



## Should I Invest in EDI?

by Ray Atia, [ratia@amosoft.com](mailto:ratia@amosoft.com)

How can you find out if your EDI Investment produces a positive ROI?

EDI can benefit your organization by having stronger and better relationships with suppliers, customers and vendors, bringing in a greater advantage against the competition.

EDI also benefits by reducing time and human resources needed in order to complete order entry, and reducing strain on other resources.

### **Calculating ROI**

Before implementing an EDI Solution, a company should answer the following questions in order to decide whether to implement EDI Solution or not:

- Is the ability to meet suppliers, customer and vendor requirements is an important factor in your company, maybe even more important than pricing?
- Is the timing and accuracy for delivery of goods and services is crucial to your suppliers, customers and vendors?
- Could a 30% faster delivery time to your customers and vendors be turned into a competitive advantage?
- Will being "EDI enabled" allow your firm to penetrate new markets or find new suppliers?
- Is customer loyalty and long term alliances a high priority for your firm?
- Would an EDI-enabled A/P and A/R system favorably affect your payment terms and agreements with customers and suppliers?

All these areas can directly affect the perceived value of your firm, resulting in a positive ROI.

Reports shows that gross sales for a supplier firm to a major retailer increased 18% after the company started to use an EDI.

If your company increased its sales and number of customers and vendors by 5% after becoming "EDI compatible," generating 30% increase to the company annual gross sales, calculate the \$ amount of increase.

After implementing EDI systems, most companies find a substantial amount of time and cost saving in processing and executing customer orders. Research show that it takes up to five times longer to process a purchase order manually as it does electronically with EDI, due to the fact that specific working requirements and terms have been agreed upon between each partner, documents such as Purchase Orders and Invoices are no longer manually created, mailed, entered, and then processed. Instead,

Address: 12445 Pacific Ave 5, Los Angeles, CA 90066

Phone: 310-862-4259

Web: [www.amosoft.com](http://www.amosoft.com)



they are processed electronically without errors, saving processing time and human resources.

**Reduction in EDI Administration cost:**

Research shows that it costs an average of \$0.30 to manually process a customer order, whereas implementing an EDI order entry program would reduce that cost to \$0.10 per customer order.

Sum the number of purchase orders your firm processes annually, then multiply that figure by 0.20 each to estimate cost savings by using EDI.

**Reduction in Human Resource**

Standard EDI software will significantly reduce processing time and cost in the following administrative task areas:

- document preparation
- error detection and correction
- reconciliation
- mail preparation
- telephone calling
- data entry
- overtime
- supervision expenses

Research has shown as much as a 50% saving in required human resources can result from a fully functional EDI Solution.

If your company reduced the staff responsible for processing purchase orders and invoices by an average of 30%, Sum the annual dollar value of those human resources cost savings to get the saving you will get by using EDI Solution.

**Reduction in Round Trip time**

Round Trip time refers to the amount of time necessary for a customer to receive an purchase order after it is placed. Companies reduce order round trip time to increase competitive advantage, decrease carrying costs, decrease shrinkage costs, and improve cash flow. Research involving a supplier and a retailer shows a 50% reduction in order round trip time was achieved by using an EDI Software.

If your company could reduce order round trip time by an average of 25%, and that will create a competitive advantage increased sales orders by 15%. If your company has a 5% profit margin, sum the profit increase resulting from the 15% increase in sales.

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### **Reduction in Inventory**

EDI Solution can reduce expenses that are related to storing inventory.

EDI customer supplier relationships can provide your company with more accurate demand forecasts, reduced round trip time, and other dependable supplier schedules. Calculating the reduction of inventory is by multiplying number of days that order round trip time is decreased by amount of inventory on hand.

For example, a company might have an eight week supply of products. If the company started to use EDI with its customers and subsequently reduced round trip time by 25% from 30 days to 22 days, could the company reduce inventory accordingly?

Because the company could more accurately predict short term demand with EDI, it may only be necessary to hold a six week supply of products. This would result in reduced costs including cost of products, storage space, service, and risk (insurance).

If your company reduced inventory by 10% because they have more accurate forecasting, how much money would your company save annually on inventory carrying costs?

### **Cash Flow Increase**

Lower operating expenses and increase accuracy in procurement areas are directly beneficial to a company financial cash flow. EDI orders, processed quickly and received on time by your customers, will also allow your company to negotiate incentives such as better payment terms, discounts, and long term contracts.

For example, many EDI enabled companies report a lower number of open account receivables. Even though this area is difficult to quantify, most accounting departments can attest to the benefits of improved cash flow.

If your company recovered cash savings from reduced carrying costs, improved payment terms, and transaction accuracy, how much money could your company place in cash reserves?

### **Better Order Fulfillment**

EDI reporting provides managers access to data and status information, which allow them to make accurate and informed business decisions. EDI reporting can also improve analysis of pricing changes and promotions. Most importantly, it can improve product availability despite shifting demand by enabling faster reaction and recognition of demand trends. Companies report an average inventory reduction of 10% by using EDI Software.

If your company reduced stock outs and backorders by 10% because they have more accurate reporting and demand forecasting, sum the increase in sales volume in annual dollars.

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**Conclusion**

Using EDI Software/EDI Solution can and will save you money, directly or indirectly! Today when the market gets to be more competitive then ever you can not allow your firm not to have an EDI Software. To start looking into the benefits of using EDI directly to you, look for one of the companies who offer EDI Services and open an account, this would be the least expensive EDI Solution for your company and will help you decide if your company wants to continue and expand more money on EDI Solutions.

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