HASLAM
COLLEGE OF BUSINESS
THE UNIVERSITY OF TENNESSEE, KNOXVILLE

Unpacking B2B Data Integration Pricing

Unpacking B2B Data Integration Pricing

Why Buyers Should Challenge the Status Quo

A Report Authored By: Kate Vitasek, Steve Murray, and Sanjiv Aggarwal

EXECUTIVE SUMMARY

We have come a long way from the days of simply sending orders, invoices, product information and the like through the mail. We have evolved from using overnight package delivery and Fax to the highly automated transfer of data electronically. An entire industry of B2B integration service providers has emerged in the quest to help buyers and suppliers speed up their supply chains and lower transaction costs through electronic interchange.

What started with VANs (Value Added Network) popping up to allow for simple EDI interchange has evolved into a staggering new market of B2B data integration service providers making it easier than ever for companies to connect electronically. Companies like Ariba, Hubspan and GXS have grown out of nowhere, radically changing the playing field as they challenged buyers and suppliers to rethink their "procure to pay" and "order to cash" processes.

To say the B2B data integration revolution is a success is likely an understatement. The industry has created a real trifecta, with buyers, suppliers and the leading service providers all coming out winners. Let's look at some of the results from the B2B data integration revolution.

We'll start with the buyers, companies like Wal-Mart and Amazon who have in their own way revolutionized the procure-to-pay process with refinements which enables them to manage tens of thousands of transactions daily. Many other companies have duplicated, at least in part, the processes which allow these benefits, creating the foundation of a world where data integration drives supply chain activities and commerce overall.

B2B data integration has been good for suppliers as well. Take Spectrum Chemicals & Laboratory Products for example. Larry Hilton, Spectrum's Director of eBusiness told us that integration has allowed them to automate their ability to process and intake orders from thousands of customers in North America. In doing so, their cost to process orders has dropped 55% while processing hundreds of thousands of complex orders annually. Other sellers receive orders electronically from global customers, allowing them to expand their business and provide quality service to times zones they may never have considered otherwise.

Now let's look at the service providers, integrators like Hubspan, GXS, SPS Commerce and Sterling Commerce, and trading hubs like Ariba, Exostar and GT Nexus. They have clearly come out winners in the revolution to automate, innovate, and add value in the B2B data integration space, creating a multi-billion dollar market out of virtually nowhere – consider that widespread use of EDI did not begin until retailers like JC Penney required it in the 1990's. One such winner is Ariba – which was founded in just 1996. SAP recently acquired Ariba for a staggering $4.3 Billion[1]. Another is Sterling Commerce which IBM had acquired in 2010 for $1.4B[2]. Clearly the founders of Ariba and Sterling had a good idea and learned how to monetize it.

So if B2B data integration has been so successful – with everyone coming out a winner – why is there a need to rethink how the industry prices B2B data integration services? The answer is simple. As we will explain, legacy systems such as VANs and VAN resellers can retard potential efficiency, while increasing risk by offering solutions which don't scale, at costs that penalize improvements and growth.

---

[1] SAP Press Release, May 22, 2012

[2] IBM Press Release, May 24, 2010

The University of Tennessee researchers teamed with thought-leading practitioners from Supply Chain Visions to develop this white paper. The team feels strongly that the industry needs to challenge conventional thinking in how companies approach Business-to-Business integration if organizations are to be successful in the future.   Specifically, the authors would like to challenge the industry to move away from a transaction-based business model and adopt more of an outcome-based approach – or at least "unpack" the pricing models to eliminate what the authors believe drive inherent perverse incentives and conflicts of interest in the basic business model.

This white paper seeks to "unpack" how B2B service providers charge for their services and examines structural flaws in the B2B pricing models. The industry is evolving, and we challenge conventional pricing and solutions and recommend the industry seek pricing models and solutions that better align with customer's true desired outcomes.

This paper is divided into three main parts.

Part 1: Understanding the Fundamentals We first set the stage by defining the fundamentals related to the exchange of data between enterprises and explain the use of third party "Service Providers" to facilitate conveying that data.

Part 2: Challenging the Traditional B2B Integration Pricing Models   Next we demonstrate that conventional transaction based pricing is flawed, providing real-world examples of how this dysfunction affects the "buyers" and "sellers" operating on each side of the B2B relationship.

Part 3: A Vested Approach to Data Integration – A Better Way   Lastly we introduce the concept of Vested Outsourcing - a break-through approach the authors believe will better align the interest between buyers/sellers and B2B integration service providers. Here we provide suggestions for companies wishing to apply a Vested approach to the unique business needs of companies exchanging business data.

CALL TO ACTION

Using a Vested approach for B2B data integration espouses transparency and fairness and is designed to solve today's real data integration problems – how to optimize overall data flow, security, and availability - producing the very tangible benefit of near real time inter-business operations. We urge the business community to rise to the occasion to work together to optimize data integration and quit playing a numbers game, bickering over connection points, connection frequency, data formats and volume of data exchanged where the company with the most muscle wins.

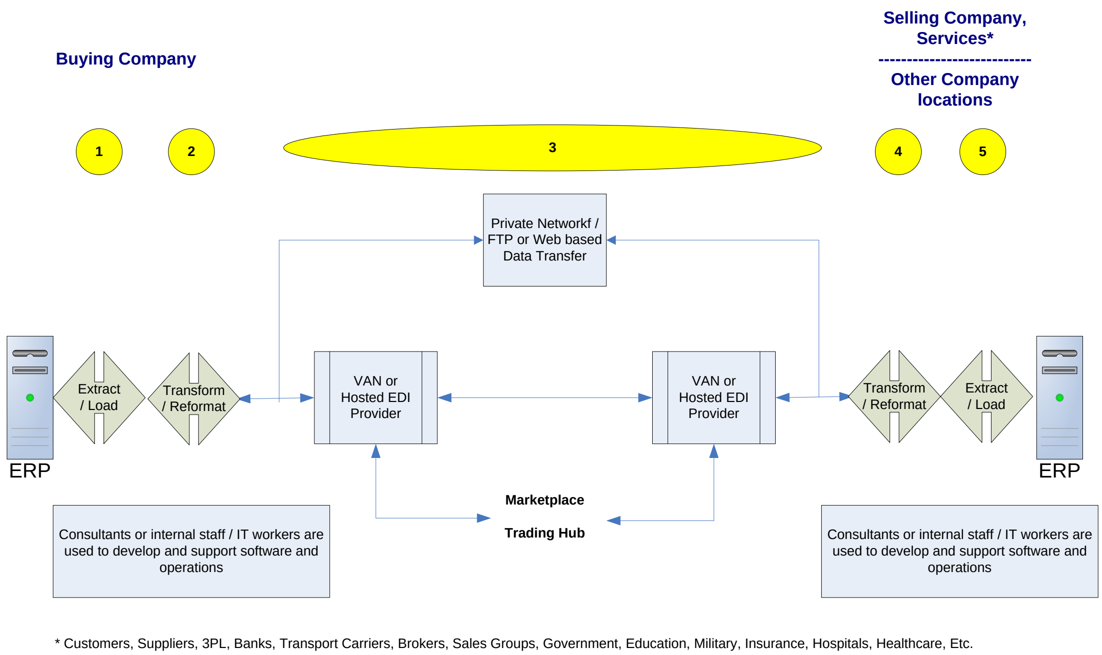
PART 1: UNDERSTANDING THE FUNDAMENTALS

When we think about data integration, the examples most quoted are involved with the "Procure to Pay" and "Orders to Cash" cycles between "trading partners". In these instances, data from company "A's" system must be communicated to company "B's" system, most likely with some corresponding return of data.

As shown in Exhibit 1, the basic tasks involved from a technology perspective include:

1. Extracting data from system "A"
2. Converting the data to a format acceptable for transmission (i.e. EDI X.12 or FTP)
3. Transmitting the data instantly or through a mailbox to company "B"
4. Converting the data into a format acceptable to "B's" system
5. And finally, loading the data into system "B"

Exhibit 1 - Data Exchange Processes



Source: Supply Chain Visions

Most companies will choose to outsource some part of their B2B data integration requirements to a third party "Service Provider". Commonly this involves only the transmission from point to point (step 3 above) with data extraction, conversion and loading often left to the respective trading partners. Typically steps 1, 2, 4 and 5 are performed in-house or by contract IT service providers. In some cases steps 2 and 4 are outsourced to a hosted 3rd party EDI site. When companies outsource they are attempting to reduce risk and costs for skills, software and hardware required for managing their B2B messaging, but they may actually increase one or both if not well researched.

Historically, B2B data integration involved what is known as a Value Added Network, or a VAN – companies such as IBM Advantis (Now GXS), GXS, Sterling and Kleinschmidt. Other VAN's emerged starting in the 1960's with the primary purpose to act as electronic post office for B2B messages. In short, VANS basically provide EDI-to-EDI interchange services (receive, store and forward). While there are other capabilities, this is their basic competency. VANs do not provide:

- ETL / Translation software and the personnel needed in order to achieve process automation through integration
- Real-time messaging, proprietary formats validation and web services
- Data encryption is limited to non-existent, but some offer PCI (Payment Card) security

VANs typically charge per transaction based on how many kilo characters (KC) are exchanged. VANS have the lowest KC rates, but offer the least amount of actual services due to older infrastructure and their systems architecture.

In about 1998 a new type of B2B data integration service provider emerged with the focus to provide "hosted" services. Companies such as SPS Commerce, DIcentral, B2B Gateway and others offered an advantage for very small companies that did not have the capital and IT staff needed to implement traditional EDI methods. Hosted service providers offered web-based access to EDI data in the form of web forms and began to create common exchanges with clients and to provide simple XML, flat file and in some cases exchanges with limited capabilities to manage exchanges needing proprietary formats for specific applications. For the first time, very small companies and SMBs were able to tap into electronic data integration services. The transaction-based pricing model was attractive because these smaller companies could "pay by the drink" and did not have to invest heavy upfront capital to begin integrating electronically with the customers and suppliers. While more expensive (typically 3-10x higher in price per transaction than using a VAN), the benefits were worth the added costs.

By 2003 the B2B data integration market evolved once again to create even more value for their customers through what is known as the "PunchOut" process. The PunchOut process most commonly uses a protocol called Commerce XML (cXML) to enable the ability to connect instantly and seamlessly for consistent communication of business documents between procurement applications, e-commerce hubs and suppliers. This is not a simply connection to a website, but a link between business applications of the two parties involved. We mention it in this paper to show that data integration is continually changing and that as additional types of B2B messaging grow and evolve, the pricing model service providers use to manage those relationships must also change.

So what is the next big thing for the B2B data integration market? It will likely come from consolidation of providers through acquisitions similar to the SAP and IBM references above, and in how services are delivered as more providers move to a SaaS / Cloud based solution which we will also touch on here. However, we believe the next wave of innovation will not come just in the form of technology, but will heavily leverage these changes by also innovating their commercial business models. As the B2B industry evolves, we challenge service providers to shift from a pay per transaction to more of a Vested business model that better aligns the interests of buyers, suppliers and service providers.

PART 2: CHALLENGING THE TRADITIONAL B2B INTEGRATION PRICING MODELS

We believe that it is time for the industry to challenge traditional B2B integration pricing models. This part of the white paper discusses the traditional pricing model used by Value Added Networks and VAN Resellers, then points out some key flaws with the traditional approach for pricing and its impact on business.

TRADITIONAL TRANSACTION BASED PRICING

Virtually all B2B data integration service providers use a ***transaction-based business model.*** Transactional business models are structured where the supplier is paid for every activity performed. In the world of B2B data integration this means the VAN or EDI provider gets paid by the transaction –with a pre-defined rate for each transaction, or unit of service such as number of documents, volume of data involved, etc. For example, a third-party service provider would get paid monthly for the number of orders placed, the number of lines per order and/or the number of data characters transmitted. This basic transaction model is applied to a variety of types of transactions – orders, invoices, acknowledgements, requests for information, etc.

VANs invariably charge per kilo character (KC). That is they charge a specific rate based on the number of kilo characters contained in any EDI document. Most will exclude functional acknowledgements and will often agree to charge for some documents at a lower rate. Examples of documents charged at a lower rate could include EDI 832 (Catalog info) and EDI 852 (Product activity) data. A company that contracts directly with a VAN will often pay between $0.025/KC and $0.45/KC depending on the volume of data they contact for. There are often other fees for support, mailbox access, per connection, etc., and contracts typically range from twelve to thirty-six months.

VAN Resellers charge much differently than Value Added Networks. Remember, these are companies that offer “plug-ins” for integration or provide users with an internet interface (Web forms) where they can login and manage data. Users can view purchase orders and typically “turnaround” a PO to create an Invoice or ASN (Advanced Ship Notice). Some also enable you to print labels or manage other aspects of a compliance requirement.

Table 1 and 2 (following page) provide examples of how two service providers are using transaction-based pricing models. The examples show how volume and / or document count can effect pricing using a traditional approach. While we share just two examples, these pricing models are very typical for the B2B data integration industry.

Table 1- Example EDI Transaction Fees

Monthly Document Transaction Fees

Number of Kilobytes	Monthly Fee	Over the limit per Kilobyte
Up to 15	$20.10	$1.34
Up to 50	$47.00	$0.94
Up to 100	$67.00	$0.67
Up to 250	$117.50	$0.47
Up to 500	$200.00	$0.40
Up to 1000	$370.00	$0.37
Up to 2500	$875.00	$0.35
Up to 5000	$1,250.00	$0.25

Source: All-EDI

Table 2 - Example Web Forms Transaction Fees

This pricing can be used for any vendor of **XXXXXX**. These rates are static, regardless of traffic volume.

The fee structure is:

- $50 startup fee
- $50/month mailbox fee
- 0.15/kc for traffic moving only on the GXS network
- An additional 0.07/kc for interVAN traffic (i.e., data moving between another VAN such as Sterling or Inovis)
- No monthly minimum fee
- $39/mo interconnect mailbox fee and document fees waived.

Source: Internet Commerce Corp.

Resellers such as SPS Commerce, True Commerce and others buy very large blocks of data to lock in lower rates with their primary VAN. They then resell it to their customers coupled with their other features built into their web form solution or plug-ins. Because Resellers are including additional web-based features they charge a premium. A supplier can expect to pay anywhere from $0.16 - $5.00 in units of Kilobyte, kilo character, document, page, etc. And this is where Resellers get tricky. First they have a huge gross margin on actual kilo characters purchased from VANs. Then they add a premium. Finally, because users are interacting with the reseller's they rarely get to see actual raw data and even if they did, almost never take time to count characters and measure data themselves. The difference here is that some resellers count the characters in translated data rather than the volume of the raw EDI data which grossly inflates counts. This inflation sometimes accounts for over 1000% increase in cost.

Consider a retail supplier selling to a "Big Box" retailer who receives a standard replenishment order that includes 1,000 stores. The X.12 data for this may be 4KC. Some Van Resellers will translate the data and break out each store as a separate order (Duplicating header information). This practice increases the cost of the order by a multiple of however many stores the supplier is shipping to. The same practice takes place for advanced ship notices and often invoices.

The definition of the data is further blurred by charging by individual documents sent rather than kilo character. By doing this, companies trying to evaluate differences are left trying to compare apples and oranges.

THE ACTIVITY TRAP

Transaction-based pricing practices create an inherent perverse incentive University of Tennessee researchers have called “The Activity Trap”. Why? It is because the service providers get paid for every transaction processed. The more transactions processed the more revenue for the service provider. This practice creates an inherent conflict between the buyers/supplier community and the B2B service providers because buyers/suppliers want to drive efficiencies in the B2B integration process – yet the service provider’s revenues are tied to simply passing data back and forth. Simply put, service providers have an inherent incentive to help their customer create *more* transactions and send *more* data because it increases the service provider’s revenue.

Consider the example of a consumer packaged goods (CPG) manufacturer selling products primarily to Target and a couple of other large retailers. The company invested in a simple on-line “Web Forms” type account with a hosted EDI provider so they could be EDI compliant with Target. The B2B integrations cost them over $5,000 a month in transaction fees, and another $2,500 per additional retailer to receive purchase orders and send using simple CSV “Flat Files” via FTP.

Ultimately, the company’s products were successful in stores and volume increased substantially. Along with the good news came the rising costs for EDI, which grew to over $25,000 per month. A person could argue the EDI services delivered were worth the $25K monthly due to the increased revenue. But after five years the costs added up to $1.25 million – far more than what was likely needed to pay back the service provider for any cost of integration and setup. The lesson learned is that transaction based pricing is often attractive in the early set up stages, especially good for smaller and/or newer players. However, it is important that companies seek a B2B data integration solution that can scale.

Another flaw with transaction based pricing for B2B data integration services is that the volume of data exchanged varies - often buyers can’t accurately state how large transactions are or how often they will occur and the impact on their trading partners. For example, a large retailer decides how many initial EDI messages will go out, their structure etc. The Supplier/Seller has no say in this. Further, because the Seller can’t determine what the data should look like the EDI provider can ‘inflate’ the size of the documents by simply saying “your Buyer sent it, all we do it translate and present it”.

PENNY WISE AND POUND FOOLISH

Another flaw we often associate with transaction-based pricing is what we call “Penny Wise and Pound Foolish”. Companies often look at hosted EDI providers and web forms because of the low cost for entry without considering the total costs. The thinking “what’s $0.15/KC?” On the surface, the costs seem low. Unfortunately, many companies don’t understand how web forms interact (or fail to interact) and align with internal business processes.

One reason for this is because sellers are often forced by a their customers to integrate with marketplaces such as Ariba or SciQuest – or third party providers such as a 3PL, banks or upstream suppliers as a requirement for doing business. What this does is forces a Seller to go “blind” into the B2B data integration efforts without knowing if the Seller’s business processes are being aligned with their Buyer’s. They often go down an integration path not knowing to what degree automation will result (If any). For example: integration with Ariba doesn’t mean compliance with all buyers on the Ariba Network. Each buyer’s business rules and the individual suppliers’ must be aligned.

Take for example a third party logistics supplier that was required to integrate with a popular hosted provider as part of a client’s requirement. The supplier – known for their world class supply chain performance was frustrated to learn that their end-to-end performance was slowed because their B2B data transfers involve a “store and forward” approach where order data was extracted from the buyer’s system and stored in a mailbox for later retrieval by the supplier’s system. This actually slows down a company’s supply chain performance. This can be especially troublesome for companies that interact with consumers online (real-time) but interact with suppliers using VAN connections set for daily uploads/downloads are putting consumer satisfaction in jeopardy.

The unfortunate aspect about B2B data integration is that as transaction volumes increase and/or as inefficiencies become apparent it’s often too late for the user to correct their penny wise decision without spending more than was initially necessary. This is especially true for SMB businesses that often tend to stick to a process once it’s working because they don’t have the resources to continually remediate and find improvements. Getting the integration working, training customer service reps about specific scenarios, getting accounting and shipping in line to process all trading partner data (90% EDI-based) a specific way to insure that orders keep coming in with little to no offset expense (Charge backs) are all hurdles companies must face when switching systems.

The simple truth is that EDI salespeople love to talk to companies about low transaction-based pricing and downplay integration because once a customer integrates they know the company will be a client for a very long time. Typically, once a company is “integrated”, the evolution to “de-integrate” and switch providers is not easily done. Until a switch is made the EDI providers are getting paid for every kilo character, document or bit of data they move on the supplier’s behalf. For this reason – we challenge the buying community to strive to better understand the total costs –not just the transaction costs – for their B2B data integration solution.

A WORD ABOUT TOTAL COST OF OWNERSHIP & BENEFITS

To be fair when comparing solutions, companies should consider the Total Cost Ownership (TCO) for each potential solution option. TCO includes all development or purchase costs, implementation labor, preventative maintenance, downtime mitigation, technology updates, training and call support, project management, facilities, etc.

Balance these against the Total Benefits of Ownership (TBO), which may differ for each solution considered as the benefits provided may differ. The benefits include things like automation of processes, reduced requirements for software or hardware, physical space reductions, labor reductions, expertise of the individuals providing solutions, etc.

…AND WHAT IF…

One of our biggest concerns comes from the thought of lost competition in the industry due to further service provider consolidation. Specifically, we worry that industry consolidation could create a monopolistic environment.

But why care? Often, as industries consolidate, one of two things can happen. One path is for the big players to get stale, withholding investments to maximize profits. CAPEX and other investments are traditionally born by the supplier. We believe that suppliers *should* bear the investment costs. After all, it is the service providers that are the experts and should be investing in new technologies and solution development. We worry that further industry consolidation could stunt service provider investments that drive value for the buyers and seller community. After all, why bother to invest when customers can’t switch easily.

Second, we worry about “Lock-In” This is especially true when buyers and suppliers are “integrated” and switching costs become high. Service providers lock in the customer with a low entry costs and turn on the printing press in a charge per click price. With a high barrier to entry, new innovative firms will have a hard time jumping in. While this is a risk, an equally bad path can occur when the few big players create fierce competition, battling each other on price which can drain profits and further inhibit investments. As profits spiral downward service providers find themselves with no money to invest in industry innovations.

What the industry needs is a better way to balance risk – while continuing to drive innovation that creates value for customers. As more companies rely on B2B integration – it is imperative that the industry strike a proper balance in the overall business model for how to best service the buyer and seller community. It is this reason we challenge the industry to consider shifting to a Vested business model.

PART 3:
A VESTED APPROACH TO DATA INTEGRATION – A BETTER WAY

We believe that to reduce cost and risk requires a fundamental shift to an ***outcome-based business model.*** The University of Tennessee has done pioneering research in the area of outcome-based business models. The research, originally funded by the U.S. Air Force, has evolved and resulted in four books on the topic known as "Vested Outsourcing" or simply "Vested". We believe that a Vested approach would greatly benefit the B2B data integration market.

A Vested approach shifts the business model from a pay by the drink transaction-based model to an outcome-based model. Using a Vested approach, service providers would only charge their customers when they create value against a defined set of business outcomes, business results, or achievement of agreed on key performance indicators as opposed to paying for transactions. In short, a Vested approach aligns the interests of buyers and service providers.

UT research shows that successful relationships are based on a "Win-Win" strategy where the parties involved in the relationship each receive value by working toward the desired outcome – not by entering into a buy-sell transaction-based business model. Companies that employ a Vested approach work in a highly collaborative manner to achieve the desired outcomes. The parties gain through efficiencies and by working together – increasing the opportunities related to the outcome.

The Vested approach is based on Nobel Prize winning principles of John Nash and Dr. Oliver Williamson. Nash's pioneering work is the backbone for "win-win" principles (Nobel Prize 1994). The Vested approach also is foundationally grounded on the work of Williamson – who won a Nobel Prize (2009) for his work on "Transaction Cost Economics". Like Nash, Dr. Williamson challenges companies to seek a "Mutuality of Advantage" (win-win). His work digs into the cost of transactions and economically shows that companies with high degree of bilateral dependencies should use shift to more of a "hybrid" approach for working with suppliers. Vested – an outcome based approach – is a hybrid approach.

A guide to understanding Vested Outsourcing is provided in the book "***Vested Outsourcing – 5 Rules that will Transform Outsourcing***" by Kate Vitasek and Mike Ledyard. It contains definitions of the 5 Rules, as well as outlining 10 Ailments that afflict many traditional outsourcing relationships.

Why an outcome based approach? Businesses are looking for a successful outcome to their business objectives, outcomes which have very little to do with how many documents they send or how big those documents are. Regardless of the strategy employed (traditional VAN or Hosted), the simple truth is that the Desired Outcomes for any company seeking B2B data integration remain the same. Businesses want and need the following…

- Accuracy of the data transmitted
- Timeliness of transaction interchange – speed of transmission
- Security for data in transmittal, and the intermediate and end point systems
- Risk Management of service availability
- Cost Control for ongoing processes
- Implementation timeframe and cost – time to value.
- Scalability to match service volume requirements

A Vested approach challenges service providers to turn their focus to understanding these goals and working with their customers to ensure that the desired outcomes are achieved and true value is provided for the services rendered. Service providers need to understand locking in customer and then turning on a transaction-based pricing model is opaque and ultimately drives frustration with customers – especially as a customers business changes over time and volumes grow.

Likewise, buyers and sellers should come to trust in the expertise of service providers and understand that a more transparent approach to pricing does not open the door to muscle a lower price. B2B data integration service providers must continue to remain profitable and ensures they continue as a viable organization.

CHALLENGING THE STATUS QUO

While we are not aware of any B2B data integration provider that has fully embraced and institutionalized a Vested approach, one company that has been challenging conventional transaction-based approaches for B2B data integration is Hubspan. Hubspan provides B2B cloud integration solutions delivered as a managed service enabling partners and customers to extend ERP applications and automate B2B business processes throughout their communities. Companies connect to Hubspan once and from this connection are able to integrate with any marketplace, trading partner, network or applications regardless of formats, transports or business processes being employed.

Here is why we like what Hubspan is doing…

First and foremost, Hubspan gets kudos for "unbundling" their fees to better align their fees with where the value is added. The Hubspan pricing model charges a partner what seems to be a reasonable one-time cost of implementation, and then charges a simple monthly fee for on-going services which includes support, change management, business reviews, etc. While not fully transparent – it does begin to align what the customer pays to where the value is created. We particularly like the fact that Hubspan ignores the volume of data being exchanged. This prevents the "Activity Trap" we outlined above which pumps thousands of dollars in the service providers pockets simply because they have their hooks into the buyer.

Table 3 - Example of Hubspan Pricing

Case	Business Data Exchanged (with a Single Supplier)	Implementation / Setup Cost	Ongoing Monthly Fee
Example Customer 1	Automate Purchase Order and Invoice exchange between SAP and Ariba (1 buyer)	$2,000	$300
Example Customer 2	Automate Purchase Order, Invoice and ASN between MS Dynamics and Wal-Mart/Target	$2,500	$300
Example Customer 3	Automate Purchase Order, Invoice between NetSuite and Grainger	$1,500	$250
Example Customer 4	Automate real-time item update from NetSuite to Magento	$2,500	$300

Source: Hubspan. *Sample above shows example pricing for mid-market manufacturers and wholesale distributors.*

Note how Table 3 varies from the pricing tables we showed in Part 2 – where there was a lower setup and monthly costs – but price per KC. We believe the Hubspan approach better associates costs where value is provided and does not penalize customers once they get "integrated" and volumes grow.

Jim Cantrell, Hubspan's Director of Channel Programs, explained how Hubspan derives at their prices. "At Hubspan we have taken the approach to really try to align the price to the cost of the work versus bundling everything into a transaction fee. We believe this helps customers see how we create value." Cantrell went on to explain what the "implementation /set up" and the "ongoing monthly fee" includes:

- Implementation/Set Up Fees – include the cost of integration, taking into account the business process, involved trading partners, platforms and obviously integration specifics (Formats, transports, etc.), then reviews the business case and intended goals and metrics (KPI) with each potential client.
- Ongoing Monthly Fee - covers all business data exchanges of the type designated, and change management including resolution of any system changes required due to business partner requirements. In Example Customer 2 the $300 monthly fee covers the cost of transmitting and translating purchase orders (equivalent to an EDI 850), receiving an acknowledgement of receipt (an FA 997) between the customer and a single supplier / trading partner and repeating for the other documents (ASN and Invoice). The case for Example Customer 2 includes the P.O. / 850, an Advanced Ship Notice / 856, and the invoice / 810 exchanges as well as the business process management needed to insure the client and their trading partners don't need to 'touch' or massage the data (True automation).

The real benefit for clients is that Hubspan is ***not*** a transaction fee for KC. This prevents clients from being penalized when volumes increase as we outlined earlier.

Next, we like how Hubspan works with the customers to rigorously define each category of data integration / exchange rather than simply developing detailed Service Level and Billing Agreements. While SLAs are important, keeping a higher level view at the forefront of the relationship allows Hubspan and its customers to focus on achieving client integration objectives vs. micromanaging to SLAs. Cantrell comments that "We can all see that the market continues looking for "pre-packaged" integration solutions/services which incorporate defined business processes from companies who understand best practice, and who can deliver it all or as needed in real-time. We think we are in a good position to help."

We also like the emphasis that Hubspan is placing on change management as being a key component of their monthly service fee. This is important because there will always be differences between trading partner business strategies and processes, and the underlying technology on both ends. Additionally according to Cantrell, "If the supplier just wants to add another element to an existing integration, or maybe they want to add another lookup/cross reference or alter/change a business process we are managing – that is included in the formal change management process. Our experience shows that far too often companies do not have formal change management process. By embedding this into the pricing model – Hubspan is drawing attention to the fact that change management must be a basic consideration.

Companies can connect to any network or platform whether real-time or batched. Data translation, transmission, and business process logic is managed across multiple clients on the service provider's platform, enhancing their expertise and removing limits to the different types of processes which can be managed.

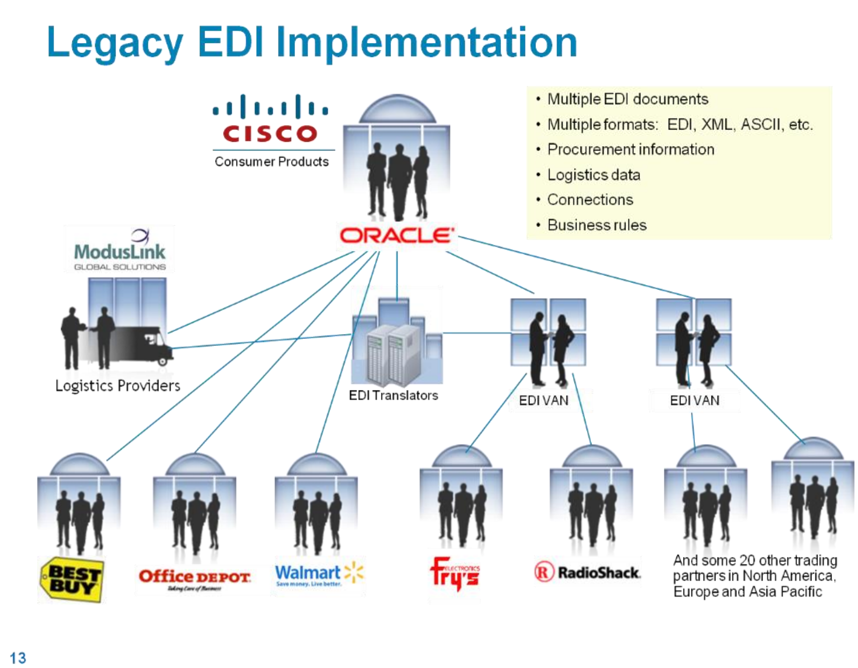
We also like that Hubspan's solution is based on Cloud. Cloud is a newer disruptive technology which is challenging the old paradigm. The Hubspan example is definitely an evolution. A Cloud based solution allows Hubspan to extend its solution in a SaaS (Software as a Service) model enabling a monthly flat-fee pricing. We believe this innovation and it is good for the consumer.

Lastly, we like how Hubspan has chosen to operate in a "multi-tenant" environment where multiple clients can access the same version of the software, with unique requirements being implemented through configuration options. This enables platform development and support fees to be much lower than individual customers doing the work internally because Hubspan can spread the costs across a wide user and connection base. And they can implement required changes quickly across the community. This coupled with a non-capital expense model, means companies can scale up or down as needed.

The solution also addresses the risk of customer lock-in. As Hubspan starts to manage more and more processing on their platform, the customers' dependency does grow on Hubspan's platform. However, there is absolute transparency in where connections are made, access to raw data and connection information. This information will allow the customers to move as quickly as they can buy/build a replacement if they choose to do so.

A good example of the Hubspan approach is found in their relationship with Cisco Systems. In the beginning (Exhibit 2) Cisco's data integration scheme looked like the following graphic with connections between multiple points, some of which were fully outside of Cisco's control.

Exhibit 2



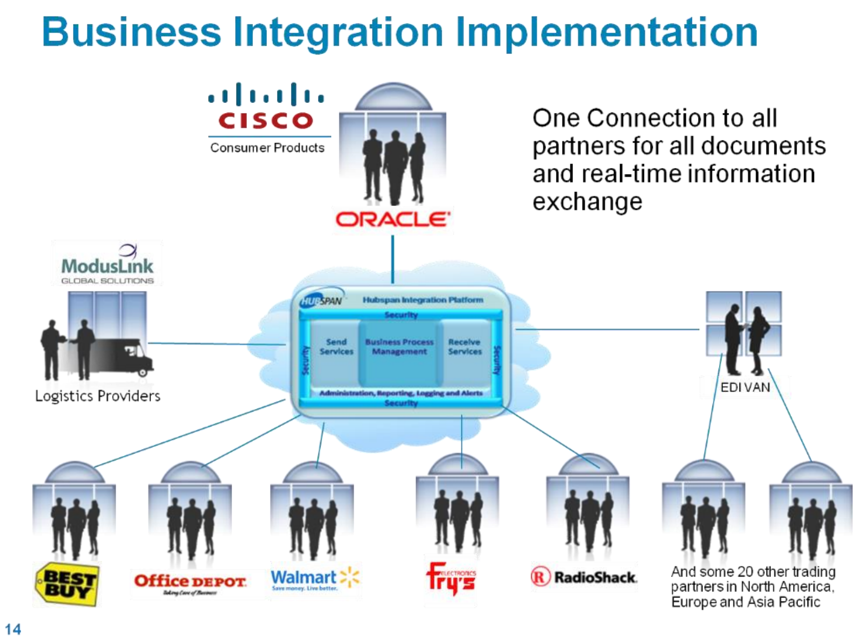
Source: Hubspan

In the “Legacy” situation Cisco:

- Managed all connections internally
- Needed multiple solutions to handle disparate formats and connections
- Had a strong investment in Oracle which was not being leveraged fully
- Each partner/connection required different business rules and logic, requiring custom coding
- There was no real-time information exchange with EDI
- Key knowledge resided within select individuals

Hubspan worked to understand Cisco’s desired outcomes and to simplify the process of connecting with Cisco’s suppliers, 3PLs and retail customers., ultimately simplifying how the B2B integration process for Cisco as shown in Exhibit 3.

Exhibit 3



Source: Hubspan

The salient points of this solution included:

- Cloud-based integration platform plus managed services and support
- Consolidation of translation and integration solutions
- Integration across back-end ERP and logistics applications for information exchange and real-time queries
- Moved IT team to manage partner relationships and strategic projects
- Expert solution provider – “Who does this for Living”

The advantages to Cisco were:

- Net savings of 2+ Full Time Equivalent positions
- FTE role change to focus on Cisco core business activities
- Tens of thousands of dollars saved in development and infrastructure costs
- Predictable, monthly subscription – no per transaction cost
- Easily scaled (up or down as needed)
- Integration on demand to Hubspan's global community
- Almost "ZERO" human intervention required

Cantrell believes the Hubspan approach much better aligns Hubspan with it's customers needs. "Each of our clients has a list of clearly defined and measurable outcomes that we jointly review on a quarterly basis. As part of that quarterly review both parties look at what can be done to improve the result and create wins for each other."

Does this effort pay off? Cantrell proudly reported that Hubspan has a 98% customer retention rate.

SUMMARY

We believe that it is time for data integration industry to rethink how they continue to incorporate sustaining and disruptive innovations in their business models – especially with regards to their pricing models. Shifting to a more Vested outcome-based approach seeks to identify how service providers create value – and creates tight alignment between customers/service providers where both parties have a vested interest in each other success. A Vested approach for B2B data integration will elevate buyer and supplier relationships to a higher level by encouraging partner discussions to focus on desired outcomes rather than connection points and price per KC.

We believe service providers who move to a more transparent and value based approach will have a leg up in creating trusted relationship with their clients. Buyers who demand a shift to an outcome based business model will greatly reduce their risk as the industry consolidates. Both will greatly benefit with a more Vested governance as they seek to drive alignment against their mutually defined desired outcomes.

While we advocate for full transparency, we are pleased to see some companies are indeed evolving and innovating to provide richer solutions and "unbundled" pricing to better align costs to where value is created. We applaud those that have already moved away from transaction-based approaches that hide where value is added and worse – penalize the best customers for volume after they have gone through the pain of integration.

OUR DISCLAIMER

This white paper is an opinion paper. It is the collective writers' best attempt to "unpack" the complexities and conventional thinking that has driven the B2B data integration industry since the 1960's, and to provide a fresh approach as to how companies should face today's real data integration problems. We did not conduct extensive research into each of the B2B service provider's pricing models – but rather we summarize typical practices in the industry that were publicly available. For this reason, we encourage you to review your existing B2b data integration pricing models.

While we point out Hubspan as challenging conventional approaches and highlight some of the positive aspects of their business model, we are not aware of any company that has fully embraced a Vested approach for working their customers.

We also conclude this white paper with a listing of additional resources that can help you on your journey to create a more Vested approach for doing business. For those who have the time and desire, we highly encourage you to read ***Vested Outsourcing: Five Rules that Will Transform Outsourcing*** and Chapter 6 (Pricing Models) of the ***Vested Outsourcing Manual: A Guidebook for Creating Successful Business and Outsourcing Agreements.*** After reviewing these resources, we are sure you will agree with us that there really is a better way for companies to develop commercial agreements with their data integration service providers.

ABOUT THE AUTHORS

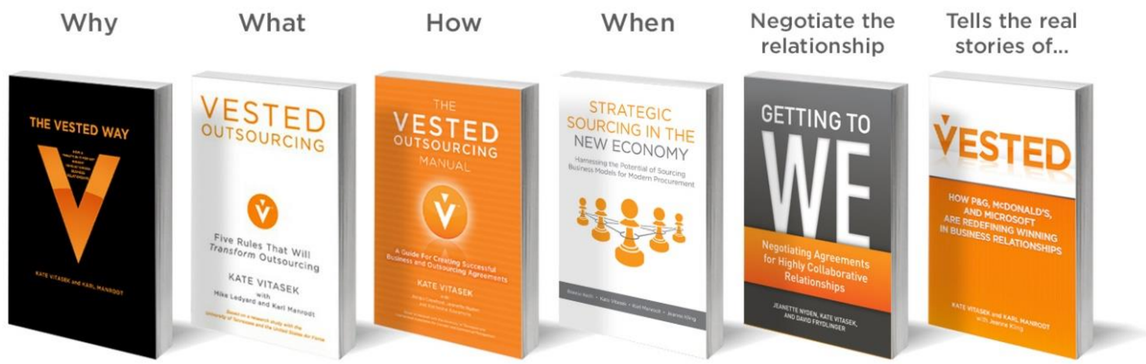
Kate Vitasek is an internationally recognized innovator in the practice of supply chain management and outsourcing. She is the author of over 300 articles and 5 books, including *Vested Outsourcing: Five Rules that will Transform Outsourcing*. She is a faculty member at the University of Tennessee's Center for Executive Education and has been recognized by World Trade Magazine on their Fab 50+1 list of people and concepts influencing global commerce. Kate has been cited by the Journal of Commerce as a "Woman on the Move in Trade and Transportation" for her leadership and was honored as a "Woman of International Influence" by Global Executive Women. Vitasek has served on the Board of Directors for the Council of Supply Chain Management Professionals, currently serves on the Board of Directors for the Sourcing Interests Group, and has been called a "Rainmaker" for her tireless effort in educating the supply chain profession. She can be reached at *kvitasek@utk.edu*

Steve Murray is a Principal Consultant and Chief Researcher for Supply Chain Visions. Steve's focus is on understanding and implementation of end-to-end supply chain processes and technology aligned to corporate strategy. His background includes over 30 years in systems analysis, software development, implementation and support in supply chain related industries. Steve can be contacted at *steve_murray@scvisions.com*

Sanjiv Aggarwal is a Principal Consultant for Supply Chain Visions and a Certified Vested Outsourcing Deal Architect. Sanjiv is an accomplished Client Relationship and Governance Executive who strategically fosters collaboration. He has successfully turned around troubled outsourcing relationships multiple times working collaboratively with Decision-making and Governance Executives at several Fortune 1000 clients to drive business outcomes. Sanjiv can be contacted at *sanjiv@scvisions.com*

FOR MORE INFORMATION:

The University of Tennessee is highly regarded for its Graduate and Executive Education programs. Ranked #1 in the world in supply chain management research, researchers have authored six books on the Vested business model and it's application in strategic sourcing.



For additional information visit the University of Tennessee's website dedicated to the Vested business model at http://www.vestedway.com/ where you can download white papers, watch videos, read articles and subscribe to the Vested blog. You can also learn more about our Executive Education courses in the Certified Deal Architect program as well as download the many resources and tools to help you understand and begin the Vested journey.