

The true value of e-commerce

Organizations forfeit cost savings, supply chain performance benefits by shortcutting B2B automation

It has been more than 10 years since the e-commerce revolution began. Still, a large number of organizations have yet to demonstrate a true commitment to this movement.

For instance, when Boston-based AMR Research queried 1,950 companies in the U.S., Europe, and Asia Pacific about their e-commerce programs in the fall of 2006, 41 percent of the respondents said they had none in place.¹ Even more telling, more than 70 percent of the companies that professed to engage in e-commerce listed e-mail as their primary means of communicating and collaborating with business partners.

Exchanging e-mails about orders and invoices may indeed be a form

of electronic commerce, but it hardly meets the standard for transforming a business in the way the pioneers of the e-commerce movement envisioned. These visionaries foresaw a day in which any two trading partners could complete the purchase or sale of any product or service with no paper changing hands. They also saw these end-to-end business processes taking place with very little human intervention.

While evidence such as the AMR Research survey indicates that organizations have not fully embraced this vision, there is no practical reason why they shouldn't.

In fact, both industry analysts and information technology suppliers

say the tools for conducting this type of end-to-end e-commerce are readily available. They also say the organizations that were early to discover and adopt these tools are gaining a decided competitive advantage.

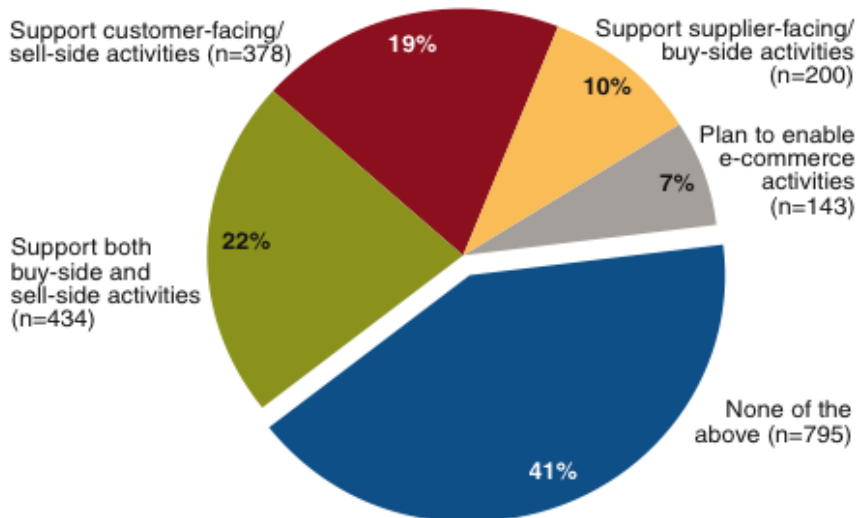
Josh Hardy is manager, global products and marketing, at Sterling Commerce, one of the pioneering e-commerce technology suppliers. He argues that organizations have not necessarily been reluctant to adopt e-commerce tools; they simply have failed to take full advantage of them, and that failure is costing them in ways that many of them don't see.

"A lot of organizations are simply adhering to the old 80-20 rule when it

Current state of B2B e-commerce

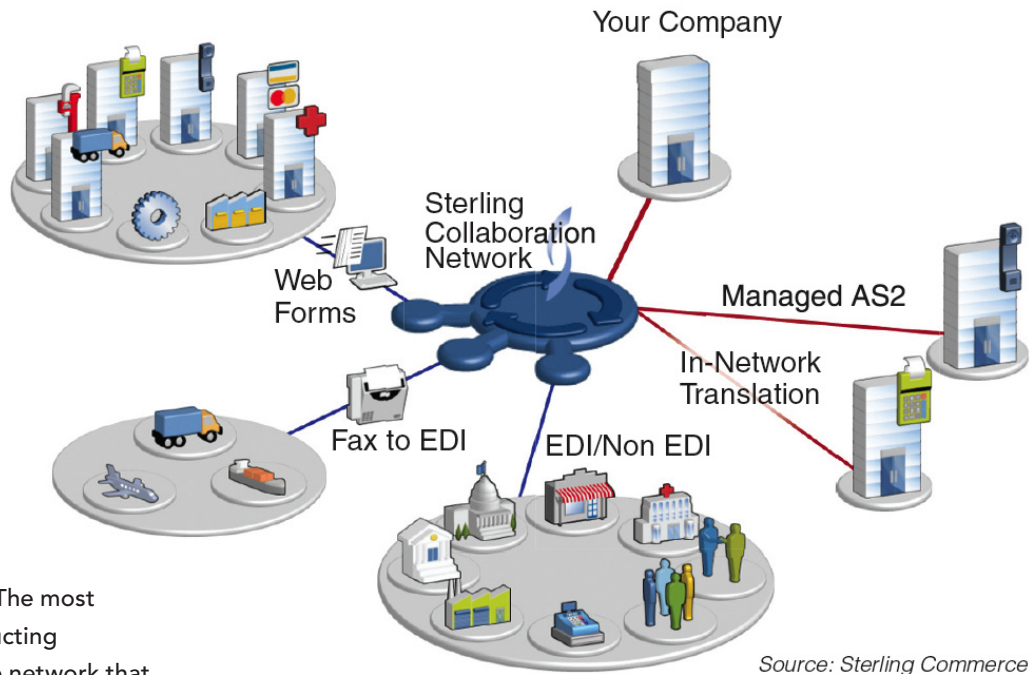
% of responses. N=1950 companies

Q. Which best describes your current e-commerce activities?



Independent research performed by AMR Research on behalf of Sterling Commerce

A recent AMR Research survey of 1950 global companies revealed that 41 percent have no e-commerce programs in place.



Source: Sterling Commerce

Collaboration platform: The most effective means for conducting e-commerce is via a single network that allows multiple partners to collaborate regardless of which formats individual partners choose for transmitting data.

comes to automating their business-to-business (B2B) transactions," Hardy contends. "They figure that the top 20 percent of their partners account for 80 percent of their transactions, so once they have that top 20 percent automated, they have captured all of the value they can get from B2B automation."

Of course, there are numerous holes in that logic. First, a recent study from the Boston-based Aberdeen Group indicates that very few organizations have automated 80 percent of their B2B transactions.²

Unrealized value

What's more, the assumption that automating 80 percent of your transactions will yield 100 percent

of the possible value ignores one fundamental truth: that the cost of processing an order, an invoice, or any other business document is the same regardless of which trading partner is involved in the transaction. "You can get a lot of savings by automating all the transactions involving your high-volume customers," Hardy says. "But you're leaving a lot of value on the table if you don't automate the rest."

There are ways of measuring how much additional savings a particular company can reap by automating all of its B2B transactions, but it's important to note that the value associated with taking that step extends far beyond a reduction in transaction costs.

Hardy advises looking at the practice of e-commerce as a three-stage process that delivers different types and amounts of value as the company progresses through the stages. The stages are:

- Integrate;
- Automate; and
- Orchestrate.

"Integration is primarily an information technology (IT) function," Hardy explains. "It's the act of building the electronic connections between trading partners. It's also the first thing that must be done in order to get any value from e-commerce." The most effective way of integrating a trading partner community, Hardy adds, is by adopting a technology

Calculate your own B2B savings

A lot of people might be puzzled about why organizations have not completely embraced the e-commerce movement. They shouldn't be.

"There is clear belief among both buyers and suppliers that there is not enough value in doing more to automate B2B transactions," says Hardy. "That is a mistaken belief."

Sterling Commerce has a simple tool for giving organizations objective proof of how much they can save by automating more of their B2B transactions. Hardy says the tool—called the B2B Automation Savings Calculator—comes in handy when companies are unable to quantify the cost of manually processing order-to-cash and purchase-to-pay documents, such as purchase orders, invoices, ship notices, etc.

"Often times, companies focus on saving money on transaction costs with partners that are already electronically enabled. The flaw here is that they have already realized the greatest savings with these partners and should

be focusing on those that are still manual."

Precise savings totals are generated by plugging company-specific data into the calculator. Required inputs include how many partners a company trades with, how many and what types of documents are involved in working with those partners, and how many of those documents are processed manually versus electronically.

To simplify the calculation of manual processing costs, error rates, and error reconciliation costs, Sterling Commerce worked with Forrester Consulting to develop industry median costs for purchase orders, invoices, payment remittances, etc. Based on these medians, a company with 600 trading partners that processes 80 percent of its transactions manually spends roughly \$1.1 million a year on those transactions. Additionally, Forrester Consulting assumes a 20-percent to 50-percent savings for automating manual transactions.

"We actually think those are conservative estimates," Hardy says.

To prove that point, he tells the story of an actual Sterling Commerce customer, a supplier to the medical industry that gets a fair number of \$50/month orders from small doctors' offices.

"The supplier determined that it cost \$150 to process each of those orders," Hardy says. "But they didn't want to drop those customers because many of them eventually grow to become part of large consortia that place much larger orders."

The solution: Sterling Commerce set the supplier up with an application that accepts faxed orders from these small doctors and automatically converts them to EDI format for immediate entry into the supplier's backend systems. "It cost about \$2 per order to do the fax-to-EDI conversion," Hardy says. "That's much more than our conservative estimate of a 50-percent savings."

To find out how much you can save by automating more B2B transactions, go to www.sterlingb2bautomation.com and plug your numbers into the calculator.

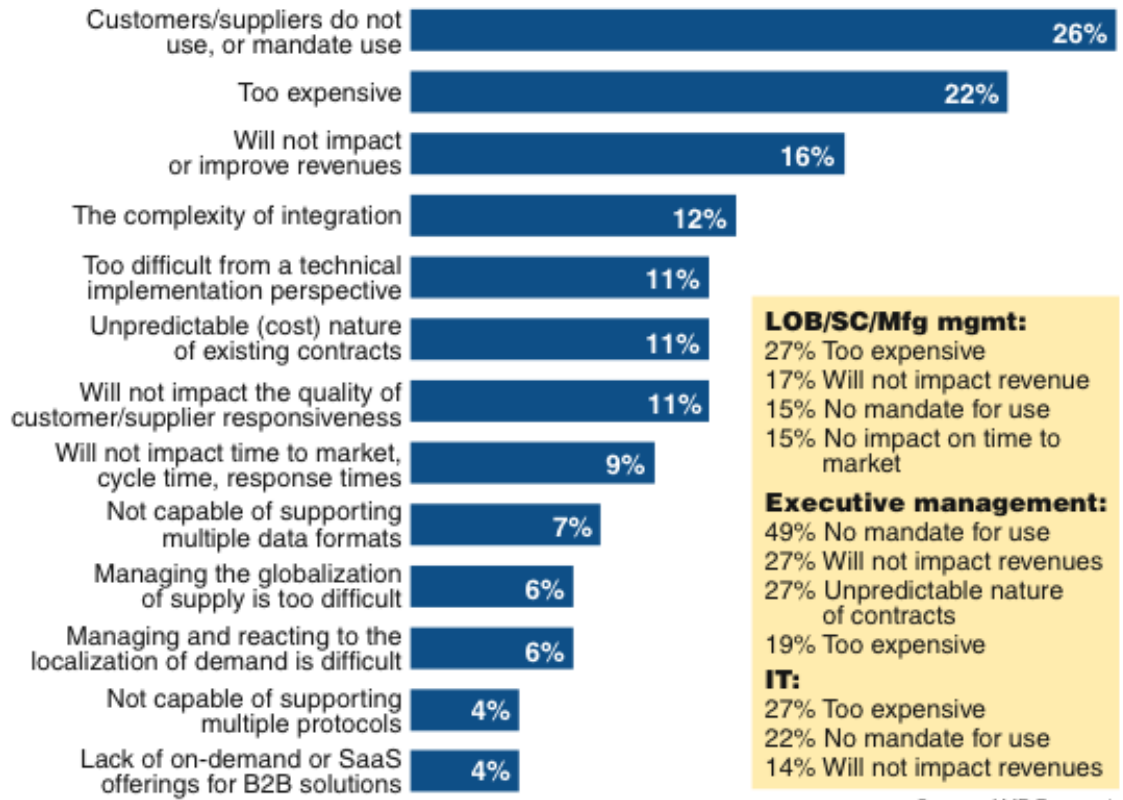
platform that provides a single, secure means of connecting all partners, regardless of the methods those partners choose for communicating information or transmitting documents. Such a platform would be as user friendly to partners who choose to send and receive all orders via EDI as it is to those who still rely primarily

on telephones and fax machines for placing or accepting orders.

Automate refers to converting manual business processes into electronic ones. This is where the bulk of the hard-dollar costs savings originate, as things like the entire order-to-cash or procure-to-pay processes are now conducted completely free of paper,

and largely without human intervention or error.

Companies that reach the orchestrate stage are the ones that can actually use e-commerce for a competitive advantage. "This is about being proactive in responding to situations that disrupt normal business operations," Hardy says. "At this stage,



you also have the ability to do things like measure supplier performance, and even grade your own performance in areas like on-time delivery and customer satisfaction.”

The importance of visibility

The ability to orchestrate stems directly from the end-to-end visibility that is inherent in a completely integrated—and automated—supply chain. And Hardy says this is why companies that apply the 80-20 rule to their e-commerce strategies are making a big mistake.

“Having supply chain visibility opens a company up to a whole new level of business benefits,” Hardy says. “But the key to getting visibility is being connected with your partners. Do you think you can have true supply chain

visibility if you’re only connected to 20 percent of your customers or suppliers?”

The answer, of course, is no. And just how important is this complete visibility? Ask yourself that the next time one of your customers goes to a competitor because you found out too late that one of your suppliers was out of a critical part. With true visibility, you probably would have known about the shortage in time to make alternate arrangements for getting that part, and thus keeping that customer in the fold.

If you think this is just a hypothetical story, consider the case of Ball Corporation, which supplies plastic packaging for food and beverage manufacturers, as well as other technology and services to aerospace

companies and government agencies. Ball, based in Broomfield, Colo., has always prided itself on providing superior customer service. But delivering on that ideal had become increasingly difficult as a company that started as a family business in 1880 grew into a \$5-billion-a-year, publicly traded company with more than 15,000 employees at more than 90 locations around the world.

Ball’s mostly manual supply chain processes simply were no longer adequate for a company that was exchanging more than 3,500 documents each day with 60 large trading partners. In this environment, Ball saw an average of 10 to 15 customer orders delayed each week due to errors that cropped up as they were being processed.

To alleviate this problem, Ball moved all of its B2B transactions onto an electronic network operated by a vendor that took responsibility for connecting all of Ball's partners to the new platform. With this platform in place, Ball saw its instances of order-delaying errors drop from 10 to 15 per week to one or two per month. In addition, the company gained the flexibility to introduce new processes that cater to the needs of specific customers.

Improving customer service

"This wasn't just an IT initiative, but a business initiative," Natalie Henderson, director of IT account management at Ball said of the switch to the electronic collaboration network. "The ultimate goal was to help the business grow by becoming easier to do business with ... The bottom line is that this [electronic collaboration network] allows us to handle our partners and supply chain relationships more effectively. And that, in turn, helps us provide superior service to our customers."

Industry analysts would argue that one of the keys to Ball's success was its reliance on a vendor with the ability to connect multiple trading partners to a single collaborative network. Several Aberdeen Group surveys have shown that vendors offering on-demand B2B collaboration platforms can be particularly valuable to organizations looking to improve supply chain performance.^{3,4,5}

"On-demand solution providers have much greater resources and experience in onboarding trading partners onto a

collaboration platform than companies have in-house," Aberdeen researchers wrote in an August 2007 report titled *On-Demand Applications in Supply Chain: Enable Flexible Business Processes*.³

On-demand solutions—also referred to as "hosted applications" or "software-as-a-service (SaaS)—differ from traditional applications that are paid for with an up-front license fee and installed at the user company's premises. In the on-demand model, the vendor hosts and runs the

application at an outside location, and the user company purchases a subscription that gives its employees the right to log on and access that application. The primary benefits of this model are faster implementation time and lower total cost of ownership.

Aberdeen research has revealed that on-demand B2B collaboration solutions typically can be installed in less than three months, with user companies realizing a complete return on their investment in less than 12 months.¹

Performance on demand

Aberdeen also outlines characteristics shared by companies that have proven to be best-in-class when it comes to supply chain performance. And it's no coincidence that many of those characteristics are also common to companies that have connected their supply chains to on-demand B2B collaboration networks.

According to Aberdeen, best-in-class companies are:³

- Four times more likely to be able to onboard new trading partners quickly
- Three times more likely to support unique business processes for product categories, customers, or channels
- Two-and-a-half times more likely to support electronic collaboration with trading partners
- One-and-a-half times more likely to have the ability to share data with internal stakeholders

Sterling Commerce's Hardy agrees that an on-demand collaboration network offers organizations the quickest—and most cost-effective—means of getting the end-to-end integration, automation, and visibility that are necessary for achieving best-in-class supply chain performance. He cautions, however, that all B2B collaboration platforms are not created equal.

To get the maximum possible benefits from a collaboration platform, Hardy suggests looking for one that simplifies the recruitment and participation of partners.

That increased participation can come both from the characteristics of the platform itself as well as from the support services offered by the platform's vendor, Hardy says.

Partner communities

When it comes to the platform itself, Hardy says, partners more readily participate in e-commerce initiatives

when simple interfaces are made available. The best type of interface, he argues, is a Web-based form, or what is also commonly referred to as a customer or supplier portal.

"All the partner needs to conduct business through this type of interface is a Web browser," Hardy says.

"Behind that interface, the network converts documents from whatever format its partners create them in—EDI, XML, etc.—to whatever format the hub's backend systems understand. Furthermore, these Web portals can facilitate process choreography, which ensures steps are followed in order."

This ability to transfer formats also should include the ability to do things like transfer faxed documents into EDI format and vice versa, Hardy says. "That allows companies the ability to connect all of their partners to the collaboration network, even the smaller partners that don't have the financial resources, or the IT expertise to install their own e-commerce infrastructure."

¹ Research performed by AMR on behalf of Sterling Commerce.

² *B2B Collaboration: Assessing the ROI of Process Integration*, Aberdeen Group, July 2006.

³ *B2B Collaboration: How On-Demand Platforms Accelerate Value and Impact TCO*, Aberdeen Group, February 2007.

⁴ *On-Demand Applications in Supply Chain: Enable Flexible Business Processes*, Aberdeen Group, August 2007.

⁵ *A View from Above: Global Supply Chain Visibility in a World Gone Flat*, Aberdeen Group, September 2007.

About Sterling Commerce

Sterling Commerce helps 80% of the FORTUNE® 500 thrive in a global economy. We provide innovative solutions to process integration challenges between companies and their customers, partners, and suppliers to help them achieve higher levels of performance—and business without borders. With over 30,000 customers worldwide, we have unparalleled experience in the public sector, manufacturing, financial services, wholesale distribution, logistics, and communications industries. Sterling Commerce is an AT&T (NYSE:T) company. Learn more at www.sterlingcommerce.com



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