

Feeling the Pulse of Consumer Demand

FOUNTAINHEAD AND IWAY REVOLUTIONIZE RETAIL WITH NEW TECHNOLOGIES FOR SCAN-BASED TRADING

If Aladdin's lamp fell into the hands of the retail industry, the Genie might be asked to conjure up a sales cycle in which manufacturers produce merchandise in exact accordance with consumer demand. The goods would be delivered to stores just in time to be taken from the shelves by customers. As products were scanned and paid for at the checkout counter, manufacturers would be automatically paid, even as replenishment orders were electronically transferred to suppliers.

Is this type of market utopia wishful thinking? The dream is being realized through Internet-based Electronic Data Exchange (EDI) systems from Fountainhead Communications, middleware technology from iWay Software, and a technique for vendor-managed inventory called scan-based trading – a product tracking technique that uses point-of-sale (POS) data to trigger payments to suppliers.

“The next quantum step in the evolution of retail will not be in the diversity of products offered or the number of customers that come through the front door, but in the way products and inventory are managed,” explains Matt Herman, chairman of the technical committee for the International Periodicals Distributors Association (www.ipda.org), a trade association of national magazine distributors. “And like many other transformations in the Internet age, it is the way in which information is shared that will manifest the change.”

The scan-based trading (SBT) model is attractive to everyone involved. In the ideal scenario described above, the retailer has zero investment in inventory, the manufacturer has zero waste in its supply chain, consumers always find what they need on the shelves, and the entire cycle is driven by a consumer transaction. While scan-based trading has been practiced on a limited basis for several years, technology obstacles involving legacy systems and communications infrastructures have made it difficult and expensive to implement.

“By marrying new technology with old, Fountainhead and iWay have teamed to create an end-to-end solution for transmitting point-of-sale data in a fraction of the time at a fraction of the cost of previous methods,” explains Alan Heyman, president and chief executive officer at Fountainhead Communications. “Thanks to the rapid communications medium of the Internet, vendors can obtain POS information daily or even every hour. Thus, at any juncture, the vendor knows what is selling, what to produce, and what to ship to stores.”



Historical Precedents

Of course, vendor-managed inventory (VMI) isn't new. Many retailers sell goods on a consignment arrangement in which the supplier owns the inventory. What scan-based trading adds to this process is immediacy: by tracking products at the point of sale and sharing the data with suppliers via high-speed communication links, the entire supply chain moves closer to a real-time model for production, distribution and replenishment.

The big difference for retailers involves changes in accounting methods: Instead of paying for product shipments in bulk upon delivery, retailers pay for inventory when it is scanned and sold to consumers. Meanwhile, suppliers strive to minimize the time between order, production, delivery, and payment.

Vendors can use SBT information to reduce excess inventory in the supply chain and develop a more responsive operation. In that sense, SBT helps retailers achieve that elusive magic lamp of the packaged goods industry: a real-time view of consumer demand.

"Scan-based trading benefits the supplier by creating a system that closely matches the quantity of product produced and delivered with current consumer demand," explains Lloyd Tomlinson, president and CEO of LTA International, an international marketing and management consulting group. "This removes excess inventory from the sales cycle, so both the supplier and the retailer are relieved from the cost of carrying it."

New Horizons for EDI

Scan-based trading is based on rapid and continual communication among information systems. For many companies, EDI fulfills this role by eliminating discrepancies and inefficiencies. Traditionally, EDI communication between retailers and vendors traverses Value Added Networks (VANs), with the cost based on volume. But scan-based trading implies many more transactions, which makes the traditional EDI model unworkable.

"Scan-based trading over Internet EDI provides point-of-sale information daily or even hourly," says Matt Herman, chairman of the technical committee for the International Periodicals Distributors Association (www.ipda.org), a trade association of national magazine distributors. "With the standard pricing model for VANs, tacking a few cents onto a large ticket item like a stereo system or refrigerator

has little impact on profit. But for smaller items, like a pack of gum or a magazine, it is impractical."

Fountainhead and iWay are supplying the technologies that make scan-based trading both useful and affordable.

Fountainhead's FCIWebnet picks up universal price code (UPC) data as a point-of-sale transmission and delivers it to the vendor over the Internet up to 80 percent cheaper than conventional VANs. Then, iWay translates the POS data to work with just about any legacy system, with native access to more than 120 databases and application sources.

"Integration is the linchpin," says Tomlinson. "You have to integrate the retailer's back-office with the vendor's back-office, including systems for planning, forecasting, inventory management, production, and accounting. The types of applications, data and computer platforms involved varies from one company to the next, according to the legacy systems they have in place."

The price dynamics are also appealing. While conventional VANs are based on volume, Fountainhead offers its service at a flat rate. And instead of receiving point-of-sale data once a month, users can get it for the same cost once a day.

"Using the platforms that businesses already have in place, we can transmit EDI data over the Internet at T1 speeds," explains Heyman. "We can process this data much less expensively than with traditional EDI systems. And whatever those back-end

systems may be, the middleware will translate it accordingly."

Technology Convergence

As with many of today's business-to-business (B2B) technology initiatives, the retail industry is striving to achieve a just-in-time inventory model. iWay and Fountainhead offer a solution that efficiently leverages companies' investments in EDI and related back-end systems to make this seemingly magic scenario possible.

The real-time information flow made possible by FCIWebnet solves inventory management problems for both retailers and vendors, while middleware technology from iWay enables many different types of information systems to easily exchange information.

"Through relatively small modifications to existing supply-chain, inventory, and point-of-sale systems, a real-time view of market demand can be achieved," Herman concludes. "Once you can accurately and efficiently collect the POS data, there are huge advantages to having a real-time pulse of consumer activity." 🌀

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