How Managed EDI Tools Offset Supply Chain Risk And Complexity

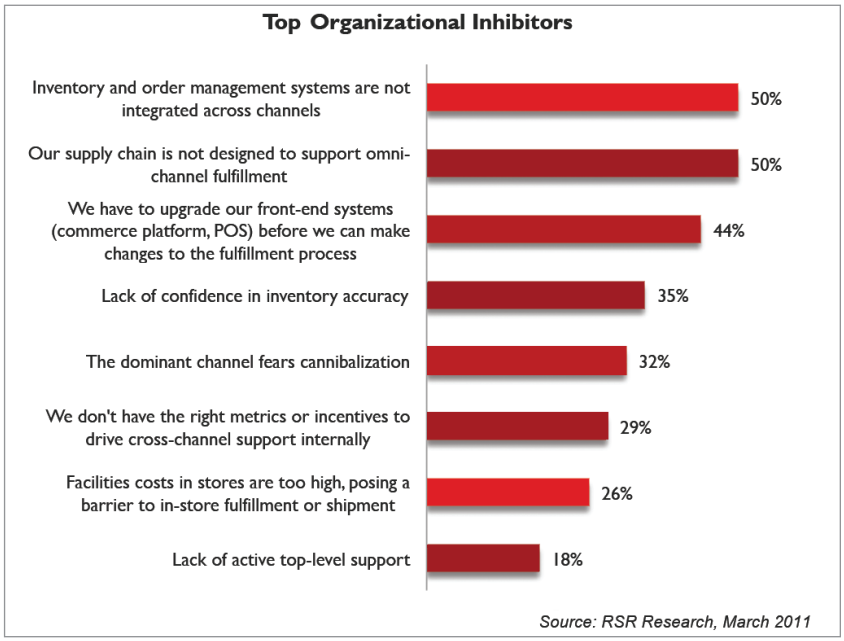


A white paper from DiCentral

DiCentral™

"If your supplier interaction is standardized and collaborative, you can expect a greater ROI on your supply chain investments..."

Recent economic conditions have dramatically changed the global retail supplier landscape. Meanwhile, a demanding and price-conscious consumer base is growing accustomed to leveraging multiple mediums for shopping, and they're expecting instant gratification for their efforts. Driven by economic trends and fulfillment demand, supply chain complexity has increased by orders of magnitude, creating a growing sense of urgency on the part of retail buyers and merchandisers to standardize and simplify their supplier interactions. This urgency is fueled by the promise of profit-saving efficiency and supply chain visibility gains that can result when retailers and their suppliers begin speaking the same language.



The lack of integration between channel-specific inventory and order management systems also continues to confound retailers and exacerbate the complexities of their supply chains. In fact, the recent RSR (Retail Systems Research) report *Omni-Channel Fulfillment and the Future of Retail Supply Chain* found that half of all retailers consider this lack of cross-channel integration an organizational inhibitor to overcoming their supply chain complexity challenges (see chart on this page). That said, advances in the technologies that enable EDI (electronic data interchange) have breathed new life in retailers' interest in applying it as a platform for both consistent and collaborative supplier interaction *and* seamless integration of back end systems. This paper will discuss those advances, and explore how EDI can reduce the risks and the complexities associated with the modern retail supply chain.

What Does Modern EDI Look Like?

EDI can generally be defined as the transfer of structured data, by common messaging standards, from one computer system to another without manual intervention. The concept of EDI as a collaborative tool for the exchange of data between retailers and suppliers came on the scene in the early 1990s. The idea was, and still is, to standardize and automate the exchange of common retail trade documentation (invoices, advanced ship notices, product attributes and information, etc.) between retailers and their suppliers. Until recently, the execution of EDI in any form was most hampered by the technology infrastructure that facilitates it – computers and networks weren't fast enough, storage was too expensive, and software platforms were too proprietary.

Today, fast processors, seemingly unlimited bandwidth, and inexpensive storage make the concept of quickly moving large amounts of data infinitely more practical. Even more specifically, advances in the ability to interrogate the data that's contained in electronic communications has resulted in the acceptance and accommodation of more forms of documents. This increased flexibility enables newfound access to and sharing of information throughout the supply chain.

Supply Chain Execution In A Multichannel World

Perhaps no other development in retail history has been so precursory of the need for supply chain collaboration than multichannel retailing. The major retailers have set a precedent for cross-channel inventory alignment that efficiently fulfills consumer demand. As such, consumer expectations have matured to the point that their interaction with multichannel retailers of any size and in any segment must result in complete satisfaction. Once upon a time, an out of stock or a lag in delivery resulted only in frustration and perhaps a lost sale. Today, failure to have a product ready for fulfillment when and where the customer wants it results in the loss of not only the sale, but the customer as well. But many retailers remain challenged with

the implementation of technology that can facilitate consumers' fulfillment expectations. For those retailers:

- *Saving a sale at the store by ensuring merchandise can be drop-shipped to the customer's home is a manual exercise, and one that might work or might not, depending on the associate's visibility into enterprise wide inventory and the supply chain.*

- *Attempts to maintain accurate and up-to-date information on the Web site, including real-time inventory and product information, is an ongoing and labor-intensive process.*

- *Program disparity makes cross-channel inventory visibility consistently inaccurate. Disparate inventory repositories logged on disparate spreadsheets feeding disparate channel operating units ensure insecure decision making, and set retailers up to disappoint customers.*

Multichannel retailers know that they must displace manual supply chain processes, not only to achieve efficiency but to improve data accuracy. Modern EDI platforms can help retailers offset those manual processes at the supplier level. Collaborating with your suppliers on a common product information toolset ensures accurate product information from the source, and allows multichannel retailers to populate their sales mediums with that information in a format that's efficiently uploaded and easily consumed. Outsourcing EDI to an experienced managed services provider is a proven path to the immediate achievement of EDI benefits.

A significant advantage of using EDI to enable inventory visibility and agility is the nature of the data itself. Source data – a single version of the truth shared on a common platform between retailers and their suppliers – eliminates the need for many point solutions. For example, is implementation of a proprietary drop-ship solution to accommodate the aforementioned trend in consumer fulfillment necessary? Some retailers simply enable this through EDI, eliminating systems redundancy, avoiding placing another burden on their suppliers, and executing functions such as this through integration with their fulfillment systems for pennies per transaction.

The Benefits Of Standards-Based Communication

Key to achieving the benefits of EDI is the establishment of a standard means of communication among as many of your supplier partners as possible. Many retailers struggle with the inefficient maintenance of different communication standards, such as AS2 or FTP, from one supplier to the next. It will benefit retailers to work earnestly toward a single standard among their suppliers, and analyzing your peer and competitor communities is a good place to start.

"Source data – a single version of the truth shared between retailers and their suppliers on a common, managed services platform – eliminates the need for many point solutions."

This is also a good *time* to start standardizing your supplier interaction. Recent economic conditions have resulted in a shrinking supplier base, which means more retailers are sharing fewer suppliers. If retailers impose disparate communication platforms on those suppliers, the suppliers and the retail community alike are burdened with diversity. Disparate hard-coded communications among different suppliers effectively force both parties to create something new – where a standard, network-based protocol already exists. While proprietary protocols might be a practical way to handle EDI with a handful of top suppliers, managing thousands of communications across multiple suppliers is cumbersome and inefficient.

Digitization of supplier communications alone creates significant savings. The exchange of digital documents reduces the cost of each interaction to pennies, compared to the industry standard ten- to twenty-dollar-per-document cost of handling paper. The cost of handling 100,000 purchase orders per year adds up quickly, and it multiplies exponentially with the creation of POS reports, ship notices, and so on. However, the return on electronic communication scales throughout the enterprise; when accounting, for instance, can examine POS reports and ship notices efficiently and by exception in a standardized digital environment, the cost of doing business is reduced significantly.

For its part, DiCentral subscribes to the standards and benchmarks developed by VICS (the Voluntary Interindustry Commerce Solutions Association). Applying these standards in a Web-based EDI platform enables retailers to standardize communications compliance with suppliers.

Achieving Supplier Community Compliance

For merchants, the far-and-away most effective approach to onboarding suppliers to a standards-based EDI platform is education. For some large retailers, a heavy-handed approach to "force" suppliers to collaborate was once an effective option. But the aforementioned "rationalization" of the supplier base – that recent reduction in the volume of suppliers to retail and the number of suppliers retailers are choosing to do business with – has changed the game. Maintaining negotiations, compliance, and supply chains with a large supplier base is expensive, and the economic turn in 2008 caused many retailers to pull back on inventory and minimize their trading partners, resulting in the downsizing or demise of many overseas manufacturers and suppliers. This phenomenon fueled collaboration strategies, which are easier to execute with fewer suppliers.



Management of a leaner supplier base, coupled with a reduction in the leverage that large retailers had to "force" proprietary processes on their suppliers, has created opportunities for small-to-midsize retailers in particular. Consider a sporting goods manufacturer, for instance, who is significantly challenged if its five major retailers require five different hanger configurations. These multiple and varied configurations add cost and complexity to the supplier's operations, which impacts the cost of merchandise. But for many suppliers, proprietary configurations are considered a cost of doing business – a cost that's ultimately passed on to retailers and consumers. Of course, when there was more competition in the market, suppliers who balked at proprietary process demands were easily dropped by large retailers, who could simply choose to buy from another source. But as supplier options became fewer, the balance of power shifted to those manufacturers that remained, accelerating the adoption of common standards by retailers.

As those retailers standardized their configuration requirements, the aforementioned burden on suppliers was eased. Thus, smaller retailers are wise to piggyback on the collaborative standards being developed and deployed among their larger counterparts and the supplier community. Recognizing the trend, retailer/supplier education has become a central tenet of organizations like the VCF (Vendor Compliance Federation). VCF and VICS standards help retailers of all stripes and sizes scale their supply chain practices by aggregating a community of thousands of standards-based suppliers. The EDI solution vendor community, led by companies like DiCentral, is positioned well to hasten that education and bring standards-based communication platforms to both sides of the supply chain. With a standardized trading platform in place, it's become significantly easier and less expensive for retailers and suppliers to exchange information.

Conclusion

To achieve the benefits of EDI, retailers must get their suppliers involved in the process, and the benefits increase with economies of scale; the more of your supplier interaction that's standardized and collaborative, the greater the ROI on your supply chain investments. Retailers that handle a large volume of sales for specific suppliers have successfully leveraged that volume as a means of onboarding those suppliers. But even retailers with smaller sales volumes have influenced suppliers to engage in collaborative trading processes by effectively communicating the supply-side benefits of the efficiency and scalability gained with EDI. Regardless of the size or scope of their businesses, retailers that engage a managed services provider for EDI both eliminate complexity from the process *and* get critical help bridging the retailer/supplier gap. There are a number of resources available at www.dicentral.com that illustrate the EDI business case for suppliers. You can also consult with a DiCentral representative to discuss your next steps toward reduced supplier risk and supply chain simplicity.

For more information, visit www.dicentral.com or call 1 877 TRUE EDI.

About DiCentral

With collaborative supplier/merchant solutions from DiCentral, EDI goes far beyond compliance. DiCentral pioneered multi-tenant SaaS (Software-as-a-Service) as the preferred EDI platform for buyers, suppliers, and logistics partners to seamlessly exchange data without costly investments in software or hardware. Personalized support ensures that first-time users achieve EDI compliance quickly and economically; enterprise clients enjoy the benefit of expert consultation regarding integration of SaaS EDI solutions with their ERP or accounting systems.

Visit www.dicentral.com for more information.

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