2013

BizTechReports

Editorial Director:
Lane F. Cooper

Industry Relations Director:
Carl J. Cooper

Senior Editor:
Susan J. Aluise

Managing Complexity in B2B eCommerce: Integrating and Optimizing Supply Chains to Support Strategic Objectives

According to a new study by the Stanford Global Supply Chain Management Forum, 96 percent of respondents plan to expand their B2B eCommerce programs

Managing Complexity in B2B eCommerce: Integrating and Optimizing Supply Chains to Support Strategic Objectives

By
Lane F. Cooper
Editorial Director
BizTechReports

Introduction:

In today's rapidly changing global business environment, the heat is on organizations of all sizes that manage supply or value chains to boost their competitive edge by optimizing processes and harnessing the power of B2B eCommerce. But despite the proven benefits of automated intercorporate integration, the cost and complexity of B2B eCommerce often has impeded businesses from realizing the full value of their supply chain initiatives.

To explore the challenges and opportunities associated with B2B eCommerce, 20 executives who are responsible for optimizing information supply chains and who represent a wide array of vertical industries came together in Palo Alto, Calif., on May 29, 2013, to discuss best practices for leveraging B2B eCommerce solutions effectively. This executive roundtable gathering was sponsored by ***GXS*,** a multinational business-to-business integration company and was moderated by independent reporting agency ***BizTechReports***. The event produced a lively and valuable exchange of ideas on this mission-critical topic.

B2B collaboration is on the rise, and deployment will continue to gain momentum as organizations become convinced of its potential value to their business operations. According to a new study by the Stanford Global Supply Chain Management Forum, 96 percent of respondents plan to expand their B2B eCommerce programs; they also expect to grow the number of customers, suppliers and business processes. More than half of the respondents using B2B eCommerce experienced cost savings of at least 40 percent in their order-processing costs.

But despite the clear benefits, many organizations continue to maintain manual, paper-intensive, inter-organizational business processes for a significant percentage of their trade and transaction volumes. To gain the full potential of B2B eCommerce, these organizations must find a way to lower the cost and complexity of deploying these solutions — an issue that executives on the front lines of addressing these challenges discussed in the recent forum. The forum aimed to provide thought leadership in four areas:

- Strategic imperatives;
- Operational implications;
- Financial justification; and
- Tips tactics and technologies.

Supply chain issues are big concerns for the C-suite and boards of directors. IT departments and line-of-business units are under increased pressure from senior management to ensure that it is not vulnerable to disruption…

Strategic Imperatives

From a strategic standpoint, our roundtable participants reported several key issues to consider in B2B eCommerce. CIOs must assess the complexity of their business and make sure that the IT strategy supports the correct business strategy.

- **Competitive Differentiation vs. Business Requirement.** Having a properly designed and optimized global supply chain can be a competitive advantage, but it is likely to play out differently depending on the industry and the size of the organization. For example, if smaller “spoke” organizations want to do business with large retailers or auto manufacturers, the eCommerce requirements of major “hubs” must be met. For the spokes, this means that multiple hub requirements must be satisfied, adding cost to their operations. However, if processes and systems aren’t up to the task and delivery deadlines are missed, short shipped or invoiced incorrectly, it can impede business with hub companies. In settings like these, a robust eCommerce capability is a competitive necessity.

- **Global risk perspective.** These days, supply chain issues are big concerns for the C-suite and boards of directors. IT departments and line-of-business units are under increased pressure from senior management to ensure that it is not vulnerable to disruption in the event of natural disasters, political upheavals or other unforeseen events.

  In recent years, events such as the tsunami in Japan or the floods in Thailand have caused senior executives to rethink their supply chains, particularly if they have a large number of single-sourced products or too many critical suppliers clustered in one geographic area. The new order of the day calls for examining how they can better insulate the organization from political and economic turmoil or natural disasters.

- **Transparency.** Another key strategic challenge explored by the roundtable is the issue of transparency within the supply chain. Large customers are now under the gun to look beyond their Tier 1 and Tier 2 suppliers into Tier 3 and beyond. For their suppliers, transparency on the customer-facing side is becoming a competitive necessity.

  But the practical definition of transparency needs to be determined and defined. It’s one of the biggest challenges businesses are going to face in the digital supply chain for this reason: While large customers will want total visibility into their suppliers’ systems, such transparency may not be in the interest of those suppliers. In today’s collaborative environment, businesses need to find a way to feel comfortable putting their own data into a neutral space. That creates a strong argument for a third-party network provider that can be a

Businesses increasingly will need to have flexible B2B eCommerce models, so as not to create bottlenecks. Data integration has to be flexible enough for businesses to tweak and tune as the supply chains change…

digital gatekeeper — sharing information that customers need while protecting proprietary supplier data.

In general, any sort of data sharing that provides a level of transparency into the supply chain will have to be done on an opt-in basis, but big buyers will demand it as part of their agreement. "Everybody's going to have to pick up their game," noted one participant. "You're not going to be able to hide behind opaque data."

Operational Implications

Operationally, there are a number of challenges that arise as companies grapple with a "just-in-time" environment in which you're ordering exactly what you need now, rather than stocking excessive inventory "just in case." Roundtable participants, however, noted that there can be an inherent conflict between the powerful efficiencies of such lean operations and the potentially greater risk of supply chain disruption.

- **Managing risk.** Industries such as automotive have sought to gain the best of both worlds by sourcing a lot of key components from suppliers with manufacturing sites located near their OEM plants. That minimizes the geographic risk of transporting parts. Although the entire supply network still would be disrupted in the event of a regional problem, at least the OEMs are not as vulnerable to transportation disruptions.

  Most manufacturers hedge against disruptions with "safety stock." But these days, inventory is not necessarily sitting in the customer's warehouse — the inventory might be sitting in a Tier 1 and Tier 2 supplier's facility so it can respond quickly to new orders and meet the service-level agreements (SLAs) that it has with the manufacturer. But that has the impact of pushing inventory carrying costs down the supply chain onto the supplier.

  In the retail world, new omnichannel merchandising strategies also contribute to this challenge. In some retail environments — particularly with Web giants such as Amazon — orders are taken on the site but the merchandise is actually fulfilled from the supplier.

  Because of the vast market integration that's taking place around these processes, businesses increasingly will need to have flexible B2B eCommerce models, so as not to create bottlenecks. Data integration has to be flexible enough for businesses to tweak and tune as the supply chains change. Businesses have to be dynamic and responsive to the needs of the market.

- **Regulations trigger "track and trace."** Another operational issue that is beginning to emerge revolves around "track and trace." New regulations in sectors such as the pharmaceutical industry increasingly require companies to provide a pedigree at the bottle or

It is critical to have the ability to blend external factors with supply chain metrics to derive real information and draw valuable conclusions about efficiency and efficacy…

vial level by 2015. Similar discussions are taking place in other consumer-oriented areas, such as food.

Due to the complexity and global spread of supply chains — businesses are no longer sourcing only in their geographic area. As a result, there are more opportunities for weak players in the supply chain to wreak havoc on operational processes or, even worse, on corporate reputations. That fact is further driving the need for transparency in the supply chain. It is prompting organizations to move beyond simply processing transactions, to developing tools and dashboards that allow data to be integrated and aggregated for granular analysis that enables accurate tracing of a product's origin.

To do so, the data must be organized and normalized in a way that allows various associations and conclusions to be drawn from that data. "If you've got order data sitting in 16 different formats in 10 different databases in six different ERP systems all over your company, it's very hard to do that," a panelist pointed out. "I think we need to kind of rationalize that to get it into a common repository."

Gaining access to external unstructured data such as weather reports, political analyses and insight into relevant local developments also is important for optimizing the performance of supply chains. It is critical to have the ability to blend external factors with supply chain metrics to derive real information and draw valuable conclusions about efficiency and efficacy.

Financial Justification

When it comes to financial justification for deploying collaborative B2B supply chain solutions, the forum highlighted some intriguing — and counterintuitive — truths, particularly with regard to metrics management in siloed environments.

- **Sacrifice plays in B2B eCommerce.** Sometimes for the "whole to win," elements of the existing process must lose. In other words, optimizing each individual process does not mean that the overall business model is running efficiently.

  A case in point: A large manufacturing company examined its processes surrounding the manufacture of a consumer product with a retail price of just 39 cents. However, the company had six or seven specialized plants that were optimized to produce specific components of the product — two of which were outside suppliers. The end-to-end manufacturing process took six weeks and the product traveled a total of 1,200 miles.

  The company decided to replace the specialty plants with a super-center that had multiple manufacturing capabilities in a single facility. The packaging vendor co-located its plant next door, enabling the

Resilience can manifest itself as the ability to recognize that the cost of labor in a location is rising, so that organizations can quickly shift production to another location…

manufacturer to cut the six-week process down to three days. Although the working interactions in that super-center weren't as efficient as they had been in the smaller specialty plants, that particular process efficiency was sacrificed for a better overall result.

Such issues come to light in particular with regard to cross-border sourcing — illustrating another reason to examine supply chains holistically. It is key to consider the total cost of the product produced, factoring in shipping, labor, regulatory and other costs.

- **Resilience and flexibility.** Another important element of financial justification and rationalization revolves around the ability to scale capabilities up and down to ensure flexibility and resilience. Resilience can manifest itself as the ability to recognize that the cost of labor in a location is rising, so that organizations can quickly shift production to another location. It also enables a company to quickly respond to dramatic business growth by opening more manufacturing sites or distribution centers, or acquiring a related business. CEOs are making key decisions like these every day, and they need their supply chain managers and IT departments to keep up with the speed of the business.

Tips, Techniques, Technologies

As supply chains become longer and more complicated, managers in every part of the organization increasingly need to have the right information if they are to grow the business. Leaders can no longer "manage by walking around" as the old line goes — there are simply too many places that are too far apart geographically. That makes business more dependent on good information and strong analysis tools.

- **Intelligent alignment.** Often referred to as "intelligent alignment" or "rightsourcing," this concept basically translates into the need to determine the internal strengths and weaknesses of each organization in order to find trading and technology partners that can do the rest.

  The rate and pace at which businesses are growing, consolidating, being bought and sold, expanded and merged has accelerated dramatically in recent years. That creates some critical management imperatives for organizations that want to play to win.

Managed services. The rate of disruption in global markets is accelerating. As a result, data integration strategies must support high levels of responsiveness and flexibility. This phenomenon is driving a growing number of IT organizations to consider managed services offering, because leading providers with expertise in this B2B eCommerce space can scale services up or down according to business demands. A provider with a strong track record also can help cope with the dynamic nature of B2B eCommerce by supporting your agenda of achieving intelligent alignment.

It is important to ensure that senior executives — and even boards of directors — have insight into the new realities of strategic global supply chain management...

Conclusion

As the importance of global supply chains grows, so do the complexities and risks. While technology tools and business processes are evolving to address each specific challenge that emerges, the roundtable participants stressed that the strategic vision and focus must keep pace with such changes. With so many moving parts in the global supply chain evolving, it is important to ensure that senior executives — and even boards of directors — have insight into the new realities of strategic global supply chain management and adjust the mix of critical resources (people, processes and technologies) accordingly.

About GXS

GXS is a leading B2B integration services provider and operates the world's largest integration cloud, GXS Trading Grid®. Our software and services help more than 550,000 businesses, including 22 of the top 25 supply chains, extend their partner networks, automate receiving processes, manage electronic payments and improve supply chain visibility. GXS Managed Services, our unique approach to improving B2B integration operations, combines GXS Trading Grid® with our process orchestration services and global team to manage a company's multi-enterprise processes. Based in Gaithersburg, Md., GXS has direct operations in 20 countries, employing more than 2,800 professionals. To learn more, see http://www.gxs.com, read our blog at http://www.gxsblogs.com, and follow us on Twitter at http://twitter.com/gxs. See more at: http://www.gxs.com/resources/media_center/pr/2013/06/research-finds-96-of-companies-to-increase-b2b-integration-initiatives-as-technology-provides-average-cost-savings-of-40-for-order-to-pay-processes.htm#sthash.ZvrcPWz2.dpuf

About BizTechReports

BizTechReports is an independent reporting agency with offices in the Washington, D.C., and Toronto, Canada, metropolitan areas. We analyze user trends in business technology. Our reports explore the role that technology products and services play in the overall economy and/or in specific vertical industries. It is the mission of BizTechReports to put enterprise technologies into a context that business decision-makers can understand and appreciate.