

*Extending EDI to the Web*

► White Paper



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## VALUE CHAIN EFFICIENCIES REALIZED

Increasing shareholder value and delivering quality products on time are key aspirations for Global 2000 companies. The challenges presented when attempting to achieve these goals are difficult and sometimes considered nearly insurmountable. Yet organizations continued to survive in the past decade and some even thrived. To continue the unprecedented growth, it has become necessary for leading companies to turn to Web-based technologies and the Internet to deliver efficiencies and increase value. This task becomes almost daunting when you consider that most companies continue to rely on time-consuming and expensive manual efforts to purchase the mission-critical direct materials that comprise the products they sell.

With broad adoption of the Internet as a medium for information gathering, commerce transactions and communication, companies are increasingly turning to the Web to bring about even greater efficiencies in value chain management. Decreasing cycle times for delivering products to market by increasing the speed at which requests and purchases for materials are completed is crucial. Just-in-time and on-demand manufacturing practices are becoming the norm.

This first step in electronically enabling suppliers to communicate with hub companies via the Internet includes deployment of current standardized business documents such as purchase orders and invoices, providing efficient and effective electronic interaction by hub companies with their suppliers. These Web deployments deliver added value by linking with the hub company's existing systems over the Internet, requiring no modifications to existing internal processes.

Additionally, the hub company's manual transactions are removed, delivering reduced processing time and costs for every transaction. When you consider that transactions can number in the thousands and even millions a year, the margin for potential savings for hub companies is significant.

Recent estimates place the number of supplier companies currently completing electronic purchase orders with larger hub companies at only 15% of the entire value chain. The remaining 85% of the value chain continues to complete manual interactions using phone, fax, and mail options, which carry with them undue costs and decreased efficiencies. By lowering trade barriers between all links in the value chain and eliminating costly manual transactions, everyone wins. Profit margins rise when a company reduces production costs and increases sales. This approach often reflects positively in corporate financial performance. A reduction of as little as 5% in the number of manual trade interactions (at an average cost of \$125-150 per transaction)<sup>1</sup> by Web-enabling the value chain, provides a recognizable decrease in costs and increase in margins.

Theoretically, using the 1999 financial statements of General Electric as an example, a 1% drop in the cost of conducting business transactions related to the Cost of Goods Sold, would directly relate to a \$.02 earnings per share increase (from \$1.09 to \$1.11). The actual increases realized using a Web-based solution could, in reality, be even greater than that provided in this basic example.

## VALUE PROPOSITION

The value inherent in linking suppliers in real time to existing systems within hub companies via the Internet include increased speed-to-market, reduced product development cycles, fluid information exchange and automated business processes.

**Increased speed-to-market allows companies to achieve an immediate competitive advantage and realize new revenue opportunities.** Web-enabling existing EDI applications allows a company to quickly extend their existing infrastructure to non-EDI enabled trading partners

<sup>1</sup>Estimates from Mary Meeker, Morgan Stanley and Rik Drummond, The Drummond Group

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and exchanges. Out-of-the-box, industry-specific EDI-to-XML dictionaries, process models, and implementation guides bring you to market up to four times faster than solutions you have to map from scratch. This drastically reduces the time and cost associated with manual procurement and opens new channel opportunities.

**Lowered information exchange barriers enable complete value chain integration and reduced product development cycles.** By leveraging and extending existing electronic trading processes to the Web, companies can create a common business semantic to integrate all trading partners, streamline the communications process, and decrease production time regardless of technological limitations.

**Fluid information exchange among trading partners enables highly efficient demand forecasting and just-in-time (JIT) materials management.** Exposing the rich information assets contained within procurement documents enables a company to conduct analysis of purchasing patterns to achieve value chain efficiencies. By analyzing and deploying more efficient trading cycles, companies can reduce excessive inventory, eliminate the possibility of material expiration, and react quicker to ever-changing customer demands.

**Automated business processes result in higher production rates and reduced manufacturing expenses.** By automating business processes and workflow in real time, companies can reduce procurement costs while tightening product life cycles, increasing production rates, and widening profit margins. Automation provides for detailed knowledge of every transaction and a logical environment for managing exceptions.

## CONCLUSION

The deployment of existing systems to the Web has clear value to organizations interested in advancing the integration of their value chain members. Think about the number of suppliers that you rely on daily to provide the core components of the finished products you deliver to customers. If called on to positively impact the bottom line of your organization, would you be able to rapidly deploy systems that provide immediate results?

Leverage existing systems and remove manual interactions by interfacing with suppliers via the Web.

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