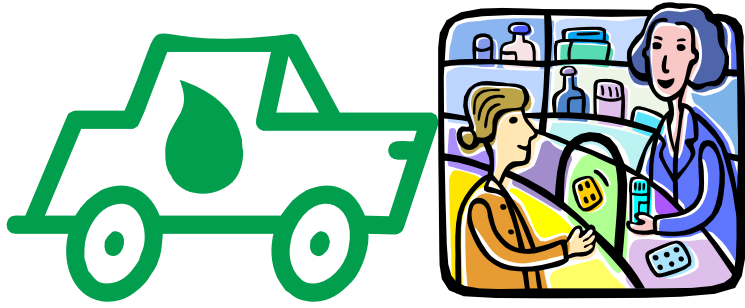


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Best Practice
eXensys – Drop Shipments

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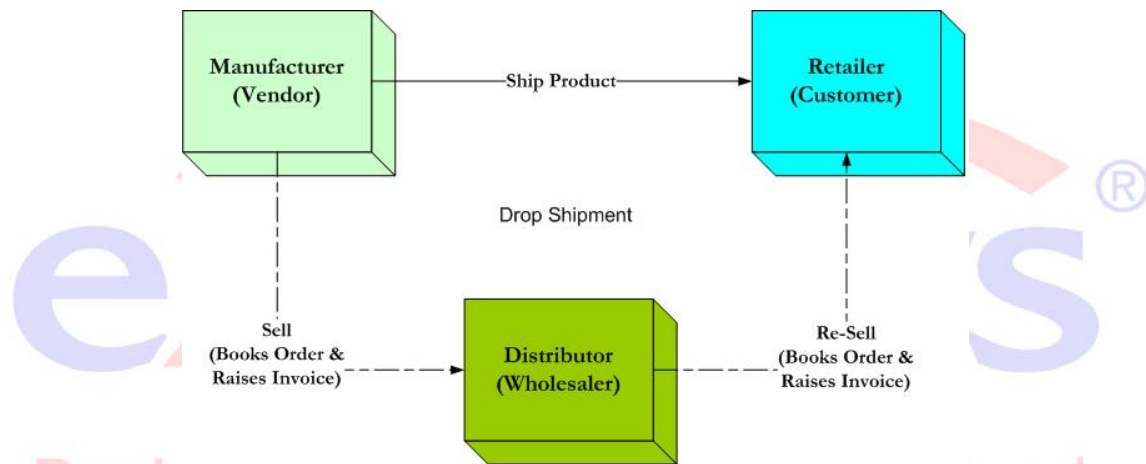
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Introduction

Most of the wholesale distributors or trading companies in the past, were maintaining inventory by taking customer orders and then shipping it to the retailers or the customers from their own inventory. All sorts of inventory planning and vendor collaborations were worked out to exactly plan the demand and stock the required quantities to avoid inventory storage and handling costs. However, this trend has completely changed now, owing to fluctuations in demand, increasing demand for storage facilities and increasing costs. Many distributors now neither have the desire nor the competency, to handle inventories more than required or necessary. If no value addition is done to the product by the distributor and if it is easy to ship directly from the manufacturer to the customer, then why stock such products in the warehouse is the question that arose in the recent times. A new business model has emerged out of this, facilitating distributors to book customer orders and transfer them to manufacturers allowing them to directly ship the goods to the customers.



Drop shipment is a supply chain concept in which the seller (e.g. distributor) does not keep a stock of the goods, but instead transfers customer orders and shipment details to its vendors (e.g. manufacturer), who then ships the goods directly to the customer. Drop shipment is thus the process of booking a sales order from a customer to fulfill it directly from the manufacturer's warehouse. The seller in this process typically sells the product, but does not maintain an inventory, while the inventory is actually maintained by the manufacturer. Thus, in a single cycle, the manufacturer sells the product to the distributor and the distributor resells the product to the retailer, but the product is shipped from the manufacturer to the retailer and wholesaler does not carry any inventory.

A drop shipment may be required under the following conditions.

1. The ordered items are generally not kept in stock
2. Customer order is huge and the demand cannot be fulfilled with the existing stock
3. It is more cost-effective to ship goods from the manufacturer directly rather than from the own warehouse

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4. Sufficient storage facilities not available with the distributor

There is increasing demand for effective planning and management of business processes, with the growing need for cutting down inventory costs. To that end, drop shipment is one of the solutions for effective inventory management and lowering of logistics costs.

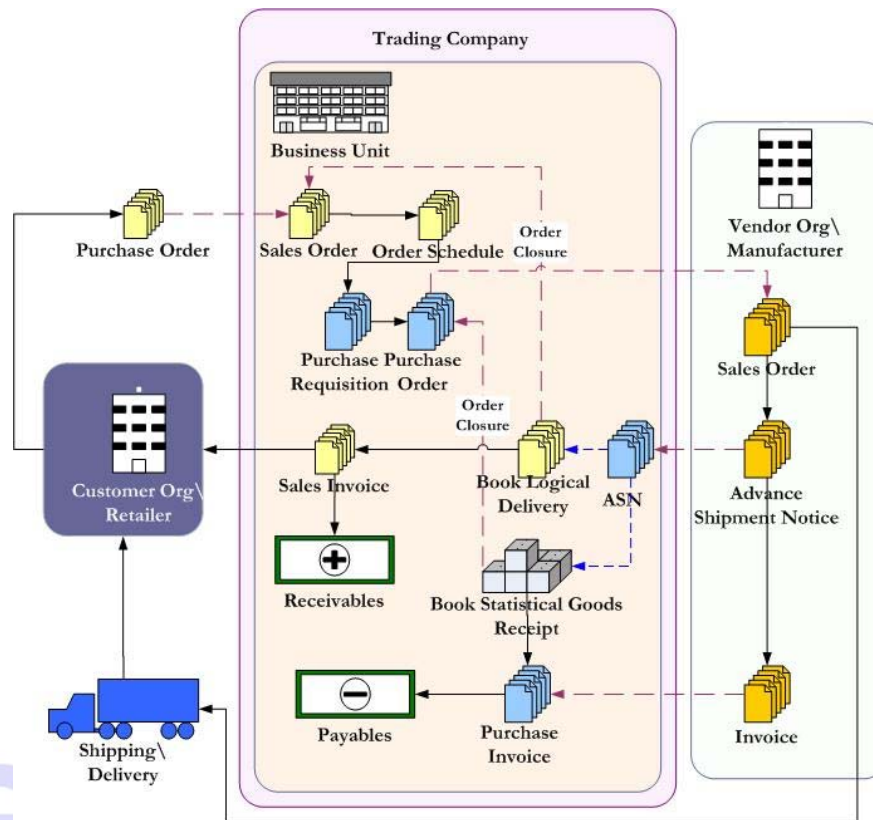
eXensys not only facilitates effective planning of materials, but also recommends drop shipments against back orders or special orders or for cost-effective shipping. This ensures timely delivery of goods to the customers and reduction of inventory and transportation costs. Further, the entire drop shipment process is simplified to ensure easy navigation and integration across the business functions viz., sales, purchases and finances. Most importantly, eXensys supports the different taxation scenarios applicable on drop ship sales which vary widely from country to country, state to state and based on the location of the manufacturer, wholesaler and the retailer.

This paper provides a detailed analysis of the intricacies in the manual drop shipment process and the benefits of using eXensys to automate the drop shipment process.

Overview

Drop shipment process in eXensys is achieved through the integration of sales, procurement and financial management processes. Drop shipment process is triggered through back order or a special order, which gets converted into a purchase requisition. The sales order is then converted into a purchase requisition and forwarded to the purchasing business unit. The purchase requisition is converted into a purchase order and issued to the vendor with the delivery location as the customer address.

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eXensys facilitates capturing of advance shipment notification (ASN) from the vendor for drop ship purchase orders, which automatically books a provisional receipt of goods and provisional delivery to the customer. Purchase invoice can be entered against the provisional receipt and the sales invoice can be raised against the provisional delivery of goods.

eXensys drop shipment process can be split into 3 key processes viz., sales order processing, purchase order processing and invoicing. eXensys best practices as part of these key processes is given in the following sections.

1. Sales Order Processing – eXensys key processes include order booking, scheduling and confirmation. eXensys facilitates booking of customer orders using the sales order process by capturing the product details, schedules, price, taxes, discounts, customer info, billing and shipping addresses etc. The order can then be scheduled for confirming the delivery dates to the customer. Order scheduling in eXensys is done using ATP and dates can be confirmed to the customer. While confirming the orders, the user can accurately view the stock position across branches and locations and then lock the required quantity against the sales order. Back order items and back order quantities are automatically identified, against which the user can select the drop ship option. Partial items and partial quantities can be selected for drop ship option in a single sales order. When a drop ship option is selected, only the available quantity gets shipped through the delivery note and the order will get closed for the back order quantity through the ASN process.

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2. Purchase Order Processing – eXensys key processes include purchase requisition, purchase order and ASN. Drop ship sales orders or back orders can be converted into purchase requisitions. Item details and the customer details flow from the sales order reference. Multiple drop ship orders can be referred in a single purchase requisition. Purchase requisitions can be converted into drop ship purchase orders, where in the shipping address details will be copied from sales order via the purchase requisition. Multiple drop ship requisitions can be referred in a single purchase order. All the relevant item details will flow from the reference requisitions, reducing data entry time and errors. A single requisition can be split to multiple purchase orders if the vendors are different.

Once the order is approved and issued to the vendor, the vendor confirmation details can be captured against the order. On receipt of shipping notification from the vendor, the details can be captured into the system while referring the purchase order and the drop ship sales order. In addition to scheduled\drop ship sales orders, unscheduled\undelivered sales orders can be referred in ASN by facilitating drop ship flow without scheduling. For such sales orders, the purchase requisition must be created with reference to a user department instead of the sales order.

Once the ASN is approved, eXensys automatically generates a statistical goods receipt or a provisional GRN, wherein there will be no stock ledger update, but the financial postings (GRIR) will happen. Simultaneously, it will also generate a logical delivery note, wherein there will be not stock ledger update, but the financial postings (COGS-if consumption based accounting is configured) will happen. Further, the ASN process will close the purchase order and the sales order referred in the ASN, based on the items and the quantities shipped. However, partial quantity shipment is allowed against a purchase order. eXensys also facilitates automatic carry forward of the taxes, discounts, payment terms, discount terms and other order information from sales order to logical delivery note to sales invoice and purchase order to statistical goods receipt to purchase invoice.

3. Invoicing – As soon as the ASN is approved and the logical delivery note is generated, the customer invoicing process is triggered. Customer invoice can be done with reference to the logical delivery note and the invoice due dates are automatically calculated based on the payment terms. All the order details will flow to invoice including payment terms, discount terms, taxes etc through the ASN and the delivery note. eXensys thus makes the sales invoices for drop ship orders available for customer receipts.

Similarly, on receiving purchase invoice from the vendor, the same can be captured into eXensys by referring the statistical goods receipt. Invoice due dates are automatically calculated based on the payment terms and such invoices are made available for making timely payments to the vendors.

Benefits

1. Involves no inventory
2. Order fulfillment costs are low

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3. Lead times are reduced, faster delivery
4. No loss on non-saleable goods
5. No packing\shipping costs
6. Low inventory costs – space, storage and handling costs

Conclusion

- eXensys drop shipment process is very effective as it not only integrates sales, purchases and finances, but also automates the whole of Order-Requisition-Order-ASN-Invoice cycle.
- eXensys ensures that the sales invoice is done prior to the purchase invoice by triggering the valid alerts and messages.
- eXensys drop shipment process ensures that the orders are fulfilled on time by avoiding unnecessary costs on inventory and logistics.
- eXensys ensures enhanced customer satisfaction and responsiveness owing to order confirmations as per the requested dates even for the back orders.
- eXensys handles drop shipments for both scheduled and unscheduled sales orders.
- eXensys supports handling of sales, purchases, finances at different business units, which means, sales orders can be booked at one business unit or branch, while purchases and finances can be handled by a different business unit of the same company.
- eXensys supports drop shipment of partial items for partial quantities in a sales order.

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