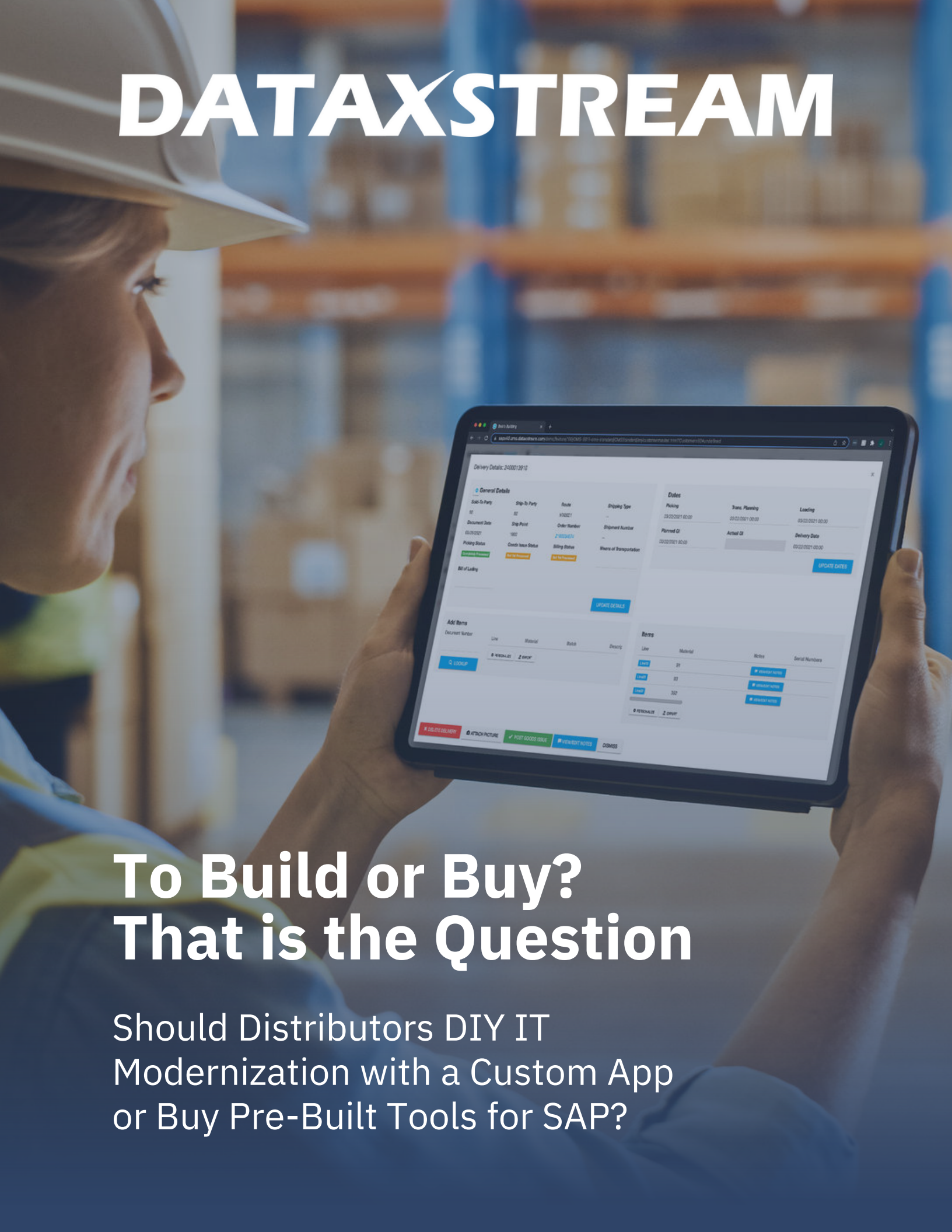
DATAXSTREAM



To Build or Buy? That is the Question

Should Distributors DIY IT Modernization with a Custom App or Buy Pre-Built Tools for SAP?

Business-to-business enterprises understand they must streamline sales order processing, management and fulfillment to create a more unified, cohesive customer experience.

Unfortunately, many organizations are challenged by this. They're feeling the pressure from customers accustomed to competitors like Amazon, who have invested billions in proprietary software applications to create more seamless e-commerce and fulfillment processes. But should businesses follow the lead of The Home Depot, who spent $11 billion[1] on an e-commerce site to follow in Amazon's footsteps? However, after spending $11 billion, only 14.2% of their sales stem from their e-commerce site.[2]

Your customers are changing how they buy. They have more data at their fingertips. There is an increasing uptick in e-commerce channel sales as a percentage of distributor sales.[3] It's forcing distribution companies to take a discerning look at their IT — and they're running out of time to support that upgraded customer experience.

Organizations will face a reckoning point where they're falling behind, and only new technology solutions will help them regain their competitive edge. The pressure to upgrade from legacy SAP technology is a dilemma many businesses face. But where to start?

Growing competitive B2B companies face two critical decisions:

1. **Do we build a new custom software solution ourselves?**
2. **Or should we buy a pre-built order management software (OMS) solution?**

DIY vs. Buying the App

In the past, businesses built in-house applications because the order entry process was relatively linear, and their go-to-market simpler. Over the past decade, however, the rise of highly complex order management solutions, the acceptance of cloud and hybrid technology models, and the shift to digital-native customers all led us to the point where building sales management and order entry platforms in house has become much more risky, expensive and labor intensive—because of their required complexity. One look at industry statistics will show you the failure rate for new applications is somewhere around 50%.[4]

We should be clear—we are not talking about a low-code DIY app downloadable on Apple, but instead one of the most complex functional software platforms critical to the distribution industry. Distributors live and die by customer orders and their ability to fulfill them efficiently and accurately. That makes buying and selling sound simple, but the reality now is that more than 80% of customers report shopping at least three channels on aver- age before making a purchase.[5] With distributors often handling hundreds of thousands (or more) of SKUs syncing at the front and back end, the layers of complexities are admittedly huge, as are the challenges of producing a positive customer experience at each point of contact.

1. More on Home Depot's $11 billion bet
2. Online sales share of Home Depot's net sales from 2019 to 2022
3. Distributor e-commerce Now 20% of Sales and Accelerating
4. Troubled IT Projects: When to Rescue and When to Abandon
5. Decision points: Sharpening the pre-purchase consumer experience

If you're thinking about DIY software to improve your sales management processes, consider these three points:

- Ask an IT professional how complex build ing an entire OMS platform might be.
- Consider the complexities of business inter-actions within the fast-paced, high-pressure world of distribution sales.
- Finally, what happens if something breaks between customer interaction and order ful-fillment.

Common Myths About DIY Software

It's rarely inexpensive to upgrade technology, whether you build from scratch or buy pre-built software. However, in our desire to innovate, iterate and be "first to market," a few myths associated with building software have emerged.

Myth 1. DIY is less expensive or "free."

If a software developer tells you their custom app will be less expensive than an already built product, consider that a 2022 McKinsey study showed "IT projects overall—regardless of size—exceeded their budgets by 75%, overran their schedules by 46% and generated 39% less value than predicted."[6]

You may be building or upgrading your own OMS because you have an innovative in-house IT team. That makes building the software an overhead cost, just a part of doing business and practically "free." You have the team. Why not use them? But the reality of a DIY sales management platform is that what you build is only "cheaper" or "free" to your business if you can use those in-house developers to cover the costs of planning, building, managing, testing, adding features and fixing the platform **for its entire lifetime**. Software is a living product. It is constantly upgraded, repaired and maintained. Once new software is tested, it should continue to work into the future. However, every time a developer adds new code to a legacy platform, they run the risk of breaking functionality somewhere else. In the developer world, for every action, there is potentially a reaction—and that breakage could also break the relationship you have with a valued customer.

Harvard Business Review states, "When you develop custom code, you need to maintain it…Hackers continually find new attack vectors. New needs pop up and users demand modifications. Even programming languages age, so every five to 10 years, software may need to be rewritten. The costs keep coming."

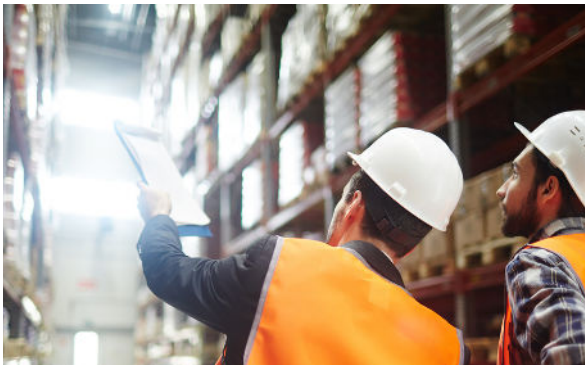
This reality is where the total cost of ownership concept evolved; enterprises that took on big software installations needed to understand what they were getting and how much they were paying. That's hard to quantify when a software product's lifecycle runs 10 years or longer.

6. Unlocking the potential of public-sector IT projects

What's more, companies that undertake a DIY software build must continually evolve the platform, stay on top of security, add new features and more. If they don't, innovation can become technical debt. The challenge is to balance evolution and high quality with innovation and reliability. If you're not certain that building from scratch will drive revenue, cut costs or save time, the new application may not pay for itself.

Myth 2. Customization is the only way to stand out from the competition.

In a world where an Amazon experience is becoming the norm, should you rely strictly on your software to stand out? Companies often customize and build from scratch when they believe the software will create a point of differentiation that causes customers to choose them over their competitors. But sales reps know that the real reason customers keep coming back isn't because of your software.



While the software and its data empower institutional knowledge, the trusted advisor relationship between sales and their customers still matters. Order management software that supports all channels seamlessly, from brick and mortar to online and from the CSR to the inventory warehouse—is now the bare minimum for staying competitive. Most distributors will never win this software arms race. Just look at how your iPhone or laptop has already upgraded. There will always be a better IT platform.

Instead, the true point of differentiation in competitive distribution environments is the customer-facing interactions powered by your sales team. Software drives this—as long as it integrates seamlessly, gives sales better insight and improves internal workflows to speed order entry, accuracy and visibility across all channels.

You don't have to build it because this software already exists.

Case Study

Pacific Coast Supply and OMS+ Cross-Channel Order Management for SAP

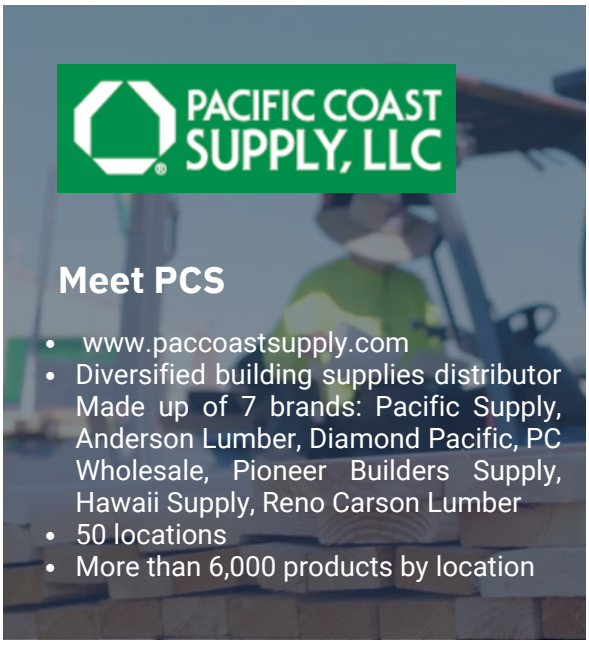
Pacific Coast Supply (PCS), a subsidiary of the Pacific Coast Building Products and its family of Companies, operates in 12 states, with 50 locations across the West Coast. This 70-year-old distribution company delivers construction supplies for builders in the region.

While the company continued growth through acquisition, they needed to find a way to launch new markets quickly with a highly qualified and competent sales force.

The problem was it took four to six months to train new employees at their brick-and-mortar locations, which serve as the primary point of entry for each new product sale. The reason: Their Order Management System (OMS) was difficult to learn. The business was still on the original SAP graphical user interface (GUI) from 2001, and while they did three technical upgrades between 2001 and 2017, the team made no process improvements at the point of sale.

Culturally, they also faced a great deal of reluctance from their internal IT team as they looked closely at what and how to change. A key discussion centered around the build-it vs. buy-it argument. Martin (Marty) Menard, Pacific Coast Companies Incorporated (PCCI) CIO, described the process:

"Think about Uber, what they had to create. Or Amazon. Or some of the other early pioneers of the second generation of the internet. They had



to create the future. When starting in a new era, you look at whether something already exists. In a new era, people built their own software because nothing exists. Today though, buying over building is a better approach. More than likely, you're going to recreate exactly what you could buy at a higher cost if you DIY."

The company turned to SAP to discuss its modernization strategy. SAP introduced PCS to DataXstream. Their SAP-embedded OMS+ product ran on the SAP Cloud to modernize counter sales with an easy-to-learn user interface and real-time inventory oversight[7].

"DataXstream had already made the investment, looked at best practices and delivered to multiple industries," he says. "We determined the software would enable us to modernize the user interface and order-entry workflows without scrapping what we'd built with the SAP backbone."

7. Embedded vs. Bolted On: Which Best Supports Future Growth?

Within 18 months, DataXstream delivered what hadn't been achievable in 20 years at PCS:

- **OMS training time went from four months to four days**
- **30% inventory reduction**
- **1% improvement in gross margins**

Operationally, Menard says DataXstream offered significant benefits:

- They didn't have to hire technologists that understood the original SAP GUI code.
- They could hire salespeople and open stores faster.
- They increased their bottom line.

Menard called DataXstream "one of my top strategic partners and business problem solvers."

Buying Over Building: What Pacific Coast Supply Learned

Undertaking any large project comes with some lessons learned. In the case of PCS, the lessons included:

LESSON 1.

Deployment speed matters.

Deploying existing software was the right choice because of a faster deployment time, both for the initial project launch and even on the ground at that critical friction point where the software meets the CSR at the store counter. Choosing an off-the-shelf software product was appealing because the tool helped meet company goals without the long development associated with DIY.

"The first strategy was to modernize the GUI, the UX, to be more user-friendly. Before DataXStream, it took an average of four to six months to learn these interfaces; with DataXstream's OMS+ training it is down to three or four days," Menard says. "It was critically important for employee retention and satisfaction."

LESSON 2.

Get your data right.

Garbage in/garbage out is the mantra of data geeks everywhere. A key lesson for any software deployment, whether you've built or bought it, is that the data you put into the system must be clean, or you'll end up with the same bad data you started with before the deployment.

The PCS team focused internally on getting their data in order before the DataXstream launch.

"The long-term goal was to eventually allow customers to go online, browse the catalog, figure out costs, get pricing, etc," Menard says. "Exposing PCS data to customers requires near perfection; the data had to be right. It took six months to remove duplicate products, clean up our material master data and remove products we no longer desired to sell. One benefit PCS achieved from this effort was identification of 'dead' inventory defined as being in inventory without any sales for eight successive quarters. PCS had $25 million in dead inventory and reduced it tenfold having a disciplined approach to process and managing data."

LESSON 3.

The software must tie to a better bottom line.

Menard knew undertaking a DIY application comes with considerable risk. Quantifying ROI is hard when the final product is a complete unknown. As CIO, he had a clear strategic imperative backed by a bottom-line budget. He knew the software needed to pay for itself—quickly.

"We improved margin by 1% in the first 12 months. These numbers remain steady through today," he says.

LESSON 4.

Clean Core: Walk the line between customization and technical debt.

One strategic issue PCS grappled with is a continuing debate in the software industry: At what point does a new build, or even excessive software customization, become technical debt?

Too much customization, or even the failure to upgrade, results in a software application that is "too big to fail." As companies try to modernize, all the add-on features, distinct lines of code, and lack of documentation from years of tinkering with a legacy product become unwieldy technical debt. Internally, there may be one or two developers with the longevity to know what's under the hood, but ultimately, if the car breaks, fixing it is untenable.

DataXstream OMS+ embeds into the SAP BTP core platform[8]. Importantly, SAP has an ERP Clean Core Strategy, that "helps ensure organizations use the latest release, minimize or eliminate modifications, and run with cloud-compliant extensions and customizations."[9] DataXstream follows this tenet, customizing only the external application so that the core of the product stays clean. Customers can tailor and integrate all their business applications upfront where the end-users interact, but the core remains clean under the hood.

The impact of this on PCS was striking. "We eliminated about 55% of the customization within our S/4 instance. Our ability to upgrade SAP now is so much faster. Testing is easier."

LESSON 5.

Find a partner, not a vendor — and listen.

Another critical takeaway for anyone buying an app is to look at the long-term strategy of the vendor they deploy.

"If DataXstream isn't going to invest in their product or their goal is to get bought as quickly as possible, I don't want to be a partner," Menard says. "I'm a firm believer in developing strate- gic relationships. The hardest thing for IT is to switch. So, you buy a product, and you renew — or switch three years later? I would rather invest in fewer companies and have a larger portion of my IT wallet go to those critical few companies. No company can meet all your needs unless you pick the right organization based on where you're going. Today, I've got high reliability with a trusted partner that I know I can call on and somebody who's future-proofing their platform so that they can be useful to us later on."

Once companies select an application partner, Menard stresses the importance of listening to their counsel. A good partner will hear your requirements and honestly tell you if it can't be done. But it's up to your company to choose to listen. "DataXstream were trusted advisors we didn't always listen to," Menard admitted. "They would say, 'Here's a standard way of doing it.' And we would say, 'No, no, no, this is how we want to do it.' They would say, 'If you do that, this will happen.' Then, when it did happen, we said, 'Wow, we made a mistake.' So, the lesson was — listen to your software applications team. They're there to help."

8. BTP Partner Story: DataXstream
9. What is a clean core strategy?

The Bottom Line on Build or Buy

For PCS, the bottom-line decision of build or buy became a no-brainer because SAP introduced them to a company – DataXstream – that offered the functionality that solved their problems. Given the volume of new software each year, the chances are much higher that the upgrades your company wants are already created.

Menard says: "Why do companies keep building it themselves? It may be ego or bravado and the assumption that we can do it better ourselves. I think the challenge for companies that aren't at a gargantuan size is: Are you going to get a better solution by doing it on your own?"

"Everything goes up on the DIY model," says Blake Vinson, Vice President of Solution Engineering at DataXstream. "The change management costs are higher, and the tech debt snowballs if it isn't done perfectly. When you're building from scratch, you inevitably miss an integration or feature requirement. It's hard to manage and can easily snowball. Companies that DIY their software must exercise caution that that snowball doesn't turn into an avalanche that buries you."

PACIFIC COAST SUPPLY, LLC

About DataXstream

DataXstream's OMS+ is a cloud-enabled embedded SAP application designed to improve transactions at the point of sale. It simplifies order inputs with a highly user-friendly interface, improves customer care with real-time inventory data, and automates processing to speed fulfillment. High volume, high touch sales interactions simplify on the backend, allowing the sales or customer service rep to focus on the customer instead of fighting with the application. Visit dataxstream.com to learn more.