

B2B Integration and Collaboration for Small to Mid-Size Enterprises

Aberdeen benchmarked the involvement of 62 Small to Mid-size Enterprises (SME) regarding B2B integration and collaboration initiatives with a specific emphasis on their trading partner recruitment, enablement, ongoing maintenance, and performance measurement related activities. Seventy-five percent (75%) of these respondents indicate that B2B integration and collaboration is a strategic initiative in their company. This Sector Insight will explore the specific challenges, actions and capabilities that SME organizations are investing in.

Business Challenges of SME

When asked about the key pressures they are facing with respect to B2B integration and collaboration, SME respondents identified the top three areas that are directly related to trading partner recruitment, enablement, on-going maintenance and performance measurement related activities (Figure 1):

- **Escalating customer service demand (48%).** Due to decreasing product lifecycles and proliferation of SKUs, the challenges being faced by retailers, distributors, and other elements of the demand network have increased. This challenge is even greater for the SME enterprise due to lack of adequate resources. This has, in turn, resulted in the demand network wanting improved customer service in all respects (e.g., lead-times, pricing, product innovation, and sustainability).
- **Increased complexity of global business network (30%).** Due to the expansion of the supply chain on both the buy side and the sell side, complexity has risen dramatically and supply chain visibility has become a critical factor. One of the building blocks of establishing visibility across the entire demand-supply network is the ability to establish a flow of information at the interface points – namely between trading partners. From a SME enterprise, again the lack of adequate resources to establish a truly global infrastructure impedes their ability to manage the global business network.
- **Increased supply chain risk exposure (30%).** An extension of the lack of visibility at the interface between an enterprise and their trading partners is the increased risk that is placed on all the parties. When unforeseen events occur, the interface points are where disruptions occur with the least ability to control the impact. In such a situation, establishing the seamless flow of information

Sector Insight

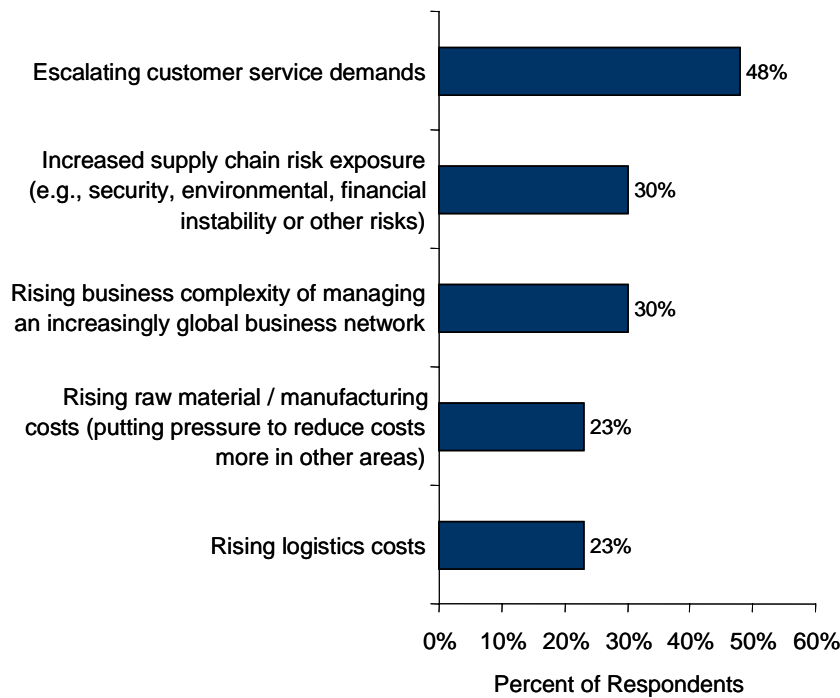
Aberdeen's Sector Insights provide strategic perspective and analysis of primary research results by industry, market segment, or geography

Sector Definition

- √ Small to Mid-size Enterprises - companies with revenues less than \$1 Billion USD
- √ The sample includes 62 survey participants

between trading partners is critical. SME enterprises exhibit the same risks that larger enterprises face.

Figure 1: Top Pressures Faced by SME Enterprises



Source: Aberdeen Group, October 2010

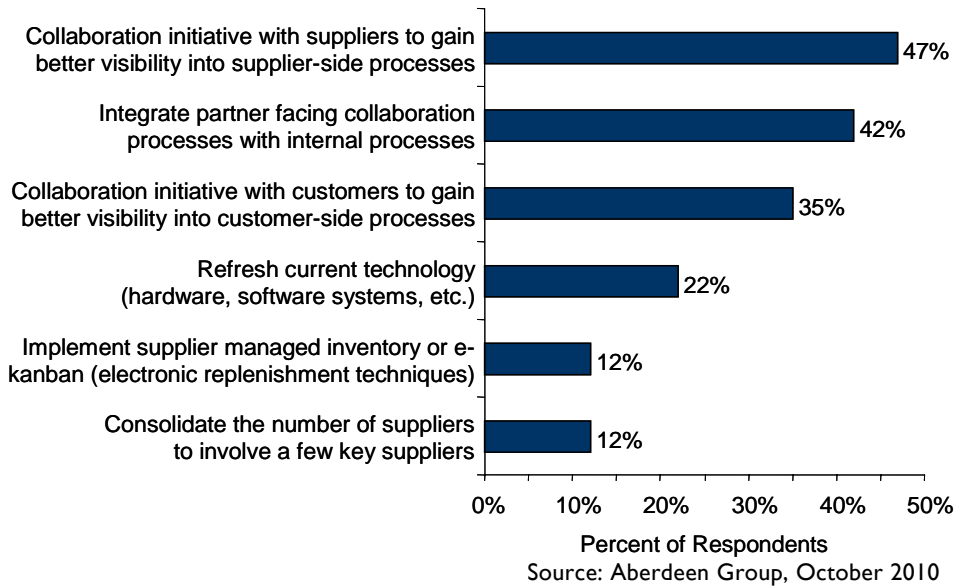
“In an environment with historically stable demand and a smaller number of key suppliers compared to other industries, it has been difficult to get the buy-in from supply chain stakeholders to deepen supply chain integration. Therefore, articulating the Return on Investment (ROI) on supply chain systems that enable supply chain integration has been a challenge. However, today we recognize that as a company with distributed operations, we need to constantly re-evaluate the requirements of our multi-enterprise supply chains and continue to develop and improve our supply chain processes, enabling us to deliver more value through the supply chain organization. This means moving towards a more integrated supply chain – both upstream and downstream.”

~ Eamonn O'Brien, Vice-President, Operations, Europe, Sunrise Medical Limited

Strategic Actions Being Taken by SMEs

Figure 2 indicates the top actions being taken by SMEs in response to the above pressures. Increased collaboration with suppliers and the integration of partner facing processes with internal business processes are the top two areas of focus for SMEs. It is surprising to note that the increased collaboration with customers is not in the top two. Given the majority of SME survey respondents (60%) are at least two levels removed from the end customer, it may be expected that the need for customer collaboration will be the top most action. The reason why this may be the case is that SMEs do not have a lot of control over customer collaboration initiatives. They are more likely to have the ability to influence suppliers.

Figure 2: Strategic Actions Taken by SMEs



What can SMEs Learn from the Best-in-Class?

SMEs should look at the areas where Best-in-Class companies (defined in the call box at right) have increased process capability. In Figure 3, for instance, Best-in-Class companies have increased levels of trading partner enablement, line of business support, etc.

Best-in-Class companies have a higher percentage of their trading partners utilizing electronic methods of communication. For example, 70% of Best-in-Class companies receive sales orders (from customer to manufacturer) electronically from greater than 50% of their customer base. Similarly, 60% of Best-in-Class companies have the purchase orders (POs) transmitted electronically to greater than 50% of their supplier base.

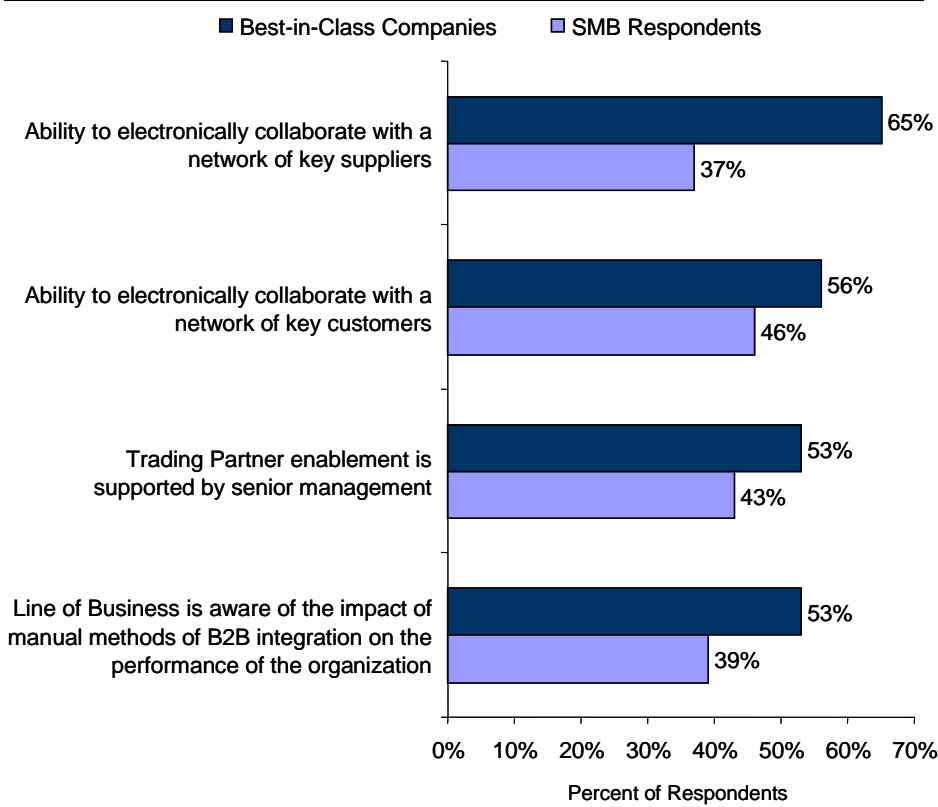
Best-in-Class companies are 1.5-times more likely than all other companies (including the Industry Average and Laggard companies combined) to have senior management support their B2B integration and collaboration initiatives. However, 53% of overall respondents do not have top level management support and 70% of overall respondents do not have good alignment between the line of business and IT teams with respect to B2B integration and collaboration.

This is a critical point to consider since the top two challenges to B2B integration and collaboration raised by line of business deal with the lack of commitment from both top management and IT towards this process.

Best-in-Class Definition

- ✓ 97% of orders delivered to customers complete and on-time
- ✓ 95% of orders received from suppliers complete and on-time
- ✓ Average cash conversion cycle - 43 days

Figure 3: Process and Organization Capabilities of the Best-in-Class Compared with SMEs



Source: Aberdeen Group, October 2010

Companies have four options when deciding to implement a B2B integration solution:

1. Build in-house
2. License and deploy on-premise software and manage process internally
3. License and deploy on-premise software and allow a solution provider to manage the process (managed services)
4. Implement a SaaS solution and allow the solution provider to manage the process (managed services)*

*Only about 20% of respondents have indicated a high interest in pursuing this option

Improvements in cloud computing related technologies are driving the Total Cost of Ownership (TCO) for solution providers significantly lower. In the following case studies, we will see two examples of large enterprises bringing its SME trading partners into B2B through the use of a SaaS based solution.

Case in Point: Applied Micro Adopts Outsourced B2B Integration for Buy Side and Sell Side Processes

AppliedMicro is a provider of energy efficient computing and communications solutions for datacenter, telecom, enterprise and consumer applications. They are a fabless semiconductor company with a revenue of about \$300 M. AppliedMicro's corporate headquarters are located in Sunnyvale, California. Their key focus is on powering cloud computing applications.

Their products are shipped worldwide directly to OEM's and CM's and via distributors. On the supply side, they work with a variety of foundries and test and assembly subcontractors around the world to manufacture their products.

AppliedMicro faced B2B challenges on both the buy side as well as the sell side. On the supply side they face challenges of dealing with a large number of suppliers, and with most of them, there was not enough critical mass to set up traditional B2B connections. There was also significant volatility in terms of changes in the business. On the sell side, the product lifecycles were short and required a strong integration with the customers to identify customer trends and demand.

In addition, AppliedMicro wanted to reduce the cost and realized that the existing EDI VAN gateway would not yield enough coverage for the changing requirements. Their small IT staff would not be able to manage the multiple standards and the required connections cost effectively. In fact they had to adhere to multiple data formats such as RosettaNet, EDIFACT, dXML and protocols like AS2 that would have required a bigger investment and support structure.

AppliedMicro adopted a two pronged approach to solve these challenges. On the supply side, they went with a "Supply Side Order Management and AP Automation" outsourcing solution. The outsourced AP automation solution resulted in the ability for smaller suppliers to simply email the invoice, ASN and other documents to the intermediary who then through OCR technology scanned the documents for further processing.

This solution approach does not require any upfront setup, thus making it very cost efficient while reducing processing error rates and increasing throughput. All supplier documents can be stored paperless – in one document repository – no matter how they arrived at the company.

On the customer/distributor side, there is a lot more stability with economies of scale to implement end-to-end processes for sales order management and channel inventory management. The company went with a Trading Community Integration platform that provided a real-time front end to AppliedMicro. They also outsourced their integration process to this platform provider. This allowed AppliedMicro IT professionals to focus on the maintenance of their ERP system and interface with just one data format with their B2B provider. The platform provider also handled the supplier on-boarding and management.

The benefits gained include:

- This outsourced solution allowed the IT staff to focus more on R&D and strategic initiatives
- The transaction costs for both suppliers and customers were lower
- Supplier and customer relationships were improved

This solution leveled the playing field for AppliedMicro and allowed them to compete with larger competitors.

Case in Point: Electrolux Enables Demand Network Integration through an Innovative and Cost-Effective SaaS Solution

Electrolux Home Products Pty. Ltd. is the white goods manufacturer and supplier in Australia for Electrolux. They carry over 148,000 line items of spare parts and these are sold to 43 distributors across Australia. They have a large number of distributors that are involved in bringing the spare parts to various end users and B2B organizations.

Electrolux had a situation where the automation with large distributors was incorporated but B2B buying with smaller distributors was not automated. They had to rely on manual processes like phone, fax, and email to pass information back and forth (including order information). These manual processes resulted in an increased number of returns, increased product price, lack of availability of information for phone inquiries, etc. Another challenge that Electrolux faced was that too many manual steps were required to integrate its dealer and distributor network into its supply chain, leading to inefficiencies and increased costs.

In order to resolve these challenges, Electrolux committed to piloting and installing a SaaS solution called Netfira. In 2006 Electrolux concluded that Netfira would significantly reduce the amount of product price and availability phone enquiries, and ordering via phone, fax and email.

The following is the workflow that Electrolux enabled: The distributor signs up to the SaaS based service and downloads the seller-side product and installs it. This webservice is used to integrate to the distributor's back office systems. Then the distributor can start making purchases through the system. On the Electrolux side, authorization set up can be done to ensure that the buyers can only access the information authorized for them. This approach of connectivity of buyers and sellers is similar to how a social networking solution is used.

Electrolux was able to reduce transaction processing costs while delivering increased functionality to their distributors. They were able to have a 20% reduction in product returns. They were able to improve the visibility of inventory resulting in better planning and forecasting. Another significant advantage for Electrolux was the ability to implement the solution within three days. This ensured that distributors were able to onboard into the solution quickly and continue using it.

Required Actions

- **Create a collaborative network with key customers.** Thirty-seven percent (37%) of SMEs indicate having the ability to collaborate with a network of key customers versus 56% of Best-in-Class companies. Companies should segment their customer base according to revenue and identify the top customers with whom to set up a trading community network. Key process areas should be identified such as order management collaboration, inventory management collaboration, and forecast collaboration. Once identified, these collaborative processes should be implemented.
- **Create a collaborative network with key suppliers.** Forty-six percent (46%) of SMEs indicate having the ability to collaborate with a network of key suppliers versus 65% of Best-in-Class companies. The supplier base should be segmented based on criterion such as spend volumes and the key suppliers identified. Procurement and inbound logistics are examples of areas where collaborative processes can be implemented on the supplier side.
- **Create the ability to measure supplier performance over a period of time.** Eleven percent (11%) of SMEs indicate having the ability to measure supplier performance over a period of time versus 65% of Best-in-Class companies. “We are currently developing an enhanced measurement system for our suppliers, based on fill rates and on time delivery metrics. As a manufacturer, we get measured on this by our own end customers, so we want to hold our suppliers accountable for the same goals,” says a director at a US-based manufacturer of consumer durable goods. This manufacturer sets a good example to follow.

B2B integration and collaboration for SME enterprises is now a reality through the evolution of SaaS based solutions that reduce overall costs as demonstrated by the case study. The ROI for focusing on B2B integration is also clear due to the improved performance by the Best-in-Class companies. The conclusion of this research document is that SME organizations should seriously consider implementing a B2B initiative.

For more information on this or other research topics, please visit www.aberdeen.com.

Related Research

[Supply Chain Intelligence: Adopt Role-Based Operational Business Intelligence and Improve Visibility](#); Feb 2010
[B2B Integration and Collaboration: Trading Community Enablement for the Multi-Enterprise Supply Chain](#); March 2010

[Integrated Demand-Supply Networks: Five Steps to Gaining Visibility and Control](#); March 2009
[Multi-enterprise Manufacturing: The Role of Visibility and Collaboration in Driving Responsiveness](#); July 2009

Author: Nari Viswanathan, VP/ Principal Analyst, Supply Chain Management (Nari.Viswanathan@aberdeen.com)

Since 1988, Aberdeen's research has been helping corporations worldwide become Best-in-Class. Having benchmarked the performance of more than 644,000 companies, Aberdeen is uniquely positioned to provide organizations with the facts that matter — the facts that enable companies to get ahead and drive results. That's why our research is relied on by more than 2.2 million readers in over 40 countries, 90% of the Fortune 1,000, and 93% of the Technology 500.

As a Harte-Hanks Company, Aberdeen plays a key role of putting content in context for the global direct and targeted marketing company. Aberdeen's analytical and independent view of the "customer optimization" process of Harte-Hanks (Information – Opportunity – Insight – Engagement – Interaction) extends the client value and accentuates the strategic role Harte-Hanks brings to the market. For additional information, visit Aberdeen <http://www.aberdeen.com> or call (617) 723-7890, or to learn more about Harte-Hanks, call (800) 456-9748 or go to <http://www.harte-hanks.com>

This document is the result of primary research performed by Aberdeen Group. Aberdeen Group's methodologies provide for objective fact-based research and represent the best analysis available at the time of publication. Unless otherwise noted, the entire contents of this publication are copyrighted by Aberdeen Group, Inc. and may not be reproduced, distributed, archived, or transmitted in any form or by any means without prior written consent by Aberdeen Group, Inc. 010110a