

## White Paper

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# THE PURSUIT OF THE PERFECT ORDER

## *Implementing a Multienterprise Business Process Platform*

### **Introduction**

No enterprise is an island. Goods and services flow in from suppliers, involve transportation carriers and are driven by the business of the enterprise. When you include suppliers of wares for raw material extractors, along with recyclers that turn consumer and commercial waste into new raw materials and finished goods, it is a supply chain with no beginning and no end — a renewable process dependant on successfully orchestrating business-to-business interactions.

Companies work hard to optimize internal efficiencies, but that does not ensure a successful and profitable business. Doing business is more complex than ever and increasingly, businesses, governments and not-for-profit organizations realize that a seamless and efficient supply chain is a critical factor towards their success. With these realities, how can you design, implement and deliver a supply chain that focuses on demand, supply and service to provide competitive differentiation in the marketplace.

Simply implementing data flow technology is not enough. The myriad of concerns around compliance, effective management of materials handling and general business agility require a business-oriented approach. Understanding the processes, decisions and exceptions that can impact your business should be the first area of focus before a single bit of data is exchanged outside your enterprise.

With regulatory compliance concerns and each spoke in the supply chain having its own set of rules for conducting business, not to mention disparate systems, basic data exchange now has layers of business process on top. Retailers are trying to meet demand while avoiding costly errors that affect their bottom line. Suppliers are striving to meet their SLAs and avoid penalties.

Defined as being on-time, complete, damage-free, and with correct documentation, the common paradigm of “the perfect order” is not tangible, but it is an archetype of flawless, optimally efficient, end-to-end interactions among supply chain partners. Those interactions are iterative and two-way: Buyers place orders with suppliers; suppliers send goods, bills-of-lading and invoices to customers; and buyers send back payments. A flaw at any stage results in imperfect order completion. A delay may result in a stock-out for the business and an interruption of cash flow for the supplier. As in any endeavor, perfection is an objective that can rarely be realized, but defining the model of the perfect order allows us to identify its parameters and challenges, measure and index the performance of key Perfect Order attributes, and work toward coming as close as possible to attaining the ultimate goal through increased visibility via business process automation.

## ***Table of Contents***

<b>Measuring the Perfect Order</b>	<b>03</b>
<b>The Opportunity: Achieving the Benefits of the Perfect Order</b>	<b>03</b>
<b>The Solution</b>	<b>05</b>
<b>The Benefits: Multienterprise Business Process Platform ROI</b>	<b>06</b>
<b>Next Steps</b>	<b>07</b>
<b>About Inovis</b>	<b>09</b>

## ***Measuring the Perfect Order***

In a 2005 article from Supply Chain Visions, Kate Vitasek determined that the total impact of an incorrect order is measured best when the entire process is calculated as an index. The Perfect Order Index (POI) is determined by multiplying the measurements of each component of the perfect order to one another.\*

**% On-Time x % Complete x %Damage-free x %Correct Documentation = POI**

The results are telling in that even when an organization is achieving 95% on each of the four components, their POI score is 81.4%. When organizations look at the measurements for each component separately, they often assume they are performing well, but by indexing, organizations gain a better understanding of the total impact on the supply chain.

Managing the day-to-day operations of your business community by applying the same holistic approach used to measure results is the logical and necessary process for achieving the perfect order.

## ***The Opportunity: Achieving the Benefits of the Perfect Order***

In this context, “order” means the full order lifecycle, encompassing a variety of supply chain interactions including the exchange of requests for quotations, quotes, purchase orders, shipping documents, invoices and payments, among others. An error anywhere along this continuum of business interactions leads to an imperfect order and significant costs to the companies involved. For example, a lack of supplies due to an inaccurate order can stop an assembly line. Depending on the nature of the imperfection, a flaw can negatively impact production, sales, cash flow, employee productivity and customer satisfaction. What if you could identify and remove these costly errors before they actually lead to an imperfect order?

Unlike the perfect order, this level of control is not out of reach. It is possible to improve the efficiency and accuracy of supply chain interactions by automating business processes and setting up rules that govern these processes between companies. If an item deviates from the rules, that item is removed from the process altogether and set aside as an exception to correct. This type of automation built on process-based rules specific to individual business relationships can significantly reduce costs and increase competitive advantage by enabling true visibility into supply chain errors as they happen and make sure those errors don’t hurt you.

From large enterprise players down to the mom-n-pop supplier doing business with them, the more people in the chain that have these capabilities, the closer you really get to the perfect order. Think back to when the telephone was first invented. What a great

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\* Kate Vitasek, “*The Perfect Order – A Customer-focused Measure*”, Supply Chain Visions, 2005

innovation! People could now communicate with each other across great distances. Think about the first person to buy a telephone. Who did he call? What good is having a phone if the people you need to communicate with don't have one too? Along those lines, businesses need a communication platform that allows all players to collaborate, regardless of their size or technology, in order to enable the possibility of achieving the perfect order.

Working toward improving the accuracy and efficiency of supply chain interactions, with the objective of consistently delivering perfect orders, affords several significant benefits as described below:

- According to data from AMR Research, it's estimated that, across all industries, 20% of all orders are in error. Industry research suggests that, beyond the human resource costs of resolving these issues, about 43% of the errors result in deductions or overpayments, with deductions accounting for nearly 10% of invoiced sales. **Improving the accuracy of orders** provides a sure way to reduce costs.
- Research shows that suppliers typically attribute 6% of selling, general and administrative expenses to the cost of resolving invoice issues. It typically costs in between \$40 to \$80 to resolve each individual issue, so just cutting the number of invoicing errors in half would reduce sales, general and administrative expenses by 3%. You can avoid those costs by **preventing invoice errors** in the first place.
- An imperfect order also may result in a company depleting its inventory of one or more items before the error can be corrected and the inventory replenished. Industry estimates suggest that lost sales due to stock-outs represent 3.5% of annual revenues for the typical company. There is, therefore, considerable room to boost top-line revenue by **avoiding stock-outs**.
- When companies adopt just-in-time manufacturing techniques they then depend on their suppliers to deliver parts and materials as needed. By keeping parts and materials inventories low, manufacturers reduce carrying costs, but that also means that a late shipment can stop a production line. As a result, many manufacturers now insist on service level agreements that impose penalties for late shipments. And it's not just manufacturers. Because of the threat of lost sales due to stock-outs, some retailers put similar clauses in their purchase agreements. **Eliminating the order lifecycle errors that delay shipments** is essential to avoid these costs.
- Problem-plagued orders and invoices can significantly impair customer satisfaction. Many companies formalize their **evaluation of supplier performance**, weighing on-time deliveries, accurate shipping and invoicing and, in general, trouble-free business interactions as criteria in this evaluation. Higher-ranked suppliers get more business. Lower-ranked vendors are cut from the suppliers list. What is the bottom line? According to an August 1, 2005 article in *CIO Magazine*, AMR Research reported that just a 3% improvement in perfect order fulfillment will increase profits by 1%.

## ***The Solution***

There are a number of supply chain software products and services on the market, but a single point solution will not enable the true supply chain collaboration required to achieve or come close to the perfect order. They may help you get a higher score on that one component of the POI, but it would take multiple point solutions to cover all the components and positively impact the POI score. In order to consistently deliver the perfect or near-perfect order, enterprises must implement an automated, multienterprise business process platform that provides real-time, actionable intelligence and allows for collaboration across all platforms.

### **Enabling Automation**

Because the elimination of human error is a key factor in achieving order perfection, companies need to drive automation throughout all customer, supplier and carrier processes. This level of process discipline and automation requires business-to-business capabilities throughout all of your value chain. Once an entire community is connected, a multienterprise business process platform allows you to map your exact trading partner requirements, such as compliance guides, routing guides and service level agreements to the system and then let it run unattended, alerting you when there is a discrepancy. Electronic transactions should be routed through a validation engine that evaluates the transaction, flagging errors and enabling drill-down to root-cause data.

### **Actionable Intelligence**

Things happen in daily operations that challenge your mission to increase your perfect order index. If only you had visibility and the ability to react to errors or circumstances before they create a problem. Knowing you have a problem requires the ability to effectively monitor all transactions and interactions between business partners.

A multienterprise business process platform provides the capability to monitor and react to errors regardless of the specific process that has been automated. So as supply chain community members interact through the platform, participants can gain more visibility into problems with shared business processes, such as deductions, compliance and logistics. By gaining visibility to supply chain problems as before and as they happen, rather than hours, days or weeks later, teams can avoid costly supply chain disruptions that create imperfect orders and that often have effects that are unknown.

### **Collaboration**

EDI, XML and general connectivity is not enough – you need a way to collaborate, interact and resolve issues in multienterprise processes. Critical to collaboration is the ability to understand who owns a particular action, how it can be addressed and how to improve a shared business process. To best accomplish this, human interactions and decision making provides the basis for remediation and improvement.

A workflow engine is necessary to track projects such as on-boarding new suppliers, partner performance and initiating tasks. When supply chain partners have visibility into the same data, they are able to collaborate on supply chain issues affecting the perfect order.

**Across All Platforms and Across all Boundaries**

Flexibility is a key component to a multienterprise business process platform. The solution must be able to support all of the standards and documents used by all of your current and future trading partners. The seamlessness of the components within the platform is crucial. If the components don't interoperate, the perfect order is endangered. For this reason, your solution should guarantee flexibility in the way that it is deployed and the environments in which it can be used.

***The Benefits: Multienterprise Business Process Platform ROI***

The question as to whether to implement a multienterprise business process platform should be evaluated no differently than any other investment decision. There are costs involved.

Fortunately, there are also benefits to offset those costs. However, the project should be undertaken only if those benefits are sufficient to provide an adequate return on your investment.

Some of the benefits are obvious and easily quantifiable. Others are not. Among the benefits are the following:

**Shorten Days Sales Outstanding**

It is a truism that a dollar today is worth more than a dollar tomorrow. The financial term for the average length of time that a vendor must wait to receive payment for a completed sale is Days Sales Outstanding (DSO). According to industry sources, on average, automated and collaborative supply chain solutions shorten DSO by about 13%, allowing companies to reduce the real or imputed interest charges required to finance receivables.

**Reduce Cash-to-Cash Cycle Times**

In a similar vein, improving inventory management can reduce the cash-to-cash cycle time (the length of time that a company must finance its inventories) by 37%. This is partly explained by the reduced DSO because that means that vendors are getting paid sooner, but some of the additional improvement in cash-to-cash cycle times comes from the enhanced visibility into customer demand afforded by a multienterprise business process platform. Being better able to predict demand allows companies to keep lower inventories on hand without risking stock-outs.

This is born out by the companies that lead the field in adopting multienterprise business process platforms. The literature suggests that they typically send an average of 47% of their purchase orders electronically and are able to carry 20% less raw materials inventory. By definition, buying raw materials closer to when the finished goods are sold reduces cash-to-cash cycle times.

## Reduce Errors

Automated, visibility-enabled supply chain collaboration leads to reduced errors, which speeds processing and ensures that the right products are sent to the buyer. This makes the buyer more likely to pay the invoice on time. Fewer errors also translate into lower scrap rates and lower shipping costs (due to fewer returns). This all has a positive impact on the bottom line.

## Improve Customer and Supplier Satisfaction

Eliminating errors, reducing supply chain costs and making the buying and selling processes more convenient all help to make for more satisfied buyers and suppliers. The reason for wanting to improve customer satisfaction is obvious, but why should you be concerned with supplier satisfaction? The supply chain is a partnership, not a master-servant relationship. In a competitive industry, you might, today, be more important to your suppliers than they are to you, but what happens when an unexpected and unavoidable disruption creates a serious industry-wide shortage of a critical component or when you need a supplier to go above and beyond the norm to meet an emergency requirement that catches you unaware? That's when you'll learn the benefits of being a preferred customer.

The benefits that you will derive from improved supply chain communication vary depending on your current environment the industry you are in and your existing business processes. However one thing is clear. Those benefits will be felt throughout the enterprise. Experience shows that, on average, businesses see a 19% reduction in overall supply chain costs, including manufacturing costs, after implementing such a solution. According to industry research, this typically has the same impact on profitability as a 5% increase in revenue.

## Next Steps

If you are interested in beginning the journey to more consistently perfect orders, the following are some steps you should consider:

- Evaluate your trading partner community. Who has similar capabilities and who does not? Figure out what it will take to enable automated collaboration with each partner.
- Look at your current supply chain processes and partners as well as your existing systems. Research what is driving exceptions and eroding your perfect order index. Analyze how an investment in a process-oriented, multienterprise platform can eliminate many of the inefficient manual processes that continue to create costly errors.
- There are a many solutions out there that can serve a role in supply chain communication. Your objective should be to find the one or ones that will provide the greatest value considering your needs, business processes and existing IT environment. Evaluate all of the available tools and deployment options. To maximize efficiencies in the supply chain by moving toward true, comprehensive trading partner collaboration, choose the tools that will allow you to bring as much of

your trading community as possible onto a multienterprise business process platform.

- Reflect on the current state of document standardization between yourself and your trading partners. Consider whether the standardization of communication protocols and data formats can help you to eliminate costly custom set-ups and provide a scalable model for future trading partner enablement.
- Examine the ways you currently communicate with your trading partners. When doing so, answer the following question: Does your current software streamline those interactions or does it impede them? If the answer is “impede” then it is likely time to consider a different approach. That having been said, streamlining is very important, but not sufficient. Accuracy also matters. Communication tools should not only transport information, but also validate it against business rules and flag errors.
- There are more shared business processes between business partners where errors can cause countless other problems – some visible and some not. Establishing a multienterprise business process platform gets you started, but there is more work to be done and more benefits to be gained.

If you are interested in learning more about advancing your capabilities and processes to get closer to the perfect order, or your organization is ready to take the next steps on that journey, Inovis can help.

## **About Inovis**

Inovis is a leading provider of on-demand Business Community Management solutions that empower companies to transact, collaborate and optimize communications with their entire trading community. By standardizing and automating mission-critical business interactions, companies can dramatically reduce the complexity and cost of supply chain communication. This foundation of high-quality, reliable and secure connectivity provides real-time visibility across the order-to-payment lifecycle. The resulting actionable intelligence enables users to proactively address supply chain issues before they impact profitability, shortening cycle times, improving productivity and increasing customer satisfaction.

With more than 20 years of expertise, Inovis delivers its products and services to more than 20,000 companies over a wide range of industries and markets across the globe.

Inovis was recently named a "Company on the Move" by Consumer Goods Technology, and was included in Supply & Demand Chain Executive's "2006 Supply & Demand Chain Executive 100," Inbound Logistics Magazine's "Top 100 Logistics IT Providers" and Apparel Magazine's annual "Software Scorecard." In 2006, IDC ranked Inovis #15 on its list of top Supplier Relationship Management Application Vendor table and #3 in the Worldwide Supplier Collaboration Application market. In addition, Inovis successfully completed the Statement on Auditing Standards (SAS) No. 70, Service Organizations, Type II compliance audit. Independent, third-party auditors awarded the company with an unqualified opinion, meaning there were no material instances of noncompliance.

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