



## EDI - Electronic Data Interchange

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**Another three-letter computer acronym - but one with potentially great cost saving benefits for many firms. Our E-Business Advisers demystify the jargon, and show how your firm could save costs by using this technology:**

### 1. What is EDI?

Electronic Data Interchange - EDI - is an automated process for exchanging business information between firms by computer and telecom links, usually as part of a trading arrangement, (e.g. passing information regarding orders between firms).

It can also be used to communicate with some Government departments - such as passing payroll information to the Inland Revenue.

If you are involved in supplying some large companies - e.g. the large supermarket chains - it is very likely that you will be required to use an EDI system for your interactions with them. It can provide both them (and you) with considerable cost savings.

### 2. How does EDI work?

The process of EDI relies on the sending and receiving computers both using an accepted standard that both can understand.

A piece of translation software at the sending computer translates e.g. an order generated by a standard accountancy package such as Sage, into a standardised format.

This could be triggered by a date, a drop below minimum stock reorder levels, or by human intervention.

The translation software could be on your computer system, or could be held on a third parties system, often web based.

An agreed messaging standard is then used to communicate between the two computers via a telecoms link, or through the Internet (again via a third party, often web based).

At the receiving computer, the translation software converts the received message back into a format that computer can use. For example, it could trigger a receipt of order confirmation as well as delivery shipment to you to fulfill the order you've just placed electronically.

It could also trigger the process of invoice generation, and other similar communications could trigger expected shipping dates etc.

### 3. The technical bit.....

EDI software takes information generated by common business packages such as Sage and translates into the agreed messaging standard.

Previously, EDI software was often bespoke, but now there are off-the-shelf packages that can do this at much lower cost. EDISPHERE is an example of one such piece of software.

There are many several messaging standards that can be used for the EDI process, some specific to industry type.

Popular ones include EDIFACT and TRADACOMS with ODETTE being common in the automotive sector.



# Fact Sheet

Most EDI software can happily cope with the common standards though. Web based systems will normally cope with all standards too.

Likewise, there are several communications networks that will transmit the data - these tend to be industry dependent. Common ones are BT EDI\*net and GEIS Tradanet. Some also offer lower-cost web based interfaces.

If you don't have the needed in-house IT skills, you can arrange for services to be provided by third party companies, who will fully manage the process for you.

### 3. It sounds too complicated - why bother?

There are several reasons why EDI can be of real benefit to your business:

- As discussed earlier, some larger companies insist on their suppliers using EDI for the cost benefits it brings, both to you and them.

If you are - or wish to be - involved in certain industries, you may have little choice anyway!

- As data is only entered once, the potential for errors is greatly reduced
- You can increase staff productivity and reduce costs
- You may be able to reduce stock levels if you utilise the automatically triggered minimum reorder levels function.
- The process itself is likely to better integrate you with your trading partners, and make it less likely they will go elsewhere.

### 4. What do I need to think about?

It is very likely, for most small and medium sized companies, that cost is likely to dictate that your EDI solution will be Internet /web based.

- What system is prevalent in your industry - what do your trading partners use? It is obviously only worthwhile implementing a system if your major trading partners or prospects use EDI!
- How integrated into your back office systems do you want EDI to be?

This can range from simple orders being passed to suppliers, right through to allowing customers to monitor your production process.

The more integration, the more costly the process is probably going to be, both in setup costs and software, but potentially the more useful it might be too.

- Like any project, you need to define a budget and plan
- If you have particularly complex requirements, it may be advisable to use a consultant to manage this project.

### 5. Useful Links

[www.businesslink.gov.uk](http://www.businesslink.gov.uk) - National Business Link web site. Provides links through to local Business Links, as well as many downloadable "How to" guides.

[www.theedizone.com](http://www.theedizone.com) - Useful web site discussing a whole range of issues regarding EDI