based in inner-city Richmond, Victoria and employs about 45 full and part time staff.



>> WHAT WAS INITIATED?

Rocket Distribution's business has traditionally been a 'high manual process' one in which orders involved the manual input of data delivered by either phone or fax and where manual records on stock movement were kept.

In order to automate these processes, Rocket invested heavily in establishing a secure online ordering system. This comprised two main components – a stock database (programmed in SQL) and barcode system (known as 'Radar') which acts as a comprehensive product catalogue and a customer 'extranet' (known as 'Robot') which allowed customers to order online, instigating a chain of commands which led to the delivery of goods to the customer and automatic updating of accounts.

"Our system provides everything retailers require from a supplier – real time pricing, new product information, ordering, order tracking and account management saving them considerable time, effort and money over traditional ordering methods such as phone, fax and sales representatives".

Dominic Vaiano, Director – Domestic Sales

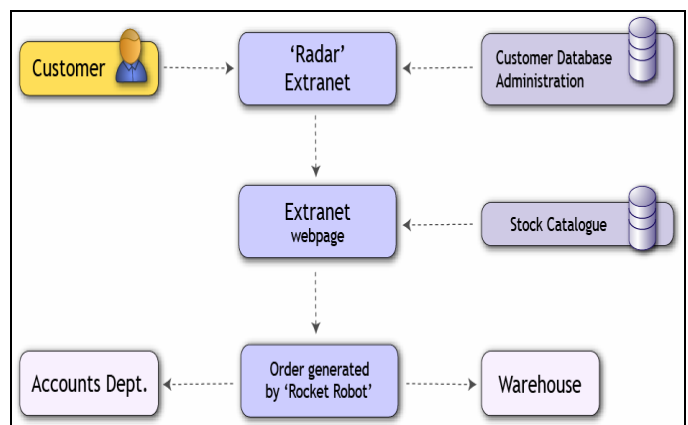
The barcoding component of the system meant that stock levels were automatically monitored and replenished upon reaching designated volumes.

What is an 'Extranet'?

An extranet is a password protected website that resides outside the network of the user. The security and contact details of authorised members (or users) of the extranet are managed using a member administration system. Such a system allows administrators to allocate full or partial access to different members according to their (or the business) requirements.

>> HOW THE TECHNOLOGY WORKS

1. Authorised users log in to the Rocket extranet
2. They select the product, quantities and shipping details they require
3. They transmit the order to the warehouse using the 'Rocket Robot'
4. At the warehouse end, staff are alerted to the order and arrange for selection from shelves
5. As stock is packed for shipping, barcode technology identifies the order and updates the inventory system
6. Stock is shipped as per the order instruction
7. Completion of the order triggers an invoice to be added to accounts receivable and is printed.



>> RESULTS

The development and implementation of the system was a major project for Rocket which came at significant cost. However, the system is now starting to repay its investors' faith by creating both considerable revenue and savings.

With the cost of the system amortised, analysis of 2003 figures shows a loss of \$30,400 yet a healthy return on investment was expected by December 2004.

>> COSTS

The cost of development and implementation was a considerable one for a business of Rocket's size. An estimated \$500,000 had to be invested in the project in addition to a number of smaller hosting and operational costs.

>> CHALLENGES AND PROCESS CHANGE

When it comes to technology, organizations have a choice between 'building' (having it custom developed to their requirements) or buying (purchasing an existing system).

Rocket's analysis demonstrated that none of the existing order management systems would fulfill their requirements so they embarked on a challenging development process.

The system development and subsequent implementation uncovered a host of bugs and imperfections which led to significant cost and time blowouts, in turn placing staff under considerable pressure.

However, once the system became operational it quickly became indispensable to both Rocket and its customers while attracting significant new business and streams of revenue.

>> FUTURE PLANS

In addition to Rocket itself earning greater revenues and productivity gains as a result of using the system, the company believes that other distribution and manufacturing companies would benefit from using their system and are looking at ways of licensing the technology to them.

The company is also being affected by the move of home entertainment to digital downloads and as a result is seeking to expand into physical products which won't be affected by such developments.

>> REFERENCE WEBSITES

www.rocket.com.au

>> E-COMMERCE PROFIT & LOSS ANALYSIS

| | 2003 |
|--|-----------------|
| Additional Revenue from eCommerce | \$ |
| Increased sales directly via the Internet | 250,000 |
| Increased sales indirectly via the Internet | 50,000 |
| Total Increased Revenue | 300,000 |
| Less: Cost of Goods Sold | 237,000 |
| Net Profit for eCommerce | 64,000 |
| Add: E-Commerce Expense Reductions | |
| Reduced telephone bills | 1,000 |
| Reduced paper and printer cartridges | 100 |
| Reduced staff costs in lodging tax forms | 30,000 |
| Reduced customer services costs | 10,000 |
| Total eCommerce Expense Reductions | 41,100 |
| Gross Benefit from eCommerce | 105,100 |
| Less: Up Front Fixed Expenses | |
| Network, intranet and extranet systems* | 125,000 |
| Total eCommerce Up Front Fixed Expenses | 125,000 |
| Less: Operational Expenses | |
| Internet Service Provider | 1,000 |
| Hosting of Website | 2,000 |
| Permission Email marketing | 2,000 |
| External technical support services | 2,000 |
| Telephone lines | 3,000 |
| Staff Training | 500 |
| Total eCommerce Operational Expenses | 10,500 |
| Total eCommerce Costs | 135,500 |
| Total eCommerce Benefit | (30,400) |

* Total cost amortised over four years

The Rocket Group
58-76 Stephenson Street
Richmond VIC 3121
Telephone (03) 8416 8003

For further information go to: www.mmv.vic.gov.au/casestudies

This case study is based on research, opinions and information provided by management of this business which have not been independently audited or verified. Neither APT Strategies Pty. Ltd. nor the State of Victoria makes any representations or warranties (express or implied) as to the accuracy or currency of the information contained in the materials nor does it endorse any company or organisation or other websites or materials referred to. Neither APT Strategies Pty. Ltd. nor the State of Victoria accepts any responsibility or liability in relation to this case study including liability in negligence for reliance on any information in these materials or any products, services or information which may be provided by the companies and organisations referred to. Professional advice should be sought prior to any action being taken in reliance on any of the information contained in this case study. Copyright State of Victoria 2004