

## White Paper

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# ACCELERATING TRADING PARTNER PERFORMANCE

*How retailers and manufacturers can unlock working capital with on-demand supply chain software.*

## Introduction

One in five. That’s how many partner transactions have at least one error<sup>1</sup>. That is an amazing statistic, particularly given the extraordinary leaps in innovation across the global supply chain during the past two decades. During this time, best-in-class supply chains launched more than a few enterprises to the tops of their categories, as a “flat world<sup>2</sup>” enabled product to be sourced and delivered cheaply and quickly.

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*20% of trading partner transactions have errors.*

But lagging behind these advances is one of the industry’s darkest secrets: persistent data quality issues between trading partners continue to trigger claims, delay inventory, drag down margins and lock up working capital.

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*Defective invoices have 3-4x the DSO of a clean invoice.*

The impact to a retailer or manufacturer can be dramatic. Defective invoices can have 3-4 times the days sales outstanding (DSO) of a clean invoice<sup>3</sup>. According to Accenture, some companies have 25% of the money owed them tied up in disputes at any given time<sup>4</sup>.

Ultimately, companies are “leaving money on the table” in their supply chain due to problems in partner compliance and forced to tie up working capital to handle the resulting payment lags and inventory buffers. Common approaches to improving trading partner data quality, such as supplier portals and private exchanges, have fallen short as they don’t provide a way to monitor and fix transaction quality.

Fortunately, some innovative retailers and manufacturers are solving these problems with a new breed of on-demand supply chain software. These services represent a unique approach by combining lightweight, subscription-based software (eg., salesforce.com) with the depth of real-time transaction monitoring and remediation.

This whitepaper examines the challenges facing retailers and manufacturers in managing trading partner data and introduces the advantages of on-demand supply chain solutions.

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<sup>1</sup> source: Credit Research Foundation (Financial i magazine, Q106)

<sup>2</sup> see “The World is Flat”, Thomas Friedman’s book on how open markets, cheap labor and high bandwidth are leveling the playing field for both B2B and B2C commerce.

<sup>3</sup> source: Aceva, Inc. (www.aceva.com).

<sup>4</sup> source: Accenture, “Improving Working Capital with Effective Dispute Management Capabilities”.

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## Challenges in Trading Partnerships

It's a given today that companies rely heavily on their partner networks to lower costs, accelerate sales and help differentiate the products. This is true for both the multi-channel retailer sourcing overseas and the high-tech manufacturer pushing the limits of lean inventory methods.

But as the physical supply chain has stretched ahead in innovation, it has left in its wake persistent data quality issues in supplier transactions that continue to impact both companies and their suppliers.

*As background, partner transactions typically involve exchanging standard format electronic files. The electronic data interchange (EDI) format is still the standard and is transported over the Internet, private exchanges or value-added networks (VANs). The two major EDI standards include EDIFACT (outside US) and X12 (US). Common documents include advanced shipment notifications (ASNs, EDI 856), invoices (EDI 810) and purchase orders (EDI 850).*

### How did we get into this mess?

At a basic level, this is a situation where the game has changed but systems and tools haven't kept up. To respond to market demands, the supply chain has vastly improved but gotten more complex and companies are still leaning on legacy tools and enterprise resource planning (ERP) systems to improve trading partner transaction quality.

#### **A number of factors contribute to the challenge of managing trading partners:**



**Figure 1: 20% of international shipments have compliance errors.**

1. **Complexity.** Today's retailers and manufacturers must deal custom SLAs for each trading partner and a proliferation in item numbers (SKUs). The VANs that were so useful for scaling transaction volumes do little to help improve compliance and data quality.
2. **Off-shore sourcing.** 9 of 10 US manufacturers (>\$50M) are relying on China for sourcing<sup>5</sup>, as low-cost-country-sourcing (LCCS) continues as a best practice. But with low-cost comes unpredictability, delays and compliance issues: 1 in 5 international shipments are out of compliance with order or routing instructions<sup>6</sup>.
3. **Supply chain velocity.** Competitive pressures and process breakthroughs have accelerated the physical supply chain. But while the gap between "order", "deliver" and "invoice" has shrunk to days, the payment processing time (45-60 days) is still at 1960s levels.

<sup>5</sup> source: Aberdeen Group, March 2005.

<sup>6</sup> source: Aberdeen Group, March 2005.

- 4. Hard-coded connections.** Many companies attempt to tightly integrate their partners into their internal systems, “hard-coding” the communications and processes into their legacy enterprise resource planning (ERP) systems. Whether the integration is email, XML, electronic data interchange (EDI) files or RosettaNet, for many companies, each partner integration is a multi-month process.

## Examples of Compliance Errors

As opposed to managing thousands of electronic transactions between trading partners, categorizing the types of errors is quite easy. A simple way is to place errors into one of two buckets: “*document errors*” refer to errors WITHIN an electronic document, while “*process errors*” refer to errors ACROSS documents.

***Here are some common compliance errors, that left unchecked, can wreak havoc with inventory and financial systems:***

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*“Document errors” occur within transactions; “process errors” occur across transactions.*

### **“Document Errors”**

- Missing data**, such as missing vendor ID or ship-to field in the ASN.
- Incorrect data**, such as Pallets without at least one Pack or Item listed or PO numbers that are alphanumeric when numeric is required.
- Late or Missing data**, when inventory arrives before the ASN data.
- Wrong carrier**, where transportation is out of compliance with the routing guide.

### **“Process Errors”**

- Unlinked ASNs and Purchase Orders**, with conflicting vendor IDs, PO numbers, quantities or ship-to locations.
- Invalid charges**, or invalid fee codes, within invoices.
- Multiple ASNs per PO**, when only one is allowed.
- Missing shipments**, where an order is overdue but no shipment received.
- Missing items**, where an ordered item is not in the shipment.

## The Business Impact of Compliance Failures

The problems in data quality and compliance trickle down eventually to the financial statements. Some of the common impacts are shown below.

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*Companies have up to 25% of the money owed them tied up in disputes.*

❑ **Tied up Working Capital**, with resources tied up to finance inventory and receivables. Companies have up to 25% of the money owed them tied up in disputes at any given time<sup>7</sup>.

❑ **Higher Costs**, particularly in distribution centers, who deal with inventory delays (trucks sidelined) and staffing reconciliation worklists. For retailers, it costs \$40-\$400 to reconcile errors tied to late ASNs, missing vendor IDs, unlinked purchase orders, and short shipments.

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*Companies use 48-hour lead time buffers to mitigate supply chain unpredictability.*

❑ **Reduced Revenue**, due to customer out-of-stock. Errors in outbound transactions can tie up a customer's inventory and increase the likelihood of the customer missing sales due to short-filled orders or out-of-stocks.

❑ **Higher Inventory**, due to unpredictable inbound supply chains. Some companies resort to a 48-hour lead time buffer of inbound shipments as a result of unpredictability in port congestion and customs<sup>8</sup>.

❑ **Lagging competitiveness**, from the lack of ability to quickly on-board new partners and get access to must-have product lines.

## Alternative Approaches

Retailers and manufacturers have taken a patchwork approach to partner compliance, often leaning on legacy systems and manual processes.

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*"The end of the traditional VAN era is here".*

— Gartner

❑ **Supplier portals** have web front-ends for partner self-service that often speed up the on-boarding process, but are typically unlinked from post-launch transaction quality and ongoing vendor performance.

❑ **Manual on-boarding** processes slow down partner certification to a crawl and burden retailers with poor data quality.

❑ **Private exchanges** and value-added networks (VANs) provide a scalable network "pipe" for passing partner transactions, but fall short in terms of monitoring the underlying business activity, data quality and partner

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<sup>7</sup> source: Accenture, 2006.

<sup>8</sup> source: Aberdeen Group, March 2005.

compliance. And with the rise of the Internet, analysts say “the end of the traditional VAN era is here”<sup>9</sup>.

- ❑ **Vendor chargebacks** are a widespread and often effective tactic to make partners accountable for poor data quality. However, chargebacks on their own typically do little to incent partners to fix the underlying compliance issues.

## New “On-Demand” Solutions

Using on-demand software for trading partners, some global retailers and high-tech manufacturers have seen some dramatic improvements in trading partner compliance, working capital and costs.

These enterprises are not only seeing fast ROI and documenting millions of dollars in savings, but they also have a framework to remediate the root-causes of compliance issues for all trading partners.

These services help accelerate ROI, minimize cost of ownership and simplify integrating to the trading partner systems. Some take a lifecycle approach, with a broad solution linking each stage of the partner lifecycle (onboarding, monitoring and scorecarding). This breadth provides a system of record for continuous improvement in repairing compliance errors.

## Why On-Demand Software?

For years, enterprises have used on-demand software in the sales and marketing process, getting fast ROI from services like salesforce.com. This is a web-accessible service with monthly subscription fee that does not require software to be installed on premise.

And now, enterprises are reaping similar benefits with on-demand software for the supply chain. 96% of supply chain executives say on-demand software provides better or the same ROI as license and install applications<sup>10</sup>.

On-demand software (also referred to as software as a service, or SaaS) outperforms “license & install” software on three basic levels.

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*96% of supply chain execs say on-demand software has same or better ROI as “license & install” software.*

- ❑ **Faster to implement**, with less demand on internal IT staffs.
- ❑ **Easier to upgrade**, as enhancements are automatically deployed.
- ❑ **Faster ROI**, due to speed of implementation and subscription pricing models.

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<sup>9</sup> Source: Gartner, “Magic Quadrant for Integration Service Providers, 1Q06”.

<sup>10</sup> source: Aberdeen Group, “The On-Demand Tipping Point in Supply Chain”, 2006.

## Success Stories

Here are some examples of the benefits realized by companies using on-demand trading partner services.

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*10x faster partner on-boarding times*

☐ **Faster on-boarding**

A European computing giant had the challenge of migrating over a thousand partners to a new ERP system. With an on-demand trading partner system, they sped up partner on-boarding times by 10x, from 9 months to three weeks<sup>11</sup>.

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*Save \$15M a year and reduce DSO by 10 days*

☐ **Lower DSOs**

Errors in the order-to-cash process can double days-sales-outstanding (DSO) for defective orders, with worse results for orders with multiple errors. Using on-demand software for receivables management, Honeywell saved **\$15M a year** and **reduced DSO by 10 days** by reducing invoice errors 90%<sup>12</sup>.

☐ **Reduced Out-of-Stocks and Saved Sales**

Errors in partner transactions can tie up inventory and increase the likelihood of missing sales due to short-filled orders or out-of-stocks. A number of root-causes can trigger a dispute, such as missing shipment notifications, missed appointments or shipments unlinked to purchase orders. By finding and fixing these errors, companies can improve their customer's operations and ultimately improve their own sales rates.

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*Save \$5M in transportation costs*

☐ **Reduced Freight Costs**

It's easy for companies to overspend on transportation costs on exception processes, particularly those associated with minimum orders. Often, companies end up paying for freight themselves instead of customers. By linking outbound transportation carrier data to order shipments and size, companies can ensure that they are not overspending on shipping fees. With an on-demand trading partner service, a European electronics giant saved **\$5M in transportation costs** across two carriers<sup>13</sup>.

☐ **Improved Receivables**

Disputes over receivables can tie up a significant amount of working capital and interest expense. According to Accenture, some manufacturers have up to **25% of the money owed**

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<sup>11</sup> Source: BetweenMarkets.

<sup>12</sup> source: Aceva case study ([www.aceva.com](http://www.aceva.com)).

<sup>13</sup> Source: BetweenMarkets.

them tied up in disputes at any given time. Access to root-cause analysis can take the guess-work out of dispute resolution and reduce the amount of working capital and interest payments.

**Underbill Detection**

Errors in receivables often go undetected, particularly underbills. By automating the monitoring across the order-to-cash process, companies can quickly find and fix root cause errors relating to underbills and improve the overall level of receivables.

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*Save \$1M a year in partner support staff*

**Reduced Staffing Costs**

Automatically finding and fixing compliance errors ahead of time can reduce the need to manually reconcile transactions. One global computing company saved **\$1M a year** in partner support staff. Another manufacturer saw a **50% reduction** in supplier support staff costs.

## ***What to Look For: A Checklist***

Here are a few capabilities to look for when evaluating trading partner software providers.

### **Platform**

- On-demand delivery.** A subscription service vs. "license & install".
- Process flexibility.** Able to fit to your industry's needs.
- Role-based access.** Fine-tune who accesses what data.
- Scalability.** A system you can grow with.
- Lifecycle approach.** An end-to-end service across the partner lifecycle, from on-boarding through scorecarding.

### **On-Boarding**

- Process templates.** A library of models that can be tailored to fit a company's partner processes.
- Self-service access.** Browser access for partners to self-test and certify their transactions.
- Activity reports.** Tracking partner on-boarding status.

## **Monitoring**

- ❑ **Business activity monitoring.** Tracking low-level transactions and impact to high-level processes.
- ❑ **Proactive alerts.** Visibility to errors as they happen.
- ❑ **Root-cause drill-down.** Access to individual documents.
- ❑ **Dashboards.** Visibility for key metrics like Rejected ASN Rate, Late/Missing ASN and Order Fill Rate.

## **ScoreCarding & Remediation**

- ❑ **Daily worklists.** Track remediation tasks by partner.
- ❑ **Self-remediation.** Access for partners to view errors.
- ❑ **Performance Scorecards.** Tracking partner performance by type or process.

## ***About Inovis***

Inovis is a leading provider of on-demand Business Community Management solutions that empower companies to transact, collaborate and optimize communications with their entire trading community. By standardizing and automating mission-critical business interactions, companies can dramatically reduce the complexity and cost of supply chain communication. This foundation of high-quality, reliable and secure connectivity provides real-time visibility across the order-to-payment lifecycle. The resulting actionable intelligence enables users to proactively address supply chain issues before they impact profitability, shortening cycle times, improving productivity and increasing customer satisfaction.

With more than 20 years of expertise, Inovis delivers its products and services to more than 20,000 companies over a wide range of industries and markets across the globe.

### **Inovis Global Headquarters**

11720 AmberPark Drive  
 Alpharetta, GA 30004  
 USA

Main +1 404.467.3000  
 Toll-free +1 877.446.6847  
 Fax +1 404.467.3730

Email: [info@inovis.com](mailto:info@inovis.com)