

INCREASE YOUR MARGINS WITH E-COMMERCE

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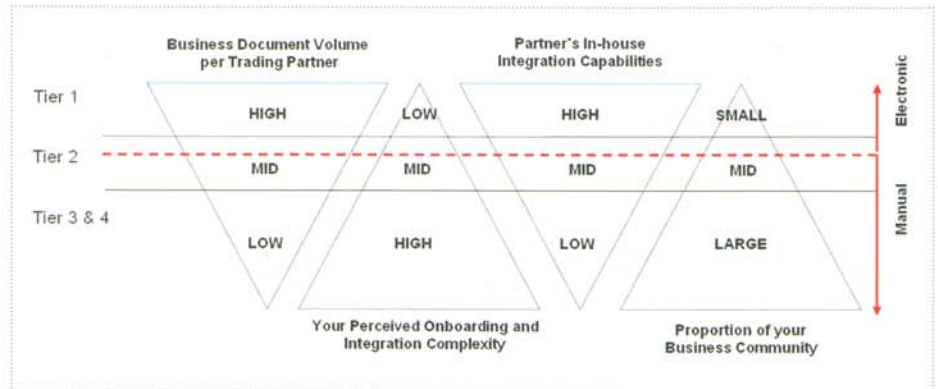
Companies make significant investments in B2B software and connectivity to automate business transactions with their trading partners. With most, the primary focus is to drive efficiencies with large trading partners, leaving smaller trading partners unchanged - and a lot of money on the table.

Many companies adhere to the 80/20 rule: electronically linking 20 per cent of their partners, which represent as much as 80 per cent of their transaction volumes or revenues. This approach is a good start; however, it is not a long term e-commerce strategy. Companies often fail to automate transactions with the remaining 80 per cent, who continue trading by phone, fax, e-mail, and postal mail.

This trend is driven by the misconception that it's expensive and complex to electronically enable business processes of the lower transaction-volume trading partners. It is more likely, however, that companies don't fully understand the true cost of manual transactions - the impacts on customer satisfaction, margin erosion, visibility, and cycle times.

Understand your trading partners' ecosystem

Trading communities are usually made up customers, suppliers, financial institutions, and logistics providers, all of which vary in size and electronic trading capabilities. Oftentimes these



partners are identified in tiers and grouped by common criteria.

Figure 1. shows the trend of B2B strategy segmentation. Most companies stop integration efforts at the Tier 1 level, connecting occasionally to Tier 2 partners and ignoring the largest segment of trading partners (those below the dotted line): Tier 3 and Tier 4 partners, believing it is not worth the time, money, or effort.

Electronic commerce segmentation trends

Tier 1 partners: Trade large document volumes and are easier to integrate with. Maintain sufficient IT staff, and invested in becoming electronically enabled. Often very large organisations, industry leaders, and generally wield the most influence in the supply chain hierarchy. Originators of e-commerce initiatives.

Tier 2 partners: Moderate in many respects - document and partner volume, integration complexity, capabilities, and representation within the community. Many Tier 2 partners communicate electronically, resulting from Tier 1 requirements. Usually not proactively seeking additional electronic relationships.

Tier 3 and Tier 4 partners: Strictly manual - phone, fax, e-mail, and postal mail. Characterised by low document volumes, little integration capabilities or IT staff. Perceived to be challenging to integrate, however, they're the largest group of the trading community. These partners confuse e-mail and fax as e-commerce. Tier 3 and Tier 4 partners fail to realise the manual intervention in creating, sending, receiving, and processing documents. Changing the behaviours of these partners is extremely difficult.



Understand what your manual partners are costing you

To understand the value of electronically enabling your Tier 3 and Tier 4 partners, you need to determine your manual processing costs. Most companies do not have access to this information. Sterling Commerce created a 'B2B Automation Savings Calculator' to make this information more accessible. You input information regarding your manual trading partners, and the calculator applies formulae against industry averages for manual document processing costs, error rates, and error reconciliation rates, to get your estimated monthly manual processing costs. You can use your own cost information, or the following averages that came from an independent research project completed by Forrester Consulting, on behalf of Sterling Commerce:

- Orders - median value of A\$ 10. 68
- Invoices - median value of A\$ 13. 06
- Remittances - median value of A\$ 13. 06
- Estimated manual document errors - 10%
- Error reconciliation costs - median cost of A\$ 56. 55 (including A\$ 35. 41 in labour and A\$ 21. 14 in materials)

Determine your strategy

When determining your strategy, ask yourself the following key questions:

- Will your solution require a behaviour change, and will you use incentives, mandates, or formal requests for compliance?
- Will you focus on suppliers or customers, and which of the two would be more willing to change their business processing behaviour for you?
- Will you focus on a particular document, or automating a particular communication, such as e-mail or fax?

Changing behaviours and processes is harder than changing technology. Behaviours will change when you offer something of value as encouragement.

Behaviour changes: what behavioural change do you want your small manual partners to make, and is the change beneficial to them? The more change you request from your partners, the greater the associated benefit you need to provide. Some successful benefits include:

- Discounts for electronic orders.
- Better payment terms for customers or faster payment to suppliers.
- Improved or guaranteed delivery/promise dates.



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- Increased visibility into the larger order/supply chain.
- Improved supplier ratings.

Small changes are easy to implement and can mean big savings for you. For example, asking a customer who faxes orders to switch to a fax-to-EDI conversion service is a small change. They just have to put a new number in their fax machine memory and change their fax form. For you, it eliminates the costly and time-consuming manual processing.

Customers vs. suppliers: they may be small customers, but they are your customers, and they can impact your business, your reputation, and possibly your bottom line. Don't shake the big stick of a requirement or mandate, unless you have no alternative and can include an incentive.

Suppliers, on the other hand, serve you as the customer, and will be more likely to comply with your request, as long as your solution can be easily implemented and managed without substantial costs and complexity.

Document type vs. communications format: what is your reason for electronic enablement - ordering efficiency, purchasing efficiency, transaction cost reduction? Knowing your priorities will lead you to the right docu-

ments. Purchase orders and invoices have the highest cost to manually process and often contain the greatest number of errors. For that reason, they are usually the first documents to be automated.

Communications formats are an easy way to segment your manual partners.

Fax: partners who send and receive faxes are prime candidates for a fax conversion service - their behaviour is not impacted, yet you receive the benefits. Convert inbound fax orders from your customers to EDI, or have your outbound orders converted from EDI to fax and delivered to your suppliers. Either way, impact is low and you reap the savings from automation.

E-mail: customers who exchange documents by e-mail have internet access. They may be willing to use web forms instead of e-mail. You can choreograph the ordering process to reduce errors, or enforce business rules that result in greater accuracy and shorter cycle times.

Phone and postal mail: do you really know your partner's capabilities? Is it possible they are already doing business electronically? Are they sending you electronic purchase orders, but you are mailing them invoices?

Best practices for success

To be successful in B2B, you have to find a service provider that offers trading partner survey services and that can identify capabilities and opportunities with your trading partners.

- Start with the smallest change your customer can make to a behaviour or process that will help you meet your goals of automation.
- Know what's in it for them. Offer a compelling benefit that answers 'why should I change the way I do business?'
- Educate your customers. Let them know what you want to do, why you want to do it, and how it will benefit them.
- Walk them through the process. Even small changes seem larger when you are on your own. Ask for small changes in behaviour, not large ones. Technology enables small behaviour changes on the customer and supplier side to feed into automated processes.

By making it as easy as possible for your trading partners, and offering them a value-driven business reason to change, you can implement automation, and make things easier for everyone.

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