HOW MUCH IS YOUR WMS REALLY COSTING YOUR BUSINESS?

Find out how to calculate the true total cost of ownership of your WMS.
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Calculating the cost of some items is simple. When you purchase a new shirt, for example, you must only consider the price and weigh that against the quality of the clothing – how long will it last? Other items, like a car, require much more careful consideration. The upfront price is only one piece of the puzzle when thinking about the total price. What are the costs for standard maintenance? Will it have reliability issues that mean more frequent visits to the mechanic? How much mileage can you expect to put on the car before it needs to be replaced?

When you begin the process of evaluating and purchasing a warehouse management system (WMS), it’s similar to buying a car. While it’s easy to focus on the initial price, that can be a costly mistake. In addition to the original price of the software, there are fees associated with modifying that software to fit your business, annual maintenance and support (M&S) charges that are typically a percentage of the total price (original license plus modifications), upgrades and additional staff needed to maintain the system.

The number of factors that impact how much you pay for a WMS over the life of the system is why it requires careful research to calculate the true total cost of ownership (TCO). So how can you calculate TCO? This eBook will walk through the different costs associated with a WMS to help you make an informed decision that will spare you regrets years down the road.
Total Cost of Ownership (TCO) is the purchase price of an asset plus the costs of operation. When choosing among alternatives in a purchasing decision, buyers should look not just at an item’s short-term price, which is its purchase price, but also at its long-term price, which is its total cost of ownership. The item with the lower total cost of ownership is the better value in the long run.¹

The cost of ownership accounts for everything not included in the initial sticker price. For a warehouse management system, those costs typically fall into six categories: original software license, services to install the solution, modifications, maintenance and support, upgrades and new employees hired to manage the system. This section offers a closer look at each of those expenses and how they are impacted by the software architecture and vendor.

¹ Source: Investopedia
LICENSE

During the evaluation process, some vendors will attempt to win your business with a low price for the software license. These technology providers know that once they win your business, they will make up that discount through services and M&S fees. That’s why the overall contract should be reviewed in detail and comprehensively. A solution that is more expensive initially could save you hundreds of thousands of dollars down the road by providing mechanisms to reduce recurring costs (i.e., upgrades).

MODIFICATIONS

Even when offering a strong foundation of out-of-the-box functionality, warehouse management systems usually need to be tailored to your unique business needs. The first round of configurations and adjustments are executed during the implementation. However, depending on your business model, tweaking the WMS may not stop after the go-live – for companies who adopt continuous process improvement, it’s an ongoing process. Businesses grow and evolve to meet the shifting needs of their customer base and facilitate growth.

Since these modifications may be unavoidable to optimize your business, they are a piece of the equation for total cost of ownership. And they can be costly. Depending on the size of your business and the complexity of your supply chain, you may need to make multiple adjustments every year. That means dozens of changes to the WMS over the life of the solution. Flag-driven systems have a number of switches to control processes, but if none of them address your need, the vendor must make these changes by updating the source code. That’s an expensive, lengthy process – it could be months before the vendor can even start your project because there are so many customers ahead of you in the queue.

As if that’s not enough, those modifications then increase your annual maintenance and services bill. This is usually 20 percent of the software license plus the cost of all modifications. So you can expect that bill to grow every year, and it will not subside until you stop using that WMS altogether. Some vendors only charge M&S based on the license, so it’s imperative to ask vendors how this fee is handled during the evaluation process.
A BETTER, MORE COST-EFFECTIVE WAY TO ADAPT YOUR WMS

There is an alternative. Some software providers have built an adaptable, process-driven WMS to dodge this very problem. These solutions allow you to modify the system with your operations and IT team, without involving the vendor. That means you avoid a litany of service bills, as well as an ever-growing annual M&S charge. It puts the power in your hands.

While there is a cost that comes with assigning and training IT staff with the knowledge to build unique processes, that is far cheaper than making dozens of pricey adjustments through the vendor. In fact, it could turn out to be a long-term investment that pays for itself many times over.

Additionally, some supply chain software vendors now offer an app store that allows users to easily add functionality to their WMS. The model is similar to the app store you use on your smartphone for banking, travel, GPS and much more. The features offered in that supply chain app store reflect ideas from customers themselves as well as market needs identified by the company. Downloads are usually free, another economical way to improve the performance of your software without direct help from the vendor. This is plug-and-play – no coding required and no bills for services.
UPGRADES

Businesses typically wait to upgrade their software until it is absolutely necessary. Upgrades are a necessary evil when your operating system or database providers sunset legacy versions of their software, putting you at risk of an unsupported infrastructure. You can expect this to happen every three-to-five years. Upgrading a WMS can become an expensive, frustrating procedure, so it’s another important piece of the TCO formula.

With some solutions, modifications do not carry through with upgrades – you’re starting from scratch. Yes, all that source code must be painstakingly re-applied (if possible) and the right combinations of tables and parameters must be turned back on. It is not only a major hassle but – you guessed it – comes with the hefty price tag of a new implementation project. Yet again, the vendor must get involved, meaning delays and more money disappearing from your organization’s pockets and into that of the software provider. It’s not so hard to see why companies avoid upgrades for as long as possible.

Once again, not all warehouse management systems handle upgrades the same way. Certain solutions are architected in such a way that customizations do carry through with upgrades, saving hundreds of hours of headaches and your dollars. In some cases, upgrades can be executed in a few hours, with testing completed within a few weeks (instead of months).

Suddenly, an upgrade is not such a scary thought. If it’s a smooth, straightforward process, your company may get the latest version of the WMS because it offers new functionality that will help the business – not because the database or operating system provider mandates it. It’s imperative to ask all vendors how upgrades are handled.

Avoiding these upgrades can have devastating repercussions down the road. Once it’s a problem, it’s a big problem. Companies can find themselves painted into a corner if they’re running an old system that no longer supports their partners’ and customers’ needs because that translates to lost revenue.
COST OF OPPORTUNITY

Gaining a full grasp of TCO requires understanding the cost of opportunity, as well.

Opportunity cost is defined as the benefits a business surrendered by choosing one system over a more valuable alternative system. The opportunity cost is calculated by subtracting the financial gains of the most lucrative option from the financial gains of the chosen option.²

What is your business missing out on when its WMS cannot support processes to meet customer expectations? How many sales are lost when it takes months to complete one change to your solution? It may be impossible to put an exact number on the total money lost through pricey changes to your WMS and the time it takes to get those changes implemented, but it’s enough to have a noticeable impact on your organization.

For example, let’s say your business signs a lucrative agreement to start drop shipping through a big-box retailer. However, your system needs to be modified to support this new channel. For every day that goes by as you wait for this change order to be completed, you’re losing sales. Money is flying out from under you. In addition, you may have bought additional inventory or even another complimentary supply chain solution to prepare for this new sales stream. Now that inventory and technology, both sunk costs, may go unused for months.

² Source: Library of Economics and Liberty
REAL-WORLD EXAMPLES

Let’s look at a similar situation through the eyes of a retailer. In an effort to survive in this fast-changing space, a brick-and-mortar retailer realizes it needs to start selling through its online storefront. To make that happen, it must turn a warehouse that’s only handled replenishment orders for retail stores into a multi-channel facility.

The business lays out a plan that reinvents its picking and receiving processes since it is now fulfilling both online orders for individual customers and bulk shipments for brick-and-mortar stores. Once that planning is done, the IT team builds new workflows in the WMS. Under this new model, as soon as a truck unloads inventory at the warehouse, it is pre-allocated to one of the two channels based on predicted order demand. The retailer creates a speed line to accommodate less-than-case picking, then adds light automation to print and apply parcel labels to that increasing volume of outbound eCommerce orders.

The end result? Online sales help the retailer grow its top line, which allows it to open new stores. The business is poised for continued growth as online sales account for a greater percentage of total sales, and it now has the means to expand into new markets. The retail chain would miss out on a chunk of these profits without a flexible WMS.

In another scenario, perhaps you are a manufacturer and the Department of Defense (DOD) wants to purchase millions of dollars’ worth of your product. However, as an offshoot of the federal government, the department has tight, detailed requirements you must follow around specific picking and documentation regulations. With a flag-driven system, it would be incredibly expensive to adjust your system to satisfy those regulations. It could even take so long that the DOD finds another manufacturer that can meet its deadline and you lose the business.

These examples demonstrate how the architecture of a WMS has a lasting impact on your organization. In many cases, technology that adapts to your current business needs quickly is critical to minimizing opportunity cost and maximizing your long-term success.
CONCLUSION

The fundamental question to ask when evaluating your warehouse management system is does it support your business? Or does the system get in the way more than it helps you? Has it become so expensive to get the WMS to meet your needs that it’s hurting your bottom line? These systems exist to make inventory management, order fulfillment and numerous other warehouse tasks more seamless and efficient. If the WMS is not satisfying your shifting requirements in a cost-effective manner, then it’s time to look for a new solution.

Total cost of ownership is a critical factor in figuring out whether your WMS provides value to your business. In today’s rapidly-changing world of commerce, expensive modifications and the perpetual M&S fees that come with them could have a lasting negative impact on your revenue.

Your WMS should support creativity and innovation, because that approach is what gives your company a competitive advantage and transforms your supply chain from a cost center to a profit center. If you fulfill orders and handle new regulations the same way as everyone else, what separates you from your competitors? You need the ability to provide the exceptional customer service that will maintain current business relationships and open the door to new opportunities.

Hopefully this eBook will help you find a WMS that allows you to maintain a low total cost of ownership and empowers your business to excel. Always remember to consider not just the expenses of this month, or this year, but over the life of the application – your business may depend on it.
In almost every industry, buyers are becoming more fickle, and more demanding. For logistics executives, effectively meeting buyer needs has become a relentless quest for speed and agility. Traditional supply chain solutions – siloed, complex, and hard-to-implement – no longer suffice, as competitors find ways to deliver goods faster and more profitably.

In today’s “now” economy, HighJump helps you stay agile, with adaptable, connected solutions that harness the power of your trading partner community. From the warehouse to the storefront, from the desktop to the driver’s cab, we can help you achieve new levels of supply chain responsiveness, performance, and profitability.

HighJump’s suite of warehouse management, business integration, transportation management, and retail/DSD solutions form a complete, powerful, and adaptable platform that allow you to drive growth, customer satisfaction, and revenue.

HighJump: supply chain accelerated.