Integration that makes sense

The "Dirty Little Secret" of Supplier Portals

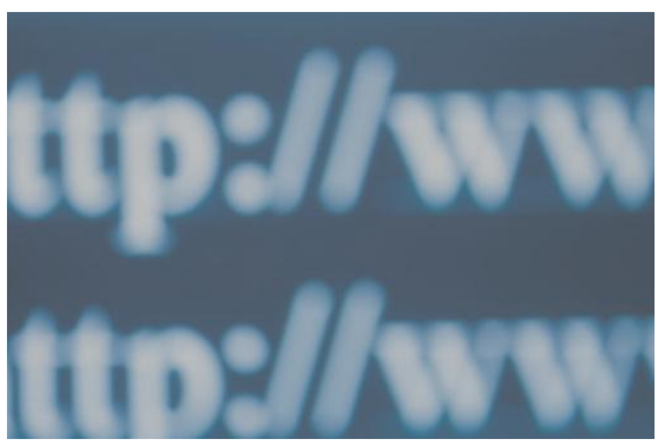
Many businesses today have recognized the opportunity to lower costs by implementing an electronic "source-to-settle" enterprise application. One very important part of these applications is the interface to the suppliers. This interface is often provided as a "supplier portal." A supplier portal can provide many business benefits to both the enterprise customer and the supplier. A well-designed supplier portal can:

- drive down MRO and direct material costs
- provide overall business process management of the procurement cycle
- handle exceptions using effective mixed human/machine workflow
- provide inbound order visibility to reduce or eliminate out-of-stock conditions

But there is a "dirty little secret" in most supplier portals. A quote from a major enterprise applications vendor illustrates the problem (names deleted):

> *"(vendor) (procurement product name) supports print, fax, and email order delivery. To drive down costs further, customers may choose to use advanced electronic transaction delivery via EDI or XML using the (vendor messaging system). From requisition to fulfillment, (vendor) (procurement product name) drives transaction overhead down."*

The enterprise procurement system purports to "drive transaction overhead down" – but direct electronic integration is offered as an afterthought. Many enterprises find that the vendor's implementation plan does not include direct electronic integration with suppliers. The strategy is to "get the system up and worry about that later." Often, "later" never comes. So where does that leave us? Let's look at this strategy in detail.



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First note that “print order delivery” creates a document that must be mailed, faxed or phoned to the supplier. This leaves the primary “integration” with suppliers still snail mail, phone, fax, and e-mail. And the cost of manual processing *is still in the supply chain*. The buyer must often stuff the printed order in an envelope or run it through a fax. And the supplier has an entirely manual data entry process.

The very same vendor quotes a Gartner study that found that manual processing of an invoice costs $8.50 and electronic processing only $3.44. How does that electronic invoice get created? The supplier must enter it in the supplier portal. The system may eliminate the manual invoice processing for the buyer – but leaves *the cost in the supply chain* at the supplier.

The goal of effective supply chain management is to drive costs out of the supply chain – not *shift* them! Direct machine-to-machine integration of an enterprise with its suppliers addresses the goal of driving costs out of the system by:

- eliminating data entry labor costs
- reducing the costs of addressing and resolving errors
- providing more timely information to facilitate early lower cost intervention and resolution of supply chain problems
- providing more complete information for cost-effective supply chain planning and execution
- enabling visibility of shipments to make it possible to shift to lower-cost transportation modes with a managed approach to eliminating out-of-stock conditions by expediting shipments only when necessary

What does a portal do? While supplier portals provide the very tangible benefits described above, a portal without B2B integration still leaves costs in the supply chain.

- The cost of data entry is shifted to the supplier, not eliminated. Although the supplier may be forced to accept this as a cost of doing business with their customer, *it must eventually be reflected in product pricing*.
- The shift in costs exacts a one-time discount, but does not reduce costs in the system as a whole.
- Data entry at the supplier is still error-prone. If a supplier has many customers, they will have many supplier portals. Accurate data entry across disparate systems is a business challenge. Even with a dedicated customer service agent for each account, the mapping from internal semantics to each account’s business semantics can be problematic.
- Manual data entry on the supplier portal may introduce significant delays in delivering information from suppliers. Timely detection and resolution of problems may not be possible.
- Since the supplier bears the cost of data entry, they must manage this cost by providing only the bare minimum of information. This may reduce effectiveness of both supply chain planning optimization and supply chain execution.
- For the same reason, suppliers are much less likely to provide optional information such as in-transit shipment status to support mode-shifting transportation cost savings.

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It is worth noting that requiring suppliers to accept and provide electronic transactions without providing support for integration with the suppliers' enterprise systems may actually exacerbate the problem. Suppliers with low competence in connectivity may be forced to subscribe to an "EDI portal service." Such services are very popular and charge significant fees for their processing – but only add an intermediary that provides mechanisms for the suppliers to enter and retrieve data from the service's system while the service provides electronic connectivity to the procurement system. This is only an illusion of efficiency that introduces additional costs and additional control and reliability issues.

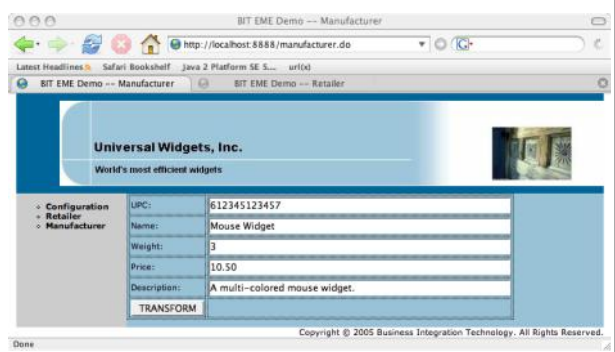
To derive the maximum business benefit from e-Procurement, the supplier portal must be supplemented with an effective direct business-to-business integration strategy. This strategy must consider the needs and capabilities of the suppliers and realistically provide support for integration that benefits both sides – and truly removes it from the supply chain.

For suppliers with very small transaction volumes, it may be most cost-effective to leave a manual step in the process. It may or may not make sense to introduce an "EDI portal service" for these suppliers and eliminate data entry on the supplier portal entirely.

Most suppliers will benefit from direct integration and will, over time, be in a position to pass their savings on to their customers in reduced prices. Many have technology and business process expertise to implement this B2B integration. Some may not see this as a important core competence and will require outside help.

Although the opportunity to create value is large, formulating an effective B2B integration strategy and implementing it is not a simple task. Organizations like Business Integration Technology can provide guidance and assistance based on extensive domain knowledge in both B2B integration technology and supply chain business processes.

About Business Integration Technology:



Business Integration Technology (BIT), a leader in B2B integration for transportation, logistics, and supply chain, designs and implements highly cost-effective business-to-business connections that eliminate the costs of doing business with paper, phone and fax. With deep roots in transportation, supply chain and logistics, BIT brings innovative value to shippers, carriers, 3PLs, and any firm looking to improve cycle time and reduce cost.

You only pay us for the work our business-to-business experts do, not for licenses or transaction fees. You own the solution, you run it, and you save month after month.

BIT was founded by the team that built the messaging engine that runs North American Rail. BIT is also a partly-owned subsidiary of Daugherty Business Solutions, a firm with over 20 years experience and over 400 consultants in St. Louis, Atlanta, Minneapolis and Chicago.