

The Role of Trading Partner Integration in Achieving Compliance with Government Mandates

By Ryan Kraudel

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Learn how a business process network ties in to the success of government mandate compliance and the 10 steps your company should take to accelerate business results.

Corporations previously challenged to meet global requirements placed on them by customers and competitors now are experiencing additional demands in the form of government mandates. Participation of multi-national corporations in global markets, with the concurrent customs, tax and security issues, as well as an increasing trend toward regulation for environmental and investor protection, have been the catalyst for a significant number of recent regulations. The facilitation of global trade and some necessary standardization also are driving new data management requirements in an effort to facilitate efficiencies for all parties.

The milieu of regulations and new government mandates are rapidly generating new requirements around the globe. The following examples are illustrations and fall into three primary categories: financial and securities, eco-compliance, and customs/logistics shipment and data requirements.

Category 1: Financial and Securities Mandates

An example of this type of regulatory mandate is the often-discussed Sarbanes Oxley Act. This regulation in its very purest form demands that publicly traded corporations report, in a timely manner, actual or pending events that are expected to materially impact company valuation.

Category 2: Eco-Compliance

Eco-compliance mandates include the Restriction of Hazardous Substances (RoHS) and Waste Electrical and Electronics Equipment (WEEE) requirements that vary by country and region, and are being enforced to the greatest extent by the European Union (EU). In these cases, declaration of the composition of materials and the resulting responsibility for disposal and pre-payment of disposal taxes are required before goods may be sold in a regulated region.

Category 3: Customs/Logistics Shipment and Data Requirements

These requirements are wide ranging and can be targeted to accelerate the advanced or simultaneous customs clearance process (sometimes called “single window”) or may be more fiscally oriented, concerning the declaration, calculation or payment of value-added tax (VAT) incurred upon entry into a country or region. The World Customs Organization has developed a data model being adopted by individual port authorities at varying rates and with various modifications. Ports typically are competing for business and are seeking cost effective “standardization” in an effort to lure shippers, logistics service providers and transportation companies.

Note that the requirements to meet terrorism concerns also may be part of controls in Category 3, which has escalated the urgency around automation and efficiency of global logistics. An example is the required declaration of goods a minimum of 24 hours before entering a port.

All three categories of government mandates share three primary business requirements that drive compliance efforts:

1. **Visibility and Collaboration**—Global value chains and the sheer numbers of trading partners intensify the need for B2B visibility and collaboration. Companies must extend and automate business processes across the extended enterprise to include all external trading partners. For instance, the RoHS and WEEE mandates mentioned above require companies to gather information on materials composition not only from their suppliers, but their suppliers' suppliers and beyond. This necessitates an unprecedented level of visibility into supply chain operations and collaboration with suppliers to collect this information.
2. **Reporting and Auditability**—All mandates require demonstration of compliance, which necessitates auditability and reporting capabilities. Today's extended enterprise demands that these capabilities incorporate business processes that involve transactions between entities, not just communication between internal systems. For example, the Sarbanes Oxley legislation requires executives to implement, document, and test controls over processes that contribute to the financial statements. Many of these controls include validating information and processes from external trading partners, such as invoice data from suppliers, shipping status from logistics providers and payment notifications from customers. The inclusion of external data and processes is essential to complete auditability and reporting, and therefore conclusive mandate compliance.
3. **Manual Process Reduction**—With companies sourcing supplies and distributing products around the world, each border-crossing shipment requires approval by the local government customs agency. These customs approvals require significant coordination between the corporation, customers, shippers and providers of customs services and logistics services. However, the vast majority of these shipments are currently processed through manual, paper-based methods, which generates tremendous process inefficiencies. Companies that are able to automate these processes not only simplify government mandate

compliance, but also realize significant business benefits. One multi-national company that automated the customs declaration process reduced the cost per customs declaration transaction by more than 30 percent and cut the customs clearing cycle time in half.

Governmental Mandates Require Connecting B2B Trading Partners

Meeting these business requirements and achieving governmental mandate compliance is further complicated by the continually increasing complexity of supply chains, much of which is driven by increasingly global value chains. Cost reduction and performance enhancements are being actualized through the establishment of multi-national supply chains that utilize low-cost manufacturing, regional product distribution centers and optimal staging of materials for final production. This is evidenced through the increased importance of Eastern Europe, China, Southeast Asia and Brazil where companies are leveraging highly distributed value chain operations.

Global expansion, outsourced manufacturing and third-party logistics translates into additional steps in the supply chain. As companies depend on more partners for the production of materials and other functions, they face increased difficulty gaining control and visibility into processes and information, which multiplies the bullwhip effect and increases supply chain inefficiency. This presents further challenges when it comes to meeting the information requirements for the mandate in question.

However, organizations that harness the complexity of the value chain have achieved remarkable results. In July 2003, professional services firm Deloitte & Touche published a landmark study, "Mastering Complexity in Global Manufacturing," which compared the performance of 300+ companies, analyzed the complexity of their supply chains, and highlighted the importance of high performance value chains. *Complexity Masters*—those companies with a superior ability to synchronize value chains and leverage strengths in collaboration, flexibility, visibility, and technology—were able to generate up to 73 percent higher profit margins than their competitors.

As companies continue to migrate toward highly distributed value chains, the resulting increase in B2B processes and data exchange to meet both business needs as well as governmental mandates will increase. The benefits of the distributed organization are well understood, but the need for control, execution, coordination and reporting in the value chain, while also meeting the relevant government mandates, have become significant drivers for B2B projects.

The Need for Business Process Networks

Despite the demonstrated impact of high performance value chain initiatives and automating trading partner relationships, it is estimated that only 10 percent of the personnel in corporations are available for such projects. Instead, most personnel are concentrated on internally focused IT platforms such as enterprise resource planning (ERP), customer relationship management (CRM), and manufacturing execution systems (MES), which have been deployed to generate internal efficiency but don't necessarily reduce "trading friction" or streamline B2B transactions.

This presents a dangerous disconnect: While corporations tend to under-allocate the resources needed for this burgeoning requirement to do trading partner connectivity, getting to a critical mass of trading partners deployed is quite difficult. The difficulty stems from any or all of the following: the technical sophistication of the trading community, the nuances of any particular supply chain or mandate compliance effort, difficulties with internal process modifications, or managing the multiple standards that may exist within the trading partner network.

Companies are tackling these challenges by outsourcing the B2B technical and trading community requirements with a leading-edge model called Business Process Networks that involve partnering with best-of-breed B2B service providers to execute their B2B programs.

Business Process Networks Enable B2B Connectivity

Business process network (BPN) companies, a relatively new category of service provider, can help companies build

compliance to mandates and address the challenge of scale for value chain participants. Such companies employ dedicated infrastructure, software and community management services on behalf of their customers to serve as data and process intermediaries. Just as engaging in outsourcing strategies to more efficiently bring products to market, BPN companies are hired to provide companies with reliable, secure and flexible supply chain services for B2B projects.

Typically, the BPN service provider performs trading partner on-boarding services and operations (implementation, message testing/monitoring and operational services) for the customer to establish and maintain data and process communications. Translation of message and documents and integration of those messages into back-office systems turns data into valuable information for the customer company. Similarly, the BPN provider provides a variety of e-business transaction mechanisms, including Web forms, file upload and packaged application adapters, which provide trading partners enhanced capabilities, as well.

Suggestions for Project Management in Achieving Compliance to Government Mandates

While compliance to each individual mandate represents unique challenges, addressing mandate compliance across common business requirements can increase overall process efficiency, reduce time-to-compliance, and drive business results. Below are 10 common steps the supply chain manager or project leader must take to be successful.

1. Spend the time to examine all related business processes. Consider employing an internal tool to re-engineer and automate internal authorization and reporting processes for related business processes. Any tool should have the development flexibility to be enabled by the business team, not limited to scarce IT resources.
2. Determine the key process flows that may affect or be affected by the reporting requirement. These may be hidden in long-ago established processes. For example, your sales executive establishes the window of cancellation and return allowances of your customers,

without syncing with the manufacturing agreements related to supporting the customer.

3. Engage the authorization and project participation from all relevant internal company stakeholders. This could include (but certainly not limited to) finance, marketing, transportation, distribution, procurement, etc.
4. Determine the compliance areas that are out of your company's visibility and control, but can materially affect your financial performance. Some examples would be the reporting responsibilities around hazardous or eco-sensitive materials, which may be known only to your supply chain partners.
5. Determine the significant trading partners that could impact reporting performance. Next come to some evaluation process as part of the ongoing business relationship so that the trading partner (customer or supplier) can be acknowledged, rewarded and encouraged when the objectives of the enterprise are met as a result of activities by the trading partner.
6. Determine the trading partner connectivity strategy (how and when). Thoroughly analyze your trading community and establish a project plan for reaching a critical mass of trading partners. Exchange goals for on-boarding and achieve buy-in from the trading partner. Create incentives where necessary. Establish cross-enterprise goals.
7. Prioritize trading partner connections according to impact on project goals. This may seem obvious, but it is all too common to see companies lose sight of compliance goals in the complexity of trading partner connectivity. Determine some early "quick hits" to validate the process, and provide organizational success and recognition. Consider using outside business

process networking resources to establish and achieve connectivity and process management.

8. Determine the trading partner connectivity maintenance strategy: in-sourced, outsourced or hybrid. How can your corporation best achieve compliance and then maintain ongoing review and connectivity?
9. Where possible, work on the supply side first, government authorities second and customers last. A company's supply base is more likely to cooperate more quickly. Customers will likely take longer and require more care.
10. If necessary, engage an expert in the field for advice on company requirements and liabilities.

In addition to the general trend in outsourcing and globalization, government mandates are an additional force driving increased B2B projects and taxing internal IT departments. Resources are increasingly difficult to find, the mandates are requiring a wide variety of expertise and are increasing in number and complexity. Much of the required information is now outside of the enterprise. Using business process network companies and following the tips provided can help the practitioner in meeting the wide variety of initiatives that have been established and can provide a framework for success in the future.

About the Author: Ryan Kraudel is Global Product Marketing manager at GXS, a provider of B2B integration, synchronization and collaboration solutions based in Gaithersburg, Md.



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**NORTH AMERICAN AND
GLOBAL HEADQUARTERS**
100 Edison Park Drive
Gaithersburg, MD 20878
U.S.A.

+1-800-560-4347 t
+1-301-340-4000 t
+1-301-340-5299 f
www.gxs.com