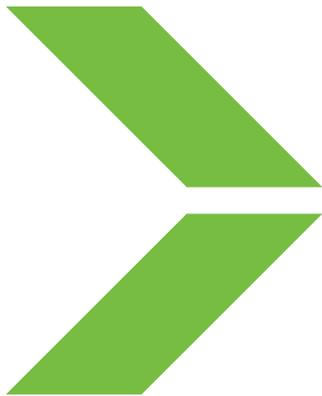




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## **What is EDI?:** *Improving Data Exchange Accuracy*

## What is EDI?

Electronic Data Interchange, or EDI, is a general term used to explain computer-to-computer exchange of routine business documents, using an approved, standard format, without human intervention. These documents include things like purchase orders, shipment updates, invoices and others. The process of data exchange is straightforward, beginning with a trading partner's business system, traveling through the internet and arriving securely to your system. EDI uses a common language that is shared among businesses, allowing for companies with dissimilar computer-based systems to communicate with each other. Although the language must initially be translated, once it has been completed, no further encoding must be done. On the surface, EDI appears relatively basic and perhaps similar to e-mail; however, there are several deviations within the system that are often specific to individualized business transactions.

## What is the Problem?

Paper-based systems are prone to be out of date and obscure. Without an EDI system, businesses are forced to use archaic methods; essentially mailing or faxing documents between companies. Conducting business within these constraints has disadvantages for several reasons. The first, being that regardless of how quickly a person can enter data, print and mail it, time is still being compromised in the process. Coinciding with the prior issue, the business on the receiving end of the document must then re-key the information and input it into their PC-based application. Transferring information in large numbers has the potential for continuous inefficiencies. Additionally, information that must be entered manually has a great likelihood to be keyed erroneously. These mistakes can have more than monetary repercussions. In addition to lost revenue, expenses involving error correction, delayed order processing, damaged reputation and lost business may occur.

## What are the Benefits?

EDI has the capacity to transmit data in the exact way it was received. Because of its accuracy, errors occurring while re-keying are no longer a concern. As a direct result, costs involved with mailing and postage are virtually eliminated, lead times and inventory carrying costs are drastically reduced and customer service and loyalty are significantly improved. Early notifications of potential orders can be utilized for forecasting and planning; allowing for appropriate inventory and production adjustments. Once the basic language of EDI has been established, business becomes routine and easily managed. Among other benefits, an EDI application will automatically generate all appropriate documents to fill order requirements, such as purchase orders and sales orders. Not only does this benefit companies doing business in diverse locations, but can also benefit cross-department communication and organization. An EDI application can streamline your business process into a more controllable unit and you are able to respond to business fluctuations within moments. As with most other important business decisions, obtaining the most accurate information results in improved business judgments.

## How does it work? – EDI Transaction

EDI applications use transaction sets to exchange data between trading partners. A transaction set is a unit of information, using a combination of both letters and numbers, which are used to create a business document such as an invoice or purchase order. To better explain how the process works, let's use the transmission of an EDI purchase order transaction to help illustrate the procedure.

First, the trading partner's order system creates a purchase order (PO), and passes it through the EDI software. At this point, the PO has been created and issued; also called an 850 Transaction set. Next, a functional acknowledgement (an electronic receipt), is forwarded to your trading partner indicating that the PO has been received. In EDI terms, this is called a 997 Transaction Set. After a functional acknowledgement has been delivered, you have the option of creating an Advanced Shipping Notice, referred to as an 856 Transaction Set, allowing your trading partner to see which items will be shipped to them, and when they should arrive. Next, a functional acknowledgement is automatically forwarded to your trading partner's EDI system indicating when the Advance Shipping notice was accepted by their system. At this point, the order is fulfilled, and the invoice is submitted; also called an 810 Transaction Set. Finally, a functional agreement is forwarded by your trading partner to your EDI system confirming the time and date the invoice was accepted by their EDI system.

## Conclusion

Understanding your primary goal is vital when beginning to implement an EDI system. Simplify your business transactions, save time and money by eliminating paper documents and improve overall customer satisfaction. When choosing an EDI application, all of these things should be included in your purchase and partnership. Find out how your business can run more efficiently and effectively with an EDI solution.



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