Maximizing the Retailer/Manufacturer Relationship:

The Notiva Retail Collaboration Solution

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December 2004

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Introduction: Cultural Shifts, Common Interests, & Collaboration

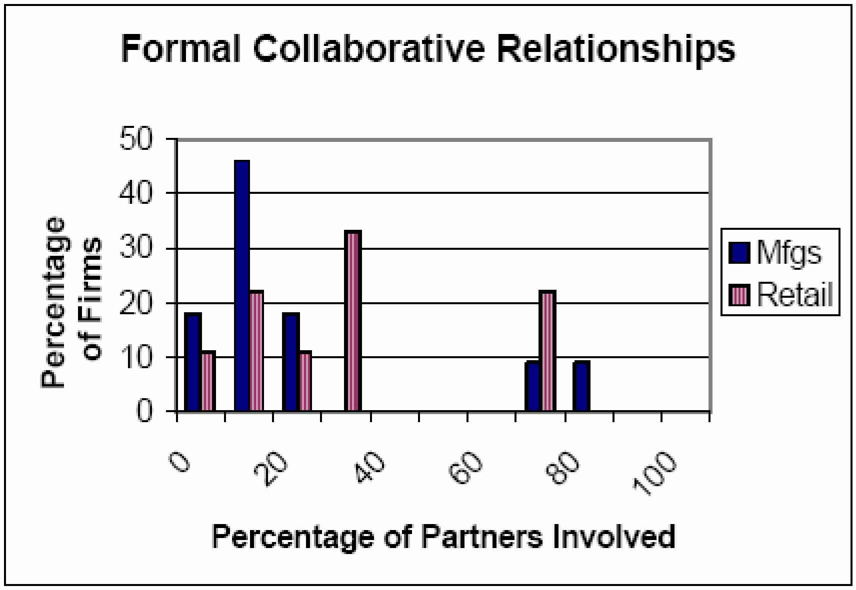
Retailers, particularly those in the consumer packaged goods market, are in the process of a cultural shift that is transforming many of the basic ways in which the industry lives and prospers. With margins squeezed to an unparalleled degree, and top line growth limited by competition and market saturation, retailers are changing many of the basic assumptions that underline their business practices, and in the process are finding new profits and more stable and rewarding partnerships.

Improving collaboration between retailers and their manufacturers is one of the key ways in which these changes can benefit both parties. A well-focused collaborative effort can improve profitability, reduce waste, and contribute to more valuable relationships between retailers and their manufacturing partners. Certain key areas of the retailer/manufacturer relationship – such as invoice settlement and reconciliation – provide a window into the caliber of collaboration between trading partners. The stronger the reconciliation process, the stronger the retailer/manufacturer relationship.

A more collaborative reconciliation process can have a significant, measurable impact on both partners' profitability. With as many as 60 percent of all invoices in error, and up to 10 percent of sales questioned by one party or the other, the ability of the partners to collaboratively solve their common differences can create a payback with enormous strategic value that can go straight to the bottom line.

Despite the potential value of increased collaboration, and the imperative to succeed in the wake of the dramatic changes in the industry, the current state of collaboration between partners in the retail supply chain is low. According to a Grocery Manufacturers of America (GMA) 2003 collaboration study, less than 20 percent of retailers and manufacturers had significant collaborative efforts with their respective partners, while the majority of both parties by and large had little or no effective collaboration in place. (See Figure 1)

Figure 1: Collaboration in the Retail Manufacturing Supply Chain



The majority of both retailers and manufacturers show a relatively low rate of collaborative relations. Only approximately 20 percent of either group collaborates with more than one-third of their partners.

Source: GMA

The result of this lack of collaboration is that the relationship between retailers and their manufacturers is more often characterized by confusion, inefficiency and lost profitability instead of the close collaboration and mutual self-interest that is needed for basic survival, much less success.

One reason collaboration has lagged in the industry at large – despite the pioneering efforts by companies like Wal-Mart and Target – is that the term has been traditionally associated with large-scale, overly-complex collaborative efforts, such as collaborative planning, forecasting and replenishment (CPFR), that often drain precious resources while tending to favor one class of partner over the other.

What is needed instead is retailer/manufacturer collaboration that is both mutually beneficial and predicated on the assumption that when well-designed and well-implemented, a little collaboration can go a very long way towards benefiting both parties.

One of the pioneers in improving the collaborative relationship between retailers and their manufacturers is Notiva Corp., a San Mateo, California provider of software solutions for the retail market that is focusing on the trade settlement and reconciliation collaborative process. Enterprise Applications Consulting's initial look at Notiva's Retail Collaboration product and its market opportunity reveals a uniquely simple and robust approach to enhancing the value of the strategic relationship between retailer and manufacturers that will have a significant impact up and down the retail supply chain. With over 20 retailers and manufacturers already in Notiva's customer roster, (many of them are well-known brand names, though none were available to be directly cited in this white paper), the company has a well-established product with a solid track record. EAC believes that companies on both sides of the retailer/manufacturer fence can benefit significantly from the company's offering.

This white paper will discuss how trade settlement can lead a major shift in the retailer/manufacturer relationship and how Notiva's Retail Collaboration solution can effect that shift. The first section will discuss the business rationales behind the need to improve collaboration, using the invoice reconciliation process that Retail Collaboration focuses on as a key example. The second section will highlight the different barriers – cultural, technological, data, and business process-centric – that to date have limited this ability of retailers and manufacturers to collaborate as closely and effectively as possible. The third section will discuss the Notiva Retail Collaboration solution in light of both opportunities and barriers, and present a high-level overview of the product's capabilities. The final section will conclude with a discussion of the short and long term benefits of enhanced retailer/manufacturer collaboration and Notiva's role in this important opportunity.

Improving Invoice Reconciliation in the Retailer/Manufacturer Relationship: Collaborative Benefits and Opportunities

The cultural shift in the relationship between retailers and manufacturers is well underway. Retail giants like Wal-Mart and Target, and consumer product manufacturing innovators like Procter & Gamble, have already defined a level of efficiency and collaboration that is leading the rest of the industry to change. But for the majority of the industry's players, this cultural shift is still to come.

For those companies lagging behind the collaboration curve, the results can be stark: inefficiency, lost opportunity, poor business practices, waste, and lost profitability – not to mention lack of competitiveness. All these factors are the hallmarks of a lack of collaboration and attention to the new cultural imperative in the retail industry.

The trade settlement and reconciliation process that Notiva is targeting with its Retail Collaboration solution provides an excellent example for highlighting the opportunity cost related to poor retailer/manufacturer collaboration. The invoices that are the core of the trade settlement process are notoriously error-prone: according to the Grocery Manufacturers of America, the 60 percent of invoices that are in error cost the grocery industry alone $30 billion each year.

When invoices don't match receipts, chargebacks result. The onus is then on the manufacturer to understand the nature of the chargeback, and reconcile what was delivered with what is to be paid for. This reconciliation problem is exacerbated by the fact that the paper trail most manufacturers are left to follow is already 30 to 60 days old by the time they receive notification of a chargeback, thus making the problem of verification, and correction, if applicable, unnecessarily difficult.

This invoice reconciliation problem leads to enormous inefficiency and lost opportunity. While the majority of invoices contain inaccuracies that lead to deductions and chargebacks, very few, if any, retailers and manufacturers have an automated, efficient means with which to jointly reconcile the difference between order and invoice and ensure that overall cash management is performed in a truly collaborative manner.

What is more often the case is that invoice matching is a laborious, overly-complex process that wastes both partners' time and money, and results in frequent misunderstandings about the true scope and value of the retailer/manufacturer relationship. Many simply approve payment or accept chargebacks based on bad or incomplete data rather than fight their way through an overly complex paper-trail in order to find the truth. Manufacturers regularly forego the use of promotion dollars for marketing purposes by using these funds to offset deductions rather than invest the time needed to resolve a questionable deduction. The result is that many retailers and manufacturers pay dearly for their inefficiency by automatically approving inaccuracies and chargebacks, that if properly reconciled, would lead to greater profitability for both parties.

In an industry that lives and dies by the thinnest of margins, these inefficiencies go right to an already stressed bottom line. In the long run, what should be a mutually beneficial relationship built on trust and collaboration becomes mired in confusion about the fundamentals of cash flow and payables, with little time or energy left over for working on more strategic planning and execution-related issues.

The bottom line is that the deductions and chargebacks that result from these inaccuracies form the core of an enormous quantity of wasted effort, lost profitability, and poor retailer/manufacturer collaboration. With several points of profit margin often at stake, the cost of this lack of collaboration can be significant.

The Barriers to Change:
Culture, Data, Technology, Business Practices

There are three main reasons why the inefficiencies in this key collaborative effort remain unattended to by many retailers and manufacturers. A lack of essential technology, the limited use of common data, and a lack of established collaborative business practices are at the core of the problem. More importantly, inattention to these issues has a powerful, cumulative effect. The continued use of bad data, inadequate technology, and poorly designed business processes has a cascading effect across the retailer/manufacturer relationship: once the initial assumptions, processes, and underlying technology are wrong, erroneous decisions and improper actions continue to proliferate. Simply put, a set of bad invoice matches can lead to incorrect chargebacks and payments, generating flawed cost data that drives flawed decisions and results, ultimately, in serious problems between two otherwise well-intentioned partners. As we shall see in the description of Notiva's collaborative solution, these issues can now be addressed by retailers and manufacturers alike to the mutual satisfaction of both parties.

It's important to bear in mind, however, that the overarching reason for lack of collaboration is cultural, not technological. While it is tempting to assign technology the lion's share of the blame for this problem, culture is the ultimate culprit. As the authors of the GMA's collaboration report conclude:

> *The impact collaboration has on improving chain effectiveness is not dependent on technical solutions but rather by the commitment of vendors and customers to develop and maintain ongoing communications processes and agreed-upon metrics.*

Nonetheless, this cultural problem does not exist in a vacuum, and the three key barriers that can be addressed by Notiva – technology, data, and business practice – form a central part of the problem, and its resolution. Given the cultural will to change, fixing these three problems make it realistic for senior managers at both the retailer and the manufacturer to establish better trading partner collaboration as a corporate goal – a goal that is already being realized in lower cost of goods for innovative retailers like Wal-Mart and Target as well in lower service costs for innovative manufactures like P&G.

The Data Dilemma

True collaboration starts with good data, and most invoice reconciliation, as a key collaborative process, suffers from a lack of what Notiva characterizes as a "common data, common view" perspective on the relationship between retailer and manufacturer. This lack of common data has long been acknowledged by retailers and manufacturers, who have jointly started efforts such as the Global Commerce Initiative and data synchronization. These initiatives address the problem in a top-down manner by focusing first on item-level data synchronization. Notiva, on the other hand, addresses the problem in a bottom-up manner, focusing on transaction or cash synchronization. While the ROI for data synchronization can be lengthy, Notiva's bottom-up approach can accelerate the data synchronization effort and provide measurable ROI within one year. This in turn helps leverage the data synchronization investment already made by retailers and manufacturers.

The Notiva approach begins with the ability to match invoices to orders, and track discrepancies across different documents in a highly accurate, data-driven fashion. The paper-based, unautomated reconciliation systems used by many retailers and manufacturers make the matching and tracking processes laborious and time-consuming. Indeed, a typical invoice reconciliation process often entails simply matching header data instead of drilling down to a more granular level of accuracy, resulting in incorrect and incomplete matches. When key data are simply not available regarding such issues as quantity, packaging and shipping, chargeback and payment decisions are based on relatively little data without the benefit of an accurate, complete view of all the facts relating to the questionable invoice.

A more data-centric view of the reconciliation process allows the manufacturer and the retailer to drill down to whatever level of granularity is necessary to resolve the dispute, and to do so using a software-based solution instead of the printouts and spreadsheets that characterize the process today. While much of the data already exist – in order management, financial, ERP, and supply chain systems – solving the data dilemma requires that these disparate data sources be consolidated and integrated so that reconciliation and settlement can take place with both parties having access to the same data. The fact that cash is at stake makes it all the more imperative that data integration happens as part of the reconciliation process.

This sets up the requirement for a "common view" of data. In order for both retailer and manufacturer to come up with the best resolution for the discrepancies in their shipments, receipts, and cash flow, they need to work from the same data and have an understanding of what those data represent to each other's financial systems. Importantly, having a common view doesn't just impact the near-term problem of invoice reconciliation. A common view of key order and financial transactions means that the two partners can better plan their respective businesses and be more responsive to each other's needs and requirements.

Just the Right Technology

The technological barriers to implementing change at both the data and the cultural level starts with the realization that common data and common views are lacking precisely because there is a simultaneous lack of common technology. Many retailers and even some manufacturers still rely on older mainframe and custom-developed systems, while those that have more modern systems have a disparate set of solutions that support a broad range of data and technology standards. The result is a Tower of Babel effect that renders the imposition of any new technology platform or solution difficult if not impossible.

The technological barriers to change are also political or cultural in nature. The retail industry, never a buyer of technology for technology's sake, remains very conservative when it comes to acquiring new technology-based solutions. A new solution that requires massive change and long implementation cycles is a non-starter for many retailers and manufacturers, and the imposition of an overly complex solution would be unacceptable to most parties.

This places an additional barrier to change: given the hodge-podge of homegrown, legacy, and modern enterprise software in the market, any collaborative solution must have as low a technology impact as possible. This is even more the case when the term "collaborative" is used: industry experience with previous collaborative solutions has tended to be more costly and less productive than customers would like, and the burden is thus on vendors like Notiva to prove that collaboration can take place within a budget and a timeframe that makes sense to all concerned.

Improved Business Practices

The lack of common, collaborative business practices is often where the cumulative effect of the different business barriers has its greatest impact. The lack of appropriate data and technology means that collaborative processes that could more automatically solve the immediate problems with invoice reconciliation often aren't available. This creates a stronger cumulative effect: failure to implement the business processes that can solve the day-to-day problem of invoice reconciliation means that the larger – and potentially more valuable – strategic issues of partner collaboration and planning cannot be addressed either. While the impact of poor business practices on invoice reconciliation is large enough to measure in real dollars and percentage points to the bottom line, the secondary effect caused by the limitations to the strategic relationship between retailer and manufacturer may end up having the greatest impact of all.

It's important to emphasize that what is required is not necessarily an entirely new set of business processes for linking the two partners. Simply bringing more automation and efficiency to the existing processes of reconciliation can yield significant results with respect to the near-term issue of managing the cash flow between the partners. This automation will, if done right, lead nonetheless to changes in how existing business processes are undertaken. For example, understanding the underlying cause of a deduction can expose dislocations in the supply chain and help partners better understand how their business processes can be harmonized.

The reconciliation business processes now in use include a tremendous amount of wasted effort spent tracking down and understanding paperwork between retailers and manufacturers – paperwork that could be eliminated with the advent of a more automated and efficient system. Furthermore, the ability to better track cash flow, deliveries, and partner performance using an automated system will likely engender new business processes to support the long-term strategic relationships that are required by the cultural shift in retailer/manufacturer relationships.

The Notiva Retail Collaboration Solution: Common Data, Common Views, & Improved Business Practices

Notiva Retail Collaboration consists of a set of three main modules that together address the simultaneous goals of managing the day-to-day invoice reconciliation process as well as providing a platform for more a strategic business alignment between retailer and manufacturer.

One of the key reasons for Notiva's relative success is the low technological profile that its solution requires. This is essential to both sets of partners, neither of which can afford costly and time-consuming implementations of enterprise software. The Notiva Retail Collaboration solution can be implemented in a relatively short time at the retail site, with three to six months being the average implementation time reported by Notiva. The manufacturing side is a hosted solution that is completely web-based and requires no IT intervention, and minimal training. The integration to existing financial and order management systems is supported by a set of built-in adapters to key enterprise applications, including SAP, Oracle, and Lawson, and is undertaken as part of the implementation project.

Figure 2: Notiva Customer Examples

NOTIVA ROI
CUSTOMER EXAMPLES

Major Brand-name Retailer:
Approximately 0.5% improvement in gross margins,
and more than $20 million in overall revenue.

Major Brand-name Manufacturer:
80% reduction in outstanding disputes;
over 1.5% improvement in sales.

The results that the Notiva solution promises its customers can be well worth the relatively minimal effort required. A return on investment analysis performed by Notiva for one of its retail customers, a major, brand-name U.S. retailer, shows a net improvement of almost one half of one percent of gross margins, which for this multi-billion dollar company represents a seven-figure improvement to its bottom line. An ROI analysis for a major manufacturer yielded an 80 percent reduction in outstanding disputes and an overall improvement of almost two percent of net sales to its top retailers. (see Figure 2.)

Match and Reconciliation

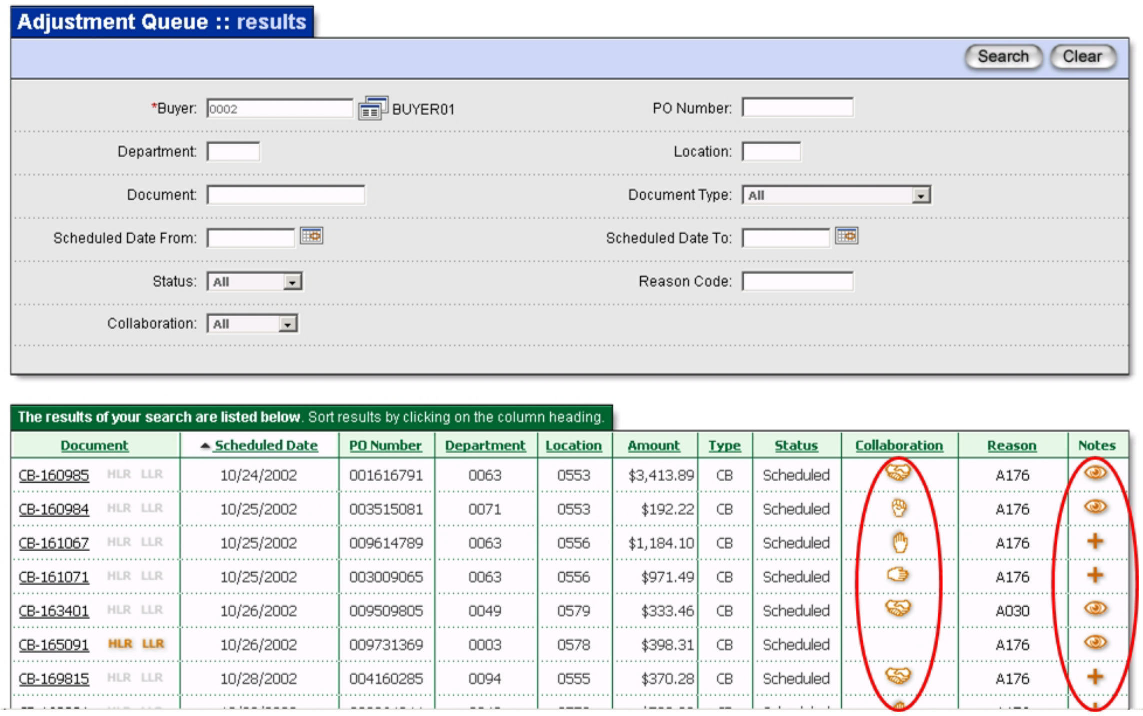
The Match and Reconciliation module allows retail managers to perform a comparison of manufacturer invoices and retail receipts at multiple levels of detail, from simple header information to more granular information like due date, PO number, department, location, and proof of delivery, among others. Match and Reconciliation screens can display specific details relating to individual items, and greatly facilitate the reconciliation of invoices and the correction of mistakes in the financial supply chain. This allows the retailer to have an accurate picture of the flow of products and cash between the two partners, and can ensure that chargebacks, deductions, and payment decisions are made based on the best possible information from both parties.

Supplier Collaboration

The Supplier Collaboration module allows the manufacturer to perform a similar exercise on the receiving end of a chargeback. (See figure 3.) The process requires the manufacturer to log on to a website where deductions entered by the retailer are displayed, along with a summary of the logic the retailer used to arrive at each deduction. The Notiva systems allows invoice and receipt lines to be matched and reconciled, allowing the manufacturer to quickly ascertain what is a legitimate chargeback and what needs to be further researched at the shipping or warehouse level. The system allows for real-time corrections and recalibrations: Simple problems like packing errors can be corrected and a real-time reconciliation can be run.

One important feature of the product is the ability for the manufacturer to automatically initiate a vendor dispute process, based on the most accurate information possible, and then share that information with the retailer. An automated dispute form is sent that contains the reasoning for the dispute and other information to back up the manufacturer's claim. The dispute is automatically sent to the retailer, and, the online integration of the supplier and retailer systems – enabled by the hosted supplier collaboration system – allows the respective managers to continue an automated process to resolve the dispute, eventually generate an electronic record of the resolution, and automatically update each company's respective financial system and order management systems once the dispute has been resolved, all with a complete audit trail.

Figure 3: Supplier Collaboration Screen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CB-161067 HLR LLR	10/25/2002	009614789	0063	0556	$1,184.10	CB	Scheduled		A176	
CB-161071 HLR LLR	10/25/2002	003009065	0063	0556	$971.49	CB	Scheduled		A176	
CB-163401 HLR LLR	10/26/2002	009509805	0049	0579	$333.46	CB	Scheduled		A030	
CB-165091 HLR LLR	10/26/2002	009731369	0003	0578	$398.31	CB	Scheduled		A176	
CB-169815 HLR LLR	10/28/2002	004160285	0094	0555	$370.28	CB	Scheduled		A176	

Disputes are resolved electronically and collaboratively, with a complete audit trail. Hand icons indicate status of a dispute. Notes provide additional commentary to speed dispute resolution.

Source: Notiva

Partner Metrics and the Strategic Relationship

The Notiva Solution for Retail comes with a comprehensive set of analytics that lets the two partners accurately measure the value and relative success of the relationship. (See Figure 4.) Key performance indicators like invoice match rate, discrepancy types (shortage, pricing, substitutions), cash flow, deductions and resolutions, and others can be displayed and used to drive decision-making and supply chain planning.

Figure 4: Notiva Analytics

KEY ANALYTICS IN NOTIVA RETAIL COLLABORATION

Collaborative Scorecard
Auto-match rates • Total discount dollars • Invoice fill rates •
Percent paid versus total billed amount

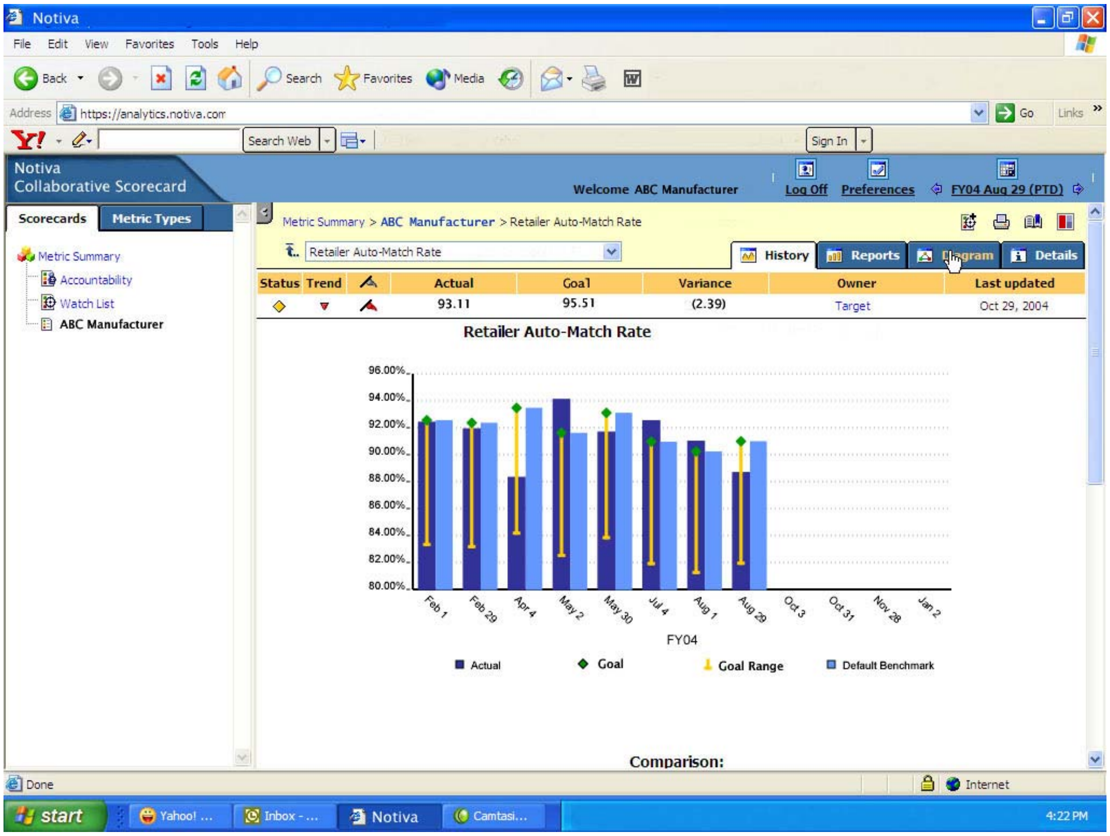
Reports
Price accuracy • Quantity accuracy • Deduction trends •
Cash flow summaries per manufacturer • Location performance •
Shipment to payment velocity • Trade accuracy

Views
Vendor relations • Merchandising • Receiving • Auditing • AP balances •
AP aging • Unmatched receipt aging

Alerts
Custom developed as needed

These metrics form the core of the Notiva solution's ability to have a long-term impact on the retailer/manufacturer relationship. While just having an accurate picture of the true nature of the cash and product flow between the two partners is a significant improvement over the current status quo, providing the metrics that define the key parameters of the relationship allows the partners to make significant changes in how they manage their relationship. (See Figure 5.) The collaborative scorecards and reports define key performance metrics in terms of not just on-time performance but overall metrics relating to merchandising, individual store and product performance, and other issues important to on-going operations and long-term planning between the partners.

Figure 5: Collaborative Scorecard



Diagnostic reports allow managers to drill down into shared data to better understand and resolve problems that erode margins. Benchmarks can be used to measure the efficiency of a trading relationship against an average of all existing relationships.

Source: Notiva

Conclusion: Towards a More Efficient & Mutually Rewarding Retail Supply Chain

While the overall notion of greater collaboration in the retail supply chain has been discredited by over-promising and too much complexity, Notiva has shown that the specific use of collaboration to improve the trade settlement and reconciliation process between retailers and manufacturers can be accomplished in a manner than makes economic sense for both partners. The impact on both short term profitability and long-term viability for both parties can be demonstrated by Notiva's existing customers. These brand-name customers have shown that greater visibility into the scope of the true financial relationship between retailer and manufacturer can yield not just an increase in store and product profitability, the Notiva Retail Collaboration solution can also eliminate much of the wasted effort entailed in invoice reconciliation, chargebacks, and overall cash flow management.

This more transparent and manageable settlement process is also providing Notiva's existing customers with important long-term strategic benefits: Greater visibility with respect to supplier effectiveness and improved support for the needs of specific retail markets are two of the direct benefits. There are indirect benefits as well: The Notiva Retail Collaboration Solution can help both sets of partners leverage their existing investments in technology by extending the value of their ERP, financial, and order management systems using the Notiva solution. This in turn supports retailers' and manufacturers' investments in new technology initiatives like global data synchronization, vendor-managed inventory, and, when it finally comes of age, RFID.

Enterprise Applications Consulting's review of the opportunity for Notiva shows an extremely promising solution that constitutes a win/win for both retailers and manufacturers, and does so with a minimal impact on the respective partners' technology infrastructures while simultaneously enabling significant improvements in existing business practices. While these improvements can have an important impact on day to day operations, the ability to take the next step to maximize the value of the relationship in order to achieve longer term, mutually advantageous business goals may turn out to be the more important value provided by Notiva. Regardless, the combination of short-term gains and long-term strategic value makes the Notiva Retail Collaboration solution a powerful new weapon in the arsenals of both retailers and manufacturers alike.