



Accelerating Return on Investment through B2B Outsourcing



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1. Introduction

When the future of business is uncertain, companies that want to continue growing must step away from business as usual and concentrate on keeping operations as lean and efficient as possible. For that reason, top-level executives in many organizations today have directed managers to restructure and cut costs. For CIOs, restructuring traditionally means consolidating IT resources to eliminate redundant systems, software, hardware, maintenance, and staffing. However, in this economy, managers must look beyond the numbers on a spreadsheet and evaluate the long-term benefit of changes.

Analysts suggest that if companies focus only on bottom line savings and do not take proactive steps to increase efficiencies and restructure “old world” processes, they may find themselves forced to cut even deeper in the future. Successful companies will go beyond cost controls and look at creating efficiencies that will have long-lasting returns on investment, not just short-term financial benefit.

The question that will separate the leaders from the laggards coming out of this financial crisis is:

**** Which solutions do I look to that will provide the greatest benefits both now and in the future?***

2. A Good Place to Start: Global EDI & Integration Infrastructure

One area often overlooked by IT managers is B2B integration. Not only do most organizations have a large amount of waste within their global integration landscape, there is also a far-reaching effect on the entire supply chain. On average, in-house EDI teams have less than 20% of a company’s business network automated, and change management is time-consuming and costly. For example, it can take up to 37 days to automate a partner and up to \$15,000 to integrate one partner process (i.e., a customer sales order).

This inefficiency and cost forces the line of business to rely on paper and manual processes for more than 80% of all business transactions. Maintaining “business as usual” within the B2B and EDI departments is not only costly, it also hampers growth and success. For example:

- Customer service departments cannot reduce operating costs because they are bogged down by inefficient processes, with many spending more than 50% of their time responding to calls and e-mails from customers checking on the status of an order or complaining about late delivery.
- Purchasing departments, who must re-evaluate supplier relationships, intensify collaboration with key suppliers, and sever relationships with non-mission-critical suppliers in order to lower procurement costs, cannot change quickly because enablement becomes a roadblock.
- Supply chain executives cannot reduce inventory on hand because manual processes interfere with the ability to predict consumer demand and supplier capability. Companies that are not automated have a lot of cash tied up in inventory because they cannot get timely demand signals from customers, proper inventory reports from production suppliers, or real-time transit information from potential carriers

3. The Benefits of Outsourcing B2B Enablement

By outsourcing B2B to integrate suppliers and operations, companies are able to reduce ongoing infrastructure costs, reduce the amount of staff required to perform daily tasks, and most importantly, create organizational agility. See Figure 1.

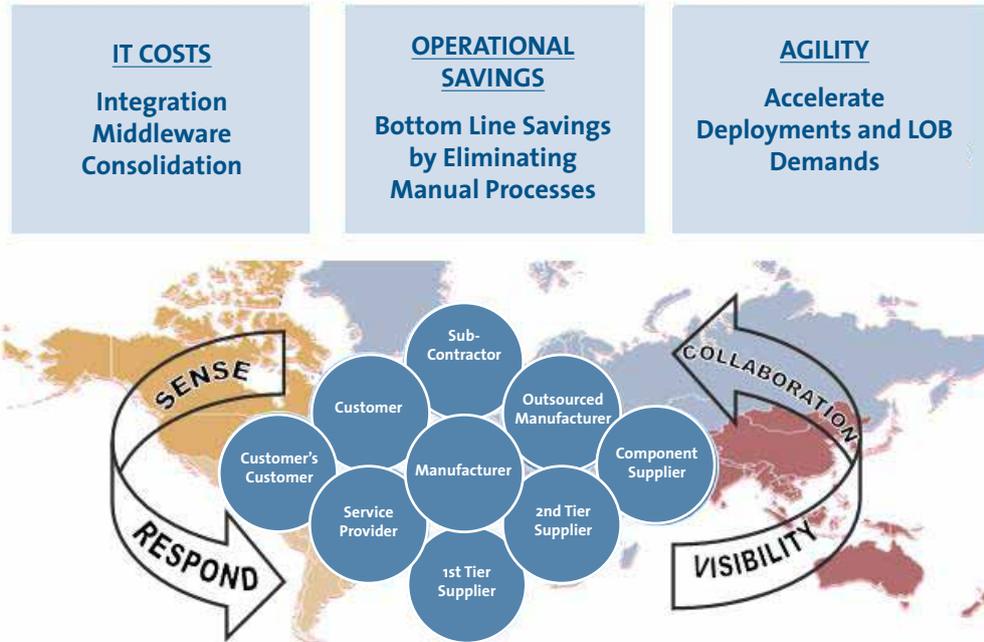


Figure 1. Benefits of outsourcing B2B

4. Immediate Bottom Line Savings

Outsourcing B2B helps companies improve their balance sheets in measurable hard dollar savings. Most organizations do not grow organically; instead, they accelerate revenue growth through mergers & acquisitions. For the business, this means immediate access to a new client base and/or products to sell. However, for IT, this means new and redundant applications, staff, and EDI translators. Over the years, hard-line expenditures build up in the following areas:

- *Software Maintenance.* Many middleware solutions and even older EDI translators can carry an annual maintenance fee of over \$50,000 per year.
- *Hardware, Database, & Archiving.* Hardware and database costs can be crippling, especially in today's current regulatory environment that mandates long-term archiving of upwards of 10 years for certain regional tax authorities. These costs can range anywhere from \$30,000 per year to well over \$400,000 per year for larger corporations with legacy translators running on mainframe technology.

- *EDI Staffing.* One of the key issues with EDI is the constant change that comes from internal alterations of systems as well as the changes mandated by partners. Therefore, it is critical to have staff to keep the maps working, track data quality issues, and work with network partners on a daily basis. Internal cross-charge rates for a fully loaded integration specialist can range from \$100,000 per year to over \$160,000 per year when you consider healthcare costs, vacation, bonus, benefits, general computer/telephone expenses, and payroll taxes. Many organizations need to employ at least one to four people per region just to maintain the status quo—and this doesn't include the additional staff required to enable new partners. Figure 2 illustrates how B2B outsourcing resulted in nearly \$1 million in savings each year for a consumer products manufacturer with an annual revenue of \$2 billion per year.

B2B Outsourcing ROI Components**	
\$2,000,000,000	Annual sales (worldwide manufacturing company)
500	Total B2B Enabled Partners
\$185,000	Redundant Software Maintenance/year
\$165,000	Redundant Hardware/year
14	FTE/year/ global organization focused EDI
\$980,000	FTE /year/ (Fully Loaded at 70K Dollars)

Hard Dollar Savings Per Year	
\$185,000	Eliminate Software Maintenance
\$165,000	Eliminate Hardware Costs
\$588,000	60% Redeployment of EDI Staff (Minimum Transition)
\$938,000	Total Dollar Savings/year

Figure 2. Savings Example

5. Accelerating Operational Savings

Operational efficiency in today's high-speed global economy depends on clear communication among all network trading partners. Effective B2B communications is critical for businesses to survive and grow, but disconnected processes and paper-based business transactions are time-consuming and error-prone, which results in over-inflated operating costs.

Assessing the operational ROI realized by outsourcing B2B enablement may not be as straightforward as calculating hard dollar IT savings, but the effects on the bottom line are easy to understand. Manually processing a business partner transaction, such as an inbound purchase order, is much more cost-intensive than processing that same transaction electronically. To better understand the effect of manual transactions on operational ROI, Forrester Consulting engaged in a number of surveys detailing the total cost of manually processing particular transactions such as POs and Invoices. The math is simple, and the figures can become staggering (see Figure 3).

Cost of Manual Transactions (500 Manually Transactions per month/ Doc Type)	
\$10.10	Manual Cost of Processing an Order*
\$12.35	Manual Cost of Processing an Invoice*
\$10.00	Manual Cost of Other Docs* (ASN, Acknowledgement, etc...)
~10%	Average Error Rate in Manual Processing
\$53.50	Average Cost to Process Transactions Error (FTE + Materials)
\$291,000	Annual Cost of 1,500 Manual Transactions per month

*The source for the median values associated with manual processing costs and error reconciliation costs are from a study conducted by Forrester Consulting

Figure 3. Operational effect of manual transactions

How do these costs spiral out of control? The answer: excessive IT staff required to deal with exceptions. The U.S. Department of Commerce researched 1000 global companies in manufacturing and high-tech industries and found that traditional manual lines of business require more than three times the number of full-time employees as do ideally integrated businesses where at least 50% of B2B processes are automated.

By outsourcing B2B enablement, an organization gains a needed weapon in attacking inefficiency. That *weapon is economy of scale*—meaning that an outsourcer can easily scale to address new partners and does not reach a saturation point where the time required for daily maintenance does not allow any time for new projects. With manual processes removed by outsourcing B2B, companies are able to exchange orders and acknowledgments more promptly, deliver products more quickly and accurately, and increase efficiency, thereby increasing revenue.

6. Increasing Organizational Agility

One of the greatest benefits of outsourcing B2B enablement is being able to accelerate deployments and enable business partners quickly. Not only is it costly to integrate and test B2B mappings in-house, the average time required to enable a partner is more than 30 days. Outsourcing B2B accelerates partner enablement, which allows companies to achieve bottom-line cost savings while still being able to meet ongoing mandates from compliance initiatives or management decisions. Following are two real world examples.

6.1 Emerging Markets and Government Compliance

A global producer of wine and spirits wanted to change their business model to focus primarily on emerging markets, but their resourcing model would not scale to meet their business needs. Many governments have created their own eBusiness mandates, and they can be very complex and often overlooked by an incoming business when striking a deal. For example, some countries have stringent mandates on the processing and storing of electronic invoices (such as the May 2009 Mexico Tax Authority E-Invoicing mandate) or the filing of customs documents (such as German Atlas - import/export requirements).

The company was facing a growing backlog of EDI project requests that had accumulated, with each transaction requiring multiple weeks of internal effort. Management did not want to hire new employees or expand internal skills to include EDI because enabling new trading partners is costly and resource-intensive.

With no environment for testing changes or upgrades and unique international EDI needs that were not supported by their current business model, outsourcing B2B enablement was the perfect solution.

6.2 Acquisitions and ERP Consolidation

A wave of acquisitions and mergers in less than a year more than doubled the size of a global automotive industry supplier. The complexity and volume of EDI transactions increased as a result of this rapid expansion, but with various ERP solutions in place and multiple B2B platforms to support, the company had no way to centralize EDI coordination and management. With over 100 business partners and multiple B2B platforms to manage, the company estimated that they would need to hire two to three new full-time IT employees to support the local staff at each site.

The most pressing concerns for the company were controlling IT costs and ensuring regulatory compliance for each location. By outsourcing their B2B operations, the company was able to consolidate their disparate B2B platforms and streamline global trading partner enablement. A centralized management solution gave them the flexibility to continue expanding their partner network in an efficient, cost-effective way.

7. Summary

In the past, companies relied on software, developers, and consultants to adapt internal technology to fit their business. But in today's global economy, most companies work in some sort of networked fashion with other companies across corporate and geographical borders to enable collaboration and share information.

While such business networks are not new, their increasing prominence is changing the balance between internally and externally managed operations and escalating demand for better collaboration, coordination, and communication. These increased operational demands are stressing legacy IT systems and IT staff in unforeseen ways. In comparing current IT infrastructure and operations against the evolving requirements of business in a globally networked economy, it becomes clear that current processes are:

- optimized for *internal* processes but weak on *external-facing* ones,
- optimized for *transactions* but weak on *collaboration support*, and
- optimized for *mature* operations but weak on *emerging opportunities*

In this financial crisis and new global economy, more and more demands are being placed on operations where IT systems and staff are at their weakest: *external-facing collaborations focused on emerging opportunities*. IT operations, like everything else in a company, must evolve to meet the demands of global competition. Specifically, they must go beyond their initial mandate—to improve the productivity of internal operations—to take on a larger directive, improving the productivity of networked business partners.

In today's business landscape, agility and adaptability can mean the difference between merely being a participant and becoming an industry leader. Meeting these challenges is the defining agenda for IT in the current global economy, and no one can afford to simply walk away. Organizations must reorient IT operations to address this shift in focus or risk seeing their enterprises—not to mention their IT investments—marginalized going forward.

8. About Crossgate

Crossgate offers the world's first Business-Ready Network, guaranteeing 100% integration of business partners, clients and suppliers. A single connection to the network means electronic data exchange with any business partner regardless of their technical capability. In addition, Crossgate's B2B-360° Services powered by SAP provide clients direct access to all integrated business partners in the B2B transaction network via their SAP systems. With its legally compliant eInvoicing Services, Crossgate also provides an innovative and 100% secure solution to cover the entire process of incoming and outgoing invoices, including signatures, EU compliance monitoring, and revision-secure automated long-term archiving. More than 40,000 business partners, representing more than 10 industries, currently exchange documents and data via the Business-Ready Network.

Crossgate was founded in 2001 in Starnberg, Germany. The principal investors are the family of the SAP founder Dietmar Hopp, the Otto Wolff Industrieberatung und Beteiligungen GmbH and the Al-Jomaih Group. In addition to the headquarters in Munich, Crossgate is represented at four sites in Germany, with subsidiary branches in Atlanta, London, Milan and Paris. Stefan Tittel is the founder and CEO. For more information, visit www.crossgate.com

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