

Electronic Data Interchange F A Q

What is EDI?

Why does your business need EDI?

How does EDI work?

Does your business need a VAN connection?

Date: 01/05/2010

Introduction

In this paper Flow Software provides useful information to assist your understanding of Electronic Data Interchange (EDI). We provide a clear definition of EDI, some useful examples, and considerations that will help answer the question of how EDI will benefit your business.

What is EDI?

EDI is the structured exchange of business documents and information automatically, through an electronic mechanism, between different organisations and their computer systems. EDI evolved from the need to transfer and transform data between organisations, combined with then newly available electronic communication methods to make this process happen.

The type of transactions that can be exchanged between organisations is limitless. However, the most common EDI application is transfer of information such as purchase orders, invoices, advanced shipping notices, and remittance advices between organisations.

Why does your business need EDI?

Organisations that introduce EDI very quickly discover many benefits to EDI implementation. While initially EDI users notice savings in time and effort, the ongoing positive impact on the bottom dollar is often the most noticeable result.

EDI benefits your business:

- ✔ Save time, money and effort
- ✔ Improve accuracy
- ✔ Increase staff productivity
- ✔ Improve turnaround of business transactions
- ✔ Reduce business consumable costs
- ✔ Improve business relations with trading partners

EDI can save significant amounts of money by replacing information flows that previously required significant human interaction, and consumables such as printed documents, order forms, and faxes.

EDI improves accuracy on data such as shipping and billing numbers, by eliminating the need to re-key documents on the destination side. The alternative to EDI is manual processing of data from printed or electronic documents. If the data volumes are large the likelihood of human error is increased. Even small re-keying errors within item code numbers could mean a costly impact to a business.

EDI allows a company to take advantage of the benefits of storing and manipulating data electronically without the cost of manual entry. In situations such as shipping manifests, even when paper documents are maintained in parallel with EDI exchange; electronic exchange and use of exchanged data reduces the handling costs of sorting, distributing, organising and searching paper documents.

The capacity to work with major trading partners through EDI can have a benefit to your business success. Large retailers such as Coles or Woolworths, require their suppliers to implement EDI and conform to specific standards and protocols.

How does EDI work?

There are three essential parts to any EDI set-up to enable its successful functioning. At either end there needs to be a willing party, with electronic business systems that can have connections made to send and/or receive data. Between the parties there is electronic communication transport and a chosen transformation data method.

A series of standards have evolved to ensure consistency in the methods of EDI document processing and transmission. Two sets of standards that were initially developed in the 1980's are still used today. The standards prescribe the formats, character sets, and data elements used in the exchange of business documents and forms.

UN/EDIFACT: This is the only international standard and is predominant outside of North America. EDIFACT was developed under the United Nations Centre for Trade Facilitation and Electronic Business, and was adopted by the International Organization for Standardization, as ISO standard ISO 9735.

ANSI ASC X12: The American National Standards Institute has developed more than 315 EDI standards, and a growing collection of XML schemas. This standard is predominant in North America.

Does my business need a VAN?

There are two ways that EDI transmissions can be facilitated; via a Value Added Network (VAN), or via an Internet protocol.

In the past a popular transport method was to use of point-to-point modems to communicate via a VAN. A VAN is provided by an organization that connects the supplier and purchaser, acting as a clearing house. The VAN receives transactions, examines the 'from' and the 'to' information,

and routes the transaction to the final recipient, with options such as audits, reports and transformation. VAN users usually incur significant transactional fees due to high set-up and maintenance costs of a VAN infrastructure.

The development of the Internet has provided an efficient alternative to VANs. Availability of secure transport protocols made it possible to transmit EDI documents simply and securely. Using protocols such as File Transfer Protocol Secure (FTPS), Hyper Text Transport Protocol Secure (HTTPS), and Applicability Statement 2 (AS2) over HTTP to transmit EDI documents reduces costs, increases efficiency, and has advantages in terms of redundancy and scalability.

The power of the Internet for EDI users is that it alleviates the need for individual organizations to build their own costly EDI infrastructure without compromise in security. However, due to historical choices of some larger enterprises to invest in EDI infrastructure using a VAN, this method remains popular.

Making a Decision: Is EDI right for you?

Prior to adoption of EDI in your business you should confirm that at least one of the following conditions applies:

- ✔ Your business handles a significant number of transactions that currently rely on a manual handling aspect.
- ✔ A trading partner is requesting, or demanding that your business utilize EDI in your transactions with them.
- ✔ You are ready to make the investment in EDI to reduce your operational overheads and improve accuracy.

If you have identified with any of these conditions, its time to take the next step and harness the advantages of EDI.

Flow Software's main objective is to provide leading edge integration software that gives our customers a competitive advantage, by enabling faster, smarter business results. Flow is an innovative New Zealand software company that specialises in designing, developing, and supporting middleware integration and EDI technologies. Operating from offices in Auckland and Sydney, Flow is utilized to undertake EDI with dozens of national traders and integrates seamlessly with all the popular accounting packages.

This information forms an advisory document for Flow Software and is accurate at the date of writing. No warranty or guarantee is implied. No assumption of risk is accepted. Please seek advice from with your Flow consultant to clarify any conditions or features for your specific requirements. Flow terms and conditions apply.

Published 2010

Commercial in Confidence