

**Question No. 1 (a) Do you think that Electronic Data Interchange (EDI) brings significant benefits to the Organization? Discuss with suitable examples.**

**Solution:** There is no doubt that Electronic Data Interchange can bring significant benefits to organisations. These can generally be classified into strategic, operational and opportunity benefits and will vary in emphasis across different organisations, depending on why and how Electronic Data Interchange has been implemented. Initial Electronic Data Interchange applications have concentrated on corporate efficiency by improving data flow and error reduction. In these instances the business case for Electronic Data Interchange was based primarily on direct cost savings. With Electronic Data Interchange, businesses can eliminate the need to re-enter data from paper documents and thus prevent clerical errors. Estimates suggest that 70% of all computer input has previously been output from another computer. Each re-entry of data is a potential source of error. It has also been estimated that the cost of processing an electronic requisition can be one tenth the cost of handling its paper equivalent. In addition Electronic Data Interchange can reduce the need for personnel involved in orders and accounts processing.

Electronic Data Interchange systems can shorten the lead time between receipt and fulfillment of orders. When scheduling information is transmitted with ordering data, companies can plan production more accurately and thus reduce stock inventories. Reduction in inventory can result in major savings. Use of Electronic Data Interchange to transmit invoice data and payments can improve a company's cash flow and may increase the amount of working capital as accounts can be dealt with more efficiently. Trading information obtained from historical data built up from Electronic Data Interchange transactions is an invaluable source of market research and strategic planning information. The process of working with trading partners to implement Electronic Data Interchange can also result in the benefit of closer working relationships with trading partners. It has now become apparent that the greatest value of Electronic Data Interchange will emerge in strategic areas such as the provision of better levels of customer service and improved marketing competitiveness. In short, the field of application of Electronic Data Interchange extends to all trade and trade related activities. It is relevant to everything from printing to shipbuilding. Activities can be categorised into three main areas:

**Strategic Benefits**

These benefits will affect the central operating function of the organisation. These include

1. Faster Trading Cycle
2. Just-in-Time manufacturing
3. Terms of Trade affected by bargaining power
4. Need to respond to highly competitive market entrance
5. Access to new markets
6. Closer relationships with key business partners

### **Operational Benefits**

These benefits will affect the daily operations of the company, usually its impact is on certain departments within the organisations. These include:

#### 1. Reduced Costs

- Paper & postage bills cut
- Reduction in money tied up in stock
- Manual processing costs

#### 2. Improve Cash Flows

#### 3. Security and Error Reduction

### **Opportunity Benefits**

1. Enhanced image
2. Competitive edge
3. Improved corporate trading relationships

Not necessarily crucial to the current operations of the company, but can be seen as to offer potential future benefits. The list of opportunity benefits includes such as enhanced image and competitive edge, others which although perceived as beneficial, are difficult to quantify. These factors give rise to new business opportunities, resulting from an improved service given to trading partners. As many organisations begin to insist on Electronic Data Interchange trading, so the organisation offering this service will enhance its chances of securing a wider choice of trading partners.

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No doubt, benefits which may be classified as operational for one organisation, may be of such a major importance to another organisation that they must be termed strategic and in this respect the categories are not clear.

### **Industry Perspective**

#### **Commerce**

- trade and industry
- manufacturing
- finance/banking
- tourism/travel

#### **Transport**

- Road, rail, air, sea
- Forwarding/dispatching
- warehousing Governmental
- customs and excise
- national/international trade
- statistics

AS far as particular industries are concerned, Electronic Data Interchange is being viewed increasingly as a business enabling technology facilitating any of the above activities. In the automotive industry the take up of Electronic Data Interchange has been primarily because of Just-in-Time or JIT. With JIT, a manufacturer orders and then receives parts from suppliers just before it needs those parts on the assembly line. Electronic Data Interchange provides the transaction link that JIT requires.

Where a transaction involves import or export, customs declaration documents can now be submitted using Electronic Data Interchange messages which greatly expedite the whole process.

Banks and other financial institutions are supporting usage of Electronic Data Interchange in the area of Electronic Funds Transfer (EFT). Electronic Data Interchange enables these organisations to operate much more efficiently by eliminating significant amounts of paperwork. This of course results in a beneficial 'knock-on' effect on their customers.

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Governments view Electronic Data Interchange as an enabler to help manage such areas as procurement, taxation, logistics and so on. Government departments deal with vast quantities of information, Electronic Data Interchange can facilitate the tracking and therefore management of this information. Governments are increasingly using EFT to process payments such as social insurance and unemployment benefit to individuals and other organisations.