

May 31, 2005

A Valuable IDEA

Facilitating eBusiness in the Electrical Channel

IDEA contracted with independent consultants to determine the value of the business benefits which can be realized from services provided by IDEA to the industry. This is a summary of these findings. The complete white paper may be downloaded from the IDEA website at www.idea-esolutions.com under resources.

IDEA provides the Electrical Industry with:

Network Benefits which expand exponentially with each new customer and each new eBusiness document used.

Transaction Productivity which is realized from efficient flow of electronic orders, invoices and SPA claims for both manufacturers and distributors. The combined effects of using EDI and correct, synchronized product data drive productivity gains.

Distributor Gross Margin Enhancement from using synchronized product and pricing data.

Low Cost, Highly Reliable Business Communications Service for transacting eBusiness documents between distributor and manufacturer trading partners.

The Greatest Value to the Industry is Creation of Network Benefits

The greatest value of IDEA is in the creation of network benefits to electrical industry trading partners and the members of the National Association of Electrical Distributors (NAED) and the National Electrical Manufacturers Association (NEMA). Industry Trading Partners reap network benefits because each time one new trading partner is added to the IDX network (see sidebar for explanation of the IDX) the benefits are multiplied through all others with which they exchange business documents electronically. Network benefits are also realized when a trading partner begins using an additional electronic (EDI) document. Each company that does business electronically with that trading partner reaps the productivity benefits by avoiding manual labor to process transactions.

IDEA provides a common language of eBusiness and a medium for transmission of electronic business documents. These objectives are primarily accomplished with a common industry product database: Industry Data Warehouse (IDW), standardization of electronic document formats, and a low cost network for the exchange of eBusiness documents; Industry Data Exchange (IDX).

Measurable Economic Benefits

From manufacturer and distributor interviews, it can be concluded that business benefits from using IDEA services are derived in three major areas.

For Distributors: The combined impact in these three areas can generate benefits of 0.5% to 2.0% of additional profit as a percentage of sales for distributors, depending on their current state of transaction automation and the accuracy of their product and pricing data.

What is IDEA?

IDEA, Industry Data Exchange Association, helps the electrical industry's trading partners communicate with a common language of eBusiness and transmit electronic business documents at a low cost. Since they no longer serve as an industry association, they go simply by "IDEA" these days—a fitting name for a company dedicated to innovation in eCommerce.

To facilitate eBusiness in the electrical channel, IDEA offers a suite of services for electronic trading partners:

- ▶ **Industry Data Warehouse (IDW):**
Manufacturers and distributors can both use the same information so transactions between them will match; business flows without errors and margins stay intact.
- ▶ **Data Audit Certification (DAC)**
Ensures manufacturer product data submitted to the IDW is complete, correct and conforms to industry standards.
- ▶ **Industry Standards**
IDEA is the official standards-creating body for the electrical industry. Their standards are used for the transmission of electronic transaction documents and other business communications.
- ▶ **Industry Data Exchange (IDX):**
Low Cost, reliable VAN Services. IDX connects channel trading partners and facilitates sending and receiving electronic business documents. Using the Internet as the communications backbone keeps VAN charges low for IDX users.

Executive Summary: A Valuable IDEA

IDEA Improves Business Results

Efficient Transaction Flow

Synchronization of product data and use of EDI increases speed and reduces transaction errors so labor to process and correct transactions is dramatically reduced.

Transactions primarily affected are:

- ▲ Orders
- ▲ Invoices
- ▲ SPA claims

Distributor Gross Margin Enhancement

Using EDI and synchronizing data with certified manufacturer data sources will ensure correct, up to date distributor costs and resale price data, which ensures correct customers pricing, expected gross margins and correct SPA claims.

Extraordinary Distributor Productivity

One of the case study participants detailed in the complete version of this paper (www.idea-esolutions.com), Distributor "A" reduced headcount in SPA price administration, AP Claims and Accounts Payable by 73%, while growing their business more than 40% over the period in question. This was primarily due to eBusiness process automation and synchronizing product data.

That saved over \$2.8 million dollars in associated labor costs, representing about one half of one percent of sales (extra profit as a percent of sales).

They also slashed their EDI VAN charges by over 75% by converting to the IDX, reducing charges from over \$30,000 per month to less than \$10,000 per month. After conversion, it was observed that sixty percent of characters transmitted were for downloaded IDW data, which is free of charge to IDX customers.

Manufacturers can expect a profit impact of 0.25% of sales or more. This could be much greater for manufacturers, which do not currently receive EDI or web-based orders and/or do not automate Invoicing and special price authorization (SPA) claims processing.

The three areas where profits are greatly enhanced:

- 1. Transaction productivity** from efficient flow of orders, invoices and SPA claims for both distributors and manufacturers. Productivity gains come from correct, synchronized data and use of a broad range of EDI documents beyond just EDI 850 orders.
- 2. Distributor margin enhancement** from synchronized, up to date cost and pricing data.
- 3. Low cost, highly reliable** medium for transmission of eBusiness documents for both distributors and manufacturers.

The following describes the benefits in detail:

1. Productivity from efficient flow of orders, invoices and SPA claims

a. Efficient, error free and timely flow of orders

Trading partners that synchronize their product data with IDW can ensure that line items on distributor orders to manufacturers will match, reducing labor and staff levels required by both manufacturers and distributors to resolve unrecognized product ordering codes, expected prices and allowable order quantities. This has the effect of reducing purchasing staff for distributors and customer service personnel for manufacturers.

b. Efficient, error free and timely flow of invoices

Similar to "a" above, synchronizing product data ensures that line items on a manufacturer to distributor invoice will be recognized by the distributor's business system. This allows an automatic three way matching of invoices to orders and receiving documents to automatically pay invoices matching within a percentage difference on the invoice total, all without requiring human intervention. This has the effect of reducing accounts payable personnel for distributors and accounts receivable personnel and invoicing costs for manufacturers. Distributors that automate in this fashion can reduce accounts payable personnel up to 75%, depending on the size of the total organization. Automation requires proper use of the business system and correct, synchronized product and price data.

c. Efficient, error free and timely flow of SPA claims

If manufacturers use EDI 845 "price notification" documents, distributors can load these directly into their business systems. Once loaded correctly, this ensures that more EDI 844 document "claims" will be correct. If manufacturers use EDI 849 document "credits", the claim to credit process can be whittled down to days, possibly to overnight performance speed when claims are correct and business systems are linked through IDX. This has the effect of reducing distributor SPA claims personnel and manufacturer claims processing personnel.

Executive Summary: A Valuable IDEA

What is Product Data Synchronization All About?

Think of synchronized swimming. Each performer makes the same moves with the same instructions (data). If the swimmers don't get the same instructions, they can't "synchronize", or do the same thing at the same time. Errors will increase, and they will get poor scores.

IDW receives data loads directly from the manufacturer source, which uses that same data for transactions with the distributor: for receiving orders, sending invoices and processing SPA claims.

This causes transaction data sent by a trading partner to match what the other expects so eBusiness transactions flow without requiring human intervention to resolve unmatched items, increasing the speed and accuracy of eBusiness.

If you want to reduce transaction errors to increase productivity, start with correct, synchronized product and pricing data, which is free of charge to IDX customers.

2. Distributor Gross Profit Margin Enhancement

In order for a distributor to price customers correctly and generate expected and adequate margins for specific product SKUs, cost and resale prices must match manufacturer data. If data from third party sources is not up to date, costs and resale prices may not be adequate for the distributor to price correctly relative to the invoiced cost. For example, if a distributor buys an item invoiced from the manufacturer at \$1.00, but had an out of date price of \$0.97 in their business system, and used markup based pricing of 25% for a customer, they would invoice the customer at \$1.2125 per unit instead of \$1.25, losing 2.5 points of gross margin in the process without realizing it. Synchronizing data means you will earn the margins that you expect.

3. Low Cost Highly Reliable eBusiness Document Exchange

IDX can save anywhere from 30% to 90% on Value Added Network (VAN) charges due to its low cost, Internet based structure. In addition, IDEA does not charge for IDW character volume sent or received to or from the IDW.

The rate structure varies based on monthly kilochracter (1,000 characters) volume. The rate structure of three to seven cents per thousand characters transmitted is significantly lower than the 12 to 54 cents that which most electrical trading partners were paying prior to converting to IDX. Additionally, IDW manufacturer and distributor customers can synchronize product data free of communications charges. Generally, EDI document 832, which is used to transmit product data, generates over half the traffic volume through IDX.

Adding to the savings potential, IDX does not charge for extras such as mailbox fees and interconnect fees, which connect to other networks external to the primary VAN. These "extra fees" can increase bills by 15 to 50 percent depending on the quantity of characters sent and received monthly. IDX's reliability and service are unmatched in the market. Since its inception in April 2002 IDX has experienced 100% reliability. IDX's ability to communicate with VANs and other similarly situated exchanges allows IDX to route and deliver business documents to virtually any trading partner worldwide.

The Case for One Industry Product Database

One of the cornerstones of eBusiness is the requirement for a common product language and database. The story of the "Tower of Babel" illustrates how the God of the Israelites caused different peoples to speak different languages so they could not communicate well enough to build an ill-advised tower to heaven. In a channel of distribution, the effects of the "tower" on trading partners can be reversed by facilitating a single business product language through the use of a common product database and standardized electronic data interchange (EDI) transaction formats.

Unfortunately, using more than one source of data in the industry perpetuates the Tower of Babel by making trading partners vulnerable to using different product codes, different costs, and possibly inadequate suggested resale prices. Conversely, if trading partners "draw from the same well", Industry Data Warehouse (IDW), this vulnerability diminishes greatly.

Executive Summary: A Valuable IDEA

To reach maximum effectiveness, data must be regularly supplied by the manufacturer source, with no third party interventions or interpretations. There must be only one provider of source data. The source provider must update the product database each time any product record changes in any way, or when products are added or deleted. Equally as important, each manufacturer must provide the same data that is used in the market place. Manufacturer sales and marketing or product manager personnel must be internally synchronized before distributing business data to their trading partners through IDW. Finally, distributors must “synchronize” with the source of the data at least as frequently as any changes are made in the IDW database to eliminate the chance for errors due to out of date or missing information.

Synchronizing entails (1) changing any data in the distributor product database to match corresponding products from the manufacturer source, (2) adding any new items and (3) marking obsolete items while pointing these obsolete item records to the new replacement item records in order to efficiently track of product sales history.

Additional Profits for Trading Partners

For distributors, IDEA services “can generate benefits of .5% to 2% of additional profit as a percentage of sales”

“Manufacturers can expect a profit impact of .25% or more of total sales.”

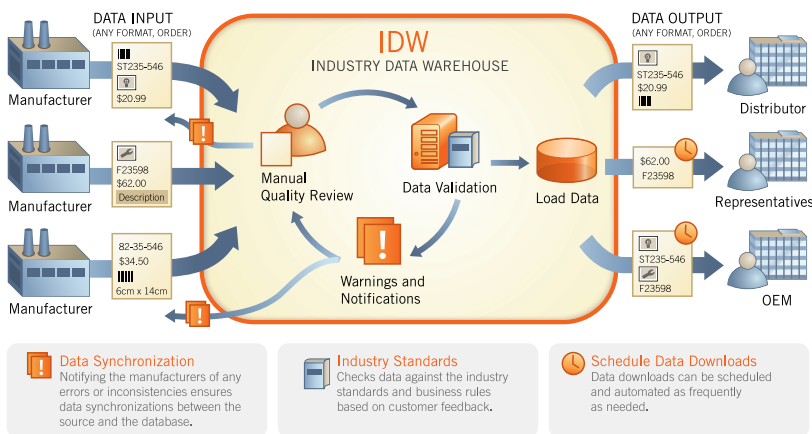


Illustration: IDW features a process that supports error-free data. Manufacturers input data from any file type, the data is verified and checked until it meets standards, and then the standardized data is delivered to authorized trading partners in the file format they prefer. One source of data ensures transaction data matches between trading partners and expected gross profit percentage is realized.

This summary was prepared for IDEA by Neil Gillespie, a principal of Channel Marketing Group, Pittsburgh, PA and Allen Ray, Principal of Allen Ray Associates, Arlington, TX.