

The Standards Deviation

Standards enjoy a unique challenge in private industry sectors, because they require competitors to agree upon consistent approaches to technology implementations and business processes. How can a company obtain differentiation in a competitive marketplace if all the players within an industry are using the same processes and technology? Standards evangelists offer an answer to the dilemma. These pundits proclaim that industry leaders should delineate business processes between those which do and do not provide competitive advantage. Those which are non-differentiating functions should be standardized across companies for the sake of optimizing efficiency in the marketplace. Conversely, for functions that do provide competitive advantage standards should not be as strictly enforced.

The argument is logical. However, there is critical flaw in the theory. In most cases, there is not consistent agreement on what functions or technologies are the sources of competitive advantage. What one company considers a commoditized, low-value function might provide another with an opportunity for innovation and advantage. Most would agree that functions such as product design, customer service and marketing/merchandising can provide differentiation. What about back office processes such as order fulfillment, transportation management and accounts payable? Most would argue that these “behind-the-scenes” functions offer little opportunity for differentiation. However, real world analysis suggests that there are many different competing models for each business process. Some companies use a buyer-PO driven approach to traditional order management while others use Vendor Managed Inventory (VMI). There are numerous permutations of shipment and logistics models gaining increasing adoption. Examples include drop-shipping, cross-docking and floor-ready merchandise. Even accounts payable organizations are defining more innovative approaches to business processes such as evaluated receipts settlement and supply chain finance.

What about technologies such as B2B e-commerce which enable the sharing of data between different business partners? Most would argue that it is the information that is of

value, not the approach to sharing it. However, real world analysis suggests that there is an increasing tendency to deviate from standards for sharing information in the supply chain. In fact, there are over 100 different B2B e-commerce standards being used in the information supply chain around the world. A multitude of XML standards now exist, which model every conceivable buyer-to-supplier transaction imaginable. Examples include RosettaNet, OAG, Tradacoms, EAIJ, Odette, CIDX, PIDX and SPEC2000. New frameworks for sharing XML with rich choreographies and comprehensive data models have been developed in the form of Global Data Synchronization Network (GDSN); Collaborative Planning, Forecasting and Replenishment (CPFR) and RosettaNet Partner Interface Processes (PIPs).

Someone once said, “The great thing about standards is that there are so many to choose from.” The quotation has been repeated for years, somewhat in jest, by various thought leaders in the technology and engineering industries. But it reflects a paradoxical challenge that exists with trying to standardize business processes and technology interfaces in a competitive marketplace. And the B2B e-commerce industry offers an excellent case study for exploring these challenges.

Why are there so many different standards competing to automate the same procurement, transportation and forecasting business processes? An even better question is why are so many large companies increasingly deviating from B2B e-commerce standards they helped to develop? Some view the existence of so many B2B e-commerce standards as evidence of the critical value standards provide to the supply chain. However, I view the proliferation of standards as evidence of the advantage that can be gained by obtaining access to a richer set of data at a faster rate than competitors.

If every company has access to the same information then how can you make better or faster decisions than your competitors? You cannot. Companies are increasingly seeking to compete on information or rather the synthesized output of data in the form of analytics. In today’s economy information provides competitive advantage. If you can obtain access to

more information in a faster manner than your competition can, then an opportunity exists. Information provides competitive advantage even for back-office functions such as supply chains or financial management. Consider the perspective of three industry leaders. Frederick Smith, the Founder of FedEx, stated that “Information about a package is as important as the delivery of the package itself.” Walter Wriston, Former Chairman of Citibank, stated that “Information about money will become more important than the money itself.” Dr. Hau Lee of Stanford University is often quoted stating that “Information is replacing Inventories,” creating extraordinary opportunities for new supply chain efficiencies.

Because information about inventory, logistics, orders and payment provides such rich insights to its recipients, buyers and sellers in the supply chain have engaged on a never-ending quest to find better methods for sharing data. One approach has been to organize groups of buyers and suppliers in specific industries to develop new frameworks such as CFPR, GDSN and RosettaNet PIPs. But increasingly we are witnessing a deviation from standards at an individual company level.

In today's supply chain, companies deliberately circumvent the standards process to gain a competitive advantage in the information supply chain. Some develop information sharing models for which there are not yet standards, attempting to gain a time-to-market advantage. Others take the liberty of “interpreting” the B2B standards in a different manner, augmenting or manipulating data fields and entire transaction sets to be used in new, innovative ways.

Both EDI and XML messages offer the flexibility for customization. Companies can elect which fields to populate with data (i.e., the required fields) and which fields to remain empty (i.e., optional fields). Furthermore certain fields, particularly those which contain two or three-digit codes,

can be used in multiple ways by different companies. Just as EDI and XML offer the flexibility to choose which fields to use, the standards also offer the flexibility to choose different transaction sets. Most messaging standards each offer a choice of between 10 and 100 different transaction types. Few companies will use all the available transaction sets. In fact, a single company may use different transaction sets across different geographic regions, business units or trading partners. Finally, each company may have different business rules about how the messaging standards are utilized. For example, some companies will allow items from multiple EDI purchase orders to be consolidated within a single ASN while others will not.

The goal of these different interpretations is usually to gain access to a broader set of data than the competition for analytics and decision making processes. However, the deviation from standards creates a significant challenge for trading partners. Each customization from the standard adds inefficiency for the supplier or customer you are exchanging information with. Over time a multiplier effect begins to develop. If each of the top five customers deviate from the supplier's standardized B2B e-commerce program by 5%, the end result is only 77% standardization ($95\% \times 95\% \times 95\% \times 95\% \times 95\% = 77\%$). Deviation is quickly eroding many of the efficiencies standards sought to institute.

Is there a way to influence a greater standardization of B2B e-commerce? Or is the widespread deviation a natural function of competitive market dynamics? The answer to both questions is “Yes.”



About GXS

GXS is a leading provider of B2B e-commerce solutions and operates the world's largest and most expansive network of integrated business communities. The company's software and services simplify and enhance businesses process integration and collaboration among networks of trading partners. Organizations worldwide, including more than 75 percent of the Fortune 500, use GXS solutions to extend their supply chain networks, optimize product launches, automate warehouse receiving, manage electronic payments and gain supply chain visibility. Based in Gaithersburg, Maryland, GXS has operations and offices around the world. For more information, see <http://www.gxs.com>, <http://blogs.gxs.com> and <http://twitter.com/gxs>.

NORTH AMERICA AND GLOBAL HEADQUARTERS

9711 Washingtonian Blvd.
Gaithersburg, MD 20878, US
+1-800-560-4347 t
+1-301-340-4000 t
+1-301-340-5299 f
www.gxs.com

EUROPE, MIDDLE EAST AND AFRICA

18 Station Road
Sunbury-on-Thames
Middlesex TW16 6SU
United Kingdom
+44 (0)1932 776047 t
+44 (0)1932 776216 f
www.gxs.eu

ASIA PACIFIC

Room 1609-10
16/F China Resources Building
26 Harbour Road, Wanchai
Hong Kong
+852 2884-6088 t
+852 2513-0650 f
www.gxs.asia.com