

Critical EDI Evaluation Components for Consumer Goods Companies

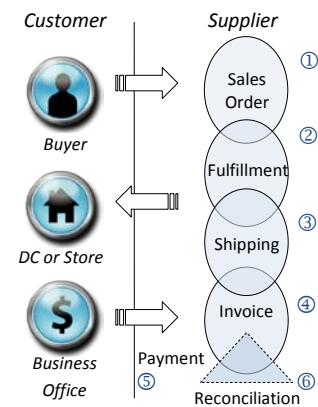


CRITICAL EVALUATION COMPONENTS FOR CONSUMER GOODS COMPANIES

If you currently have EDI customers, you already know that there are business processes that are significantly impacted by adherence to EDI requirements. In evaluating a new EDI system, you will want to look at how it can be used to accommodate both you and your EDI customer. There are common mistakes companies make in selecting the right EDI solution for their businesses. Below are areas we often see impacted when a company has outgrown their existing EDI system or have pushed them to consider implementing a new system. If you are new to EDI and don't have EDI experience, you will want to review these common problems associated with managing EDI customers and think about which EDI solution model will best help you manage the problems.

SCALABILITY OF OPERATIONS

Be sure to consider what type of program you use with your customers because the scale of complexity increases as you move from local to regional to national programs. Programs refer to the large-scale processes that a retailer may require you to follow. Some retailers employ a ship-to-store program, while others may require you to ship to a distribution center. The structure of your program will also dictate the complexity. For example, you'll need to think about the impact a ship-to-store program will have on your operations versus a Distribution Center program. Shipping specific orders containing many line items to one DC may be manageable with a hosted EDI solution, but you will heavily tax your workflow if you enter into a ship-to-store program as you'll be receiving many orders with many line items that have many ship-to addresses. In this scenario you will need to manually enter sales orders for each ship-to address and figure out a way to communicate this information to your warehouse staff to ensure accurate delivery. Keep in mind too that you may need to look at the ASN process associated with these shipments. All have a significant impact on the amount of manual entry that will be required.



MANAGING MARKDOWNS AND DISCOUNTS

How will you manage markdowns and discounts against inventory availability? If you are a standard pack company this is not complex, but if you are a pick and pack company mixing SKUs in your orders this process becomes problematic. If you'll be hand entering EDI orders, your process will also involve adding up all of the markdowns and discounts and entering the sum into a markdowns field (new store discounts, advertising, returns allowances) in the order processing module. More importantly, if you don't have a good handle on inventory availability and you can't completely fill the order, you will need to reconfigure the markdowns or discounts manually based on what inventory you shipped.

REMOTE WAREHOUSE CAPABILITIES

If you use a public warehouse, or are considering contracting with one, review the EDI solution capabilities of the warehouse carefully. Many public warehouses will say they do EDI, which could mean they have a high level of EDI experience, or that they can get EDI orders from your customer. The optimal setup is to choose a warehouse that can transact EDI with you for visibility, better pricing and fewer manual processes. A public warehouse may offer to receive your customer's EDI order, fulfill it, send your required Advanced Ship Notice and ship it. If your warehouse is not EDI capable, the quantity fulfilled and other information will need to be communicated to you via fax or possibly flat file. Fax communication presents a variety of issues in the double entry required on your part, plus the readability and accuracy of the data. Flat file imports are better but require customization to accommodate the import function. If you are sending orders to your public warehouse, your warehouse will need to hand enter that data – and you'll pay higher rates for their services.

Many EDI-capable warehouses can send the ASN for you however you'll want to review the fee structure associated with this service. Warehouses can charge you by the order, by the box, or by label making this solution cost prohibitive. Having the warehouse generate the Advance Ship Notice on your behalf can be problematic as well – giving you very little control of potential deductions taken for noncompliance. By generating the Ship Notice yourself, you may lower your remote warehouse costs, improve order accuracy and improve the number of complete shipments they process. Whatever EDI solution you choose should enable you to easily generate customer-specific ASNs either from your warehouse or a public warehouse.

EXPERTISE WITH CUSTOMER REQUIREMENTS

Who will “own” the knowledge of the business rules associated with each customer and what's your backup plan? Your EDI customer provides you with complete instructions, guidelines and routing requirements which will lay out specific instructions on how they want orders to be processed. An employee resource is usually dedicated to study these guidelines and become intimately familiar with the business process requirements to avoid errors associated with customer mandated deductions.

Many companies designate one person to own the customer requirements and operations – which is fine, until that person leaves your organization or you bring on more customers than you have staff to support. There will be at least a 4 week learning curve which could represent thousands of dollars in penalty fees for non-compliance.

TIERED OR EXTENDED PRICING

How will you accommodate tiered pricing and contract pricing in your operations with your EDI customers? How will you make sure that the pricing the customer designates in the sales order is the price you negotiated? Many companies find contract pricing administration so cumbersome that they settle for using the transmitted price from the customer – often leaving a significant amount of money on the table that could've been captured.

FOCUS ON FULFILLMENT

Can your EDI solution help you streamline the fulfillment process? This is a common area where productivity is lost and errors are made. A common scenario is that once the EDI order is entered into Microsoft Dynamics GP, a pick ticket and associated packing slip is printed and sent to the warehouse. As the warehouse packs the order, they find that there is not enough product to ship. A handwritten note is made to the pick ticket which must go back to the department that is responsible for changing the quantities fulfilled for that order in the system. The packing slip may need to be reprinted, as may additional labels. The shipment sits in the warehouse until all these steps are completed.

Look carefully at your ASN generation process as this is another area that is often inefficient and results in ASN delays. Who in your company is responsible for generating the ASN? Where should the ASN be generated for maximum efficiency – back in customer service, or perhaps on the warehouse floor? Could you streamline the process with a solution that automatically captures the shipping details required of the ASN? Many companies encounter customers that want multiple orders consolidated into one shipment. If this shipment requires an ASN, a manual process can be grueling. The right orders must be grouped together, the right quantities must be captured and fulfilled, and the ASN must arrive before the shipment to avoid penalty fees. The solution model you choose will often dictate the process flow, regardless of what the right process should be.

CROSS DOCK REQUIREMENTS

Are you prepared for Cross Dock Orders? Some customers will provide you with one order that contains multiple items designated for multiple ship-to's. Again, if you are not mixing SKUs in your fulfillment process, this is not complex. If you are a pick and pack environment however, how will you manage to communicate fulfillment instructions to your warehouse for these orders?

DEDUCTION MANAGEMENT

How will you manage charge backs? Penalties are commonly assessed for errors or noncompliance as are other known deductions (i.e. Advertising). These allowances and penalties are noted on an electronic EDI remittance document detailing what allowances or deductions were taken against your original invoice. You'll need to somehow capture these deductions and create debit or credit memos associated with payment remittance to balance your books, however, you should also be analyzing your deductions as many are disputable. To dispute fees with your customer, you are going to need to capture the reference numbers and associate them with each purchase order.

A great way to anticipate your scorecard rating is to analyze your deductions. If you're seeing penalties for short-ships, this will help you focus your efforts on inventory management. If you're seeing penalties increase for order errors, you may need to focus on pack verification processes. Many companies, however, don't analyze these deductions. Some find it easier to manually create credit memos because it's too time consuming to capture that data. These penalties can add up to thousands of dollars per year which could be fixed or disputed in a very short timeframe. The worst outcome is to have your customer drop you because they find another supplier with a consistent track record of accuracy and compliance.

CONSIDER POINT-OF-SALE DATA USAGE

Will you be able to derive value from Point-of-Sale data? Many retailers will send you periodic POS documents via EDI, letting you know what sold in what timeframe. This data can be extremely valuable to running your business and anticipating your customer's needs. POS data means nothing to you if you can't analyze it properly, either by customer or collectively among all your customers. POS data can help you pinpoint problems before they occur by allowing you to see trends by region, store, product, etc.

COMMON PITFALLS TO AVOID

- Not analyzing the details of your EDI requirements against your current system and your organization's capabilities.
- Underestimating the impact ASN generation would have on your business in the form of penalties and the toll it takes on operations if it is done manually.
- Devising a stop-gap EDI approach. Suppliers often select the EDI solution that is the cheapest and requires the least amount of work to install, which can be very short sighted. Many companies will avoid making an investment in their EDI capabilities, choosing instead to use a variety of non-integrated web-based EDI portals, and web-based portals to manage shipping, too. The result is a web of non-integrated processes that are a mess to de-tangle and end up costing the supplier more in the long run in the form of penalties,

A recent study among Consumer Goods companies found that, on average, three purchase order changes occur per purchase order. One of the reasons this happens is that retailers don't mandate the use of EDI Change Requests. Buyers call in their changes to the supplier and the supplier makes the necessary changes in their business backbone system. The problem occurs because the retailer has not made adjustments in their system to reflect this change using EDI. The retailer's system can't see this change, so it appears that your ASN doesn't match – even though it's correct. Unfortunately, until the retail industry starts mandating EDI change orders, you should capture and review your deductions carefully. Further analysis may find that your customer erroneously took deductions because of their own undocumented changes. Can your EDI solution accept change orders? How will you uncover erroneous deductions?

Compliance penalties were found to be between 1% and 2% of gross sales revenue. If charge-backs are a problem for your company, there are several things you can do to reduce this number and gain greater efficiencies

- Automate the purchase order change transaction
 - Automate Advanced Ship Notice and Shipping transactions
 - Deploy pack verification solutions to make sure your shipments are accurate
 - Focus on reducing penalties versus negotiating them
 - Use benchmarking to analyze your operations and focus on correcting the weak areas
- The Credit Research foundation's Customer Deductions: Impact on Receivables 2006 Edition.

data visibility, poor operations, low productivity, low score cards and ultimately the loss of customers.

- Committing to the 80/20 rule. Suppliers will often look to their large retail account for 80% of their revenue. They think that once they land a large retailer, the retailer will provide for their future growth. Time and again we see retailers pull their business from a supplier for non-compliance, or simply because market conditions change. These suppliers end up going out of business because they put all their eggs in one basket. They geared their business to one customer and couldn't sustain themselves after the exodus. Successful suppliers in rapid growth mode have invested in their EDI solution and capabilities so that they can diversify their customer base, helping them mitigate risk while improving their own operations.
- Not conducting a thorough evaluation of what is involved in bringing on new EDI customers or adjusting to changes in customer requirements. Many companies deploy strategies that require professional services to bring on and test new EDI trading partners. Costs can range from a few hundred dollars to \$10,000 or more depending on the complexity of the documents required. Often, consumer goods companies fail to achieve ROI from their EDI investments because they avoid adding new trading partners due to cost and complexity factors. Will you be able to receive a fixed cost model for bringing on new EDI customers? Will you be confident in the timeframe proposed to get a new customer up and running?

CONCLUSION

EDI is often an afterthought for companies spurred by the acquisition of a customer that requires EDI. Many companies adopt manual processes in an effort to quickly meet the customer's requirements, and accumulate manual work-arounds as the company brings on more EDI customers.

These manual processes have a significant impact on your business operations and don't take advantage of what EDI should be doing for your company. Knowing at what point to evaluate a new EDI system is key. Understanding each of the available models for Microsoft Dynamics GP is the first step. Being able to evaluate an EDI solution based on how it will assist you in generating perfect orders is critical. Taking a good look at how EDI impacts your workflow will help you to evaluate how different EDI solutions impact your internal workload, and is critical to choosing the best solution for the job, and the best solution in which you can maximize the investment you made in Microsoft Dynamics GP.

Any EDI model you deploy should provide for workflow optimization and not merely data transfer. Using the following goals as a guide when you evaluate a new EDI solution, you can leverage your investment in Microsoft Dynamics GP and utilize your EDI capabilities for competitive advantage.

- Increase Order Accuracy
- Reduce data entry
- Enable Management by Exception
- Optimize workflow through the order-to-reconciliation process
- Tie processes together electronically

- Extend communications and optimized workflows to other partners in your business (Carriers, Remote Warehouse, etc.)

About the Author:

vSync is the leading provider of supply-chain compliance and execution solutions for Microsoft Dynamics™ GP. Our solutions enable suppliers to meet and manage-customer mandated EDI and fulfillment requirements. Using vSync solutions, companies can automate the order-to-cash process through rules processing, automated transfers to remote warehouses, automated ASN generation, automated pack verification, shipping and label automation. vSync integrates with several other complementary ISVs such as Maximum Data, Accellos, Rocky Soft and Blue Moon Industries. For complete details on our EDI, Shipping, Warehouse and Chargeback solutions, talk with your Microsoft Dynamics GP Value Added Reseller or visit <http://www.vsync.com/solutions>