

The background image shows two men in dark suits standing on a wide set of stone stairs. They are facing each other and appear to be in conversation. The man on the right is holding a black briefcase. In the background, there are modern high-rise buildings with many windows, and a fountain with water spraying upwards. The sky is filled with heavy, grey clouds. A decorative curved banner in shades of yellow, orange, and red is at the top of the page.

Orchestrating the Entertainment Supply Chain

How a Mature B2B Program Ensures Greater Supply Chain
Success Today and Tomorrow in the Face of Digital Distribution
and New Retailer Demands

Today, physical distribution is the primary means of delivering most game, movie and music titles, but the entertainment industry trends indicate that these channels will shrink significantly. In the next five to seven years digital distribution will become the rule rather than the exception for delivery of entertainment titles. The challenge for entertainment companies is to meet today's physical supply chain demands while not investing too much in expensive hardware and integration software that will have diminishing value as demand for physical goods decreases.

As entertainment companies attempt to address the move to digital distribution, retailers are providing an additional challenge. For years, the popularity of entertainment titles has protected entertainment companies from enforcement of many supply chain compliance penalties by retailers. However, retailers are now telling entertainment companies they will be enforcing compliance penalties for their products just as they do other retail products. This means entertainment companies must improve their supply chain performance—delivering the right product at the right time to the right location. In essence, they are now being graded in their ability to deliver the perfect order.

It is not known how fast the distribution model will shift. But, the physical product will continue to be in demand by some consumers for an indefinite period. Entertainment companies must address today's distribution challenges and deliver the perfect order now while planning for reductions in physical product purchases over time. Operating efficiencies are mandatory when facing tight margins, stronger retailer demands and a growing global consumer base. There is a need to optimise Supply Chain Management and B2B e-commerce technologies for the best bottom-line impact.

Challenges of Entertainment Industry Product Management

The entertainment industry uses a three-tiered model that requires precise timing of physical product and information flows to meet consumer and retailer demands (Figure 1). The three tiers are:

1. **Retailers**—The retailer sells the product directly to the consumer either through a brick and mortar store or via online or catalog sales.
2. **Entertainment companies**—The entertainment company owns the brand/title and determines distribution requirements along with retailers.
3. **Distributors**—The distributor both manufactures the finished goods (duplicates and packages) and ships it to retailers, either distribution centers or, more often, to individual stores.

RISKY BUSINESS NEEDS LOW RISK SUPPLY CHAIN

In a 2008 SEC filing, Take Two Interactive indicated margins of just 6.5% on sales of around £1 billion. 43% of the revenue came from outside of the United States compared to 37% in 2007, so global sales are growing as a percentage of total sales.

Yearly fiscal performance of entertainment companies can depend on the success of just one or two titles. Getting a hit is difficult because consumer interests are hard to predict. In this case, Take Two got one right. Its big seller was Grand Theft Auto IV. Even with a top title, they had a relatively low margin. In what can be a low-margin high-risk industry, entertainment companies can benefit from a mature and global B2B solution that helps protect margins and provides capabilities without requiring adding the staff necessary to communicate with and service retailers around the globe.

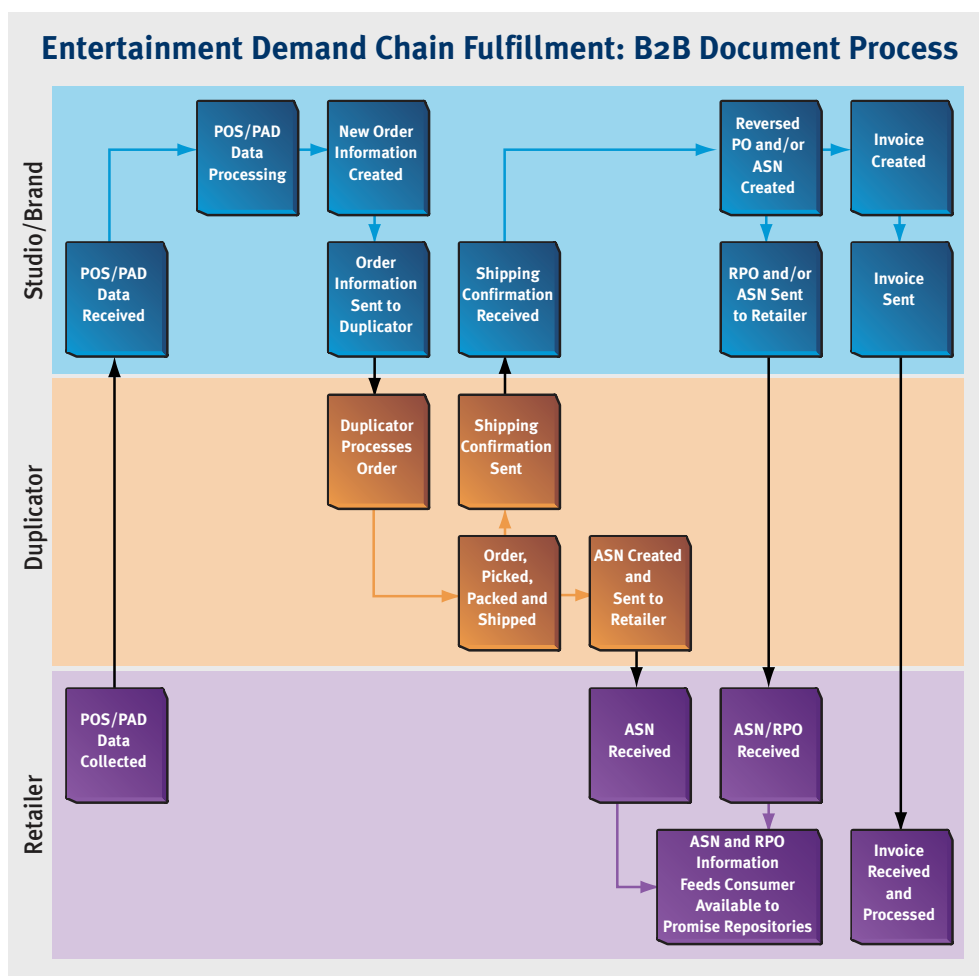


Figure 1: B2B in the Entertainment VMI Supply Chain

Most entertainment titles will generate around 80% of the revenue they will ever generate within the first two to three weeks of their release. Yet each title is unique enough that forecasting demand is often difficult. This means that entertainment companies must be able to quickly sense and react to consumer demand to ensure the right amount of product is produced and available on the shelf.

A best practice increasingly adopted by retailers and entertainment companies is the use of a vendor managed inventory (VMI) model. Orders are self-generated by entertainment companies based upon actual consumer demand patterns determined from point-of-sale (POS) data. The entertainment companies must quickly perform sales and inventory analysis to determine appropriate replenishment requirements. Order quantities are forwarded to distributors that manufacture and ship the appropriate number of every given title to the retailers. Generally the shipment must be “in-transit” within 24 to 36 hours of the POS data being received by the entertainment company. Failure to execute on the part of the retailer, entertainment company or distributor can mean significant negative impacts on revenue, profitability and consumer confidence. Success demands the use of B2B e-commerce technologies to accurately transmit large volumes of valid inventory, sales, logistics and order data between three tiers of the supply chain in real-time.

Orchestrating B2B in the Entertainment Industry

The Mature B2B Program

A mature B2B program should include product data quality, data synchronisation, sharing of POS data, electronic order delivery to distributors, advance ship notices to retailers and electronic invoicing. Through a mature B2B program with these elements, entertainment companies can ensure that:

- Product attribute data is accurate for new titles throughout the supply chain from entertainment company to distributor to retailer
- Purchase order and demand planning information is accurate (validated against known good product attribute data) so the right products are produced and shipped
- Retailers are aware of and ready for all inbound shipments in both VMI as well as traditional order management models
- Entertainment companies deliver a customised experience for each retailer using their established business processes to minimise compliance penalties

From creating and disseminating product information through demand visibility to production and then delivery of the product, the B2B program needs to be:

1. Comprehensive
2. Accurate
3. Near Real-Time
4. Cost Effective
5. Reliable

Such a program will ensure the information used is accurate, transactions are successful and shipments get where they need to when they need to be there. The mature B2B program addresses the following aspects of the entertainment industry processes:

- Ensuring demand accuracy through Product Data Quality (PDQ)
- Optimising product distribution with Advanced Shipment Notices (ASN)
- Differentiating entertainment company performance on retailer scorecards
- Minimising technology risk with high availability platforms

Ensuring Demand Accuracy through Product Data Quality

The foundation of a mature B2B program is accurate information. Product attributes include dimensions and weight so proper consideration can be given to space allocation and transportation costs. Attributes also include identifying information like the Global Trade Identification Number (GTIN), descriptive information regarding the product and how it is used (widescreen formatted DVD for instance), and other information that the retailer, distributor or consumer might find useful. Beyond the efficient operations of the supply chain, data accuracy is essential in an industry sector that has products that require content ratings for appropriate audiences. This information needs to be on boxes, shared in advertising and more. Likewise, the reasoning for a given rating—violence, nudity, language—needs to be shared. Inaccuracies can lead to legal and financial risks for retailers and entertainment companies alike.

Entertainment companies must consider PDQ tools and master data management initiatives that define and enforce proper data handling to ensure data is correct throughout the supply chain. Correct, in the context of data quality, implies that the information is complete—normalised so the same attributes (ratings, language, platform and format, for instance) are always referred to in the same way. Furthermore, product data should be accurate according to industry, sector and trading relationship rules. After the original data is validated, manual data entry at any stage of the process (by any of the participating organisations) will disrupt effective supply chain operations because data could become corrupted. With such a short product revenue life cycle, entertainment companies cannot afford to have their titles suffer from erroneous data.

After the product launch, timely delivery of accurate demand data is required so that entertainment companies can calculate appropriate replenishment levels and pass that information on to the distributor. Retailers must collect POS data daily from each store, aggregate it and then send the resulting files, which are very large, to the entertainment company. In order to ensure accuracy—and timely replenishment—entertainment companies should ideally compare inbound POS transactions to known good product attribute data. A few miscues on the part of the retailer can and do lead to data corruption. These include manual data entry, poorly executed extraction programs and broken translation maps. If entertainment companies link POS data to Internet rating services they also face the real possibility that the Internet rating service data has inaccuracies, too.

These inaccuracies include sales totals that do not align with available inventory for a given store, information for products that are not owned by the entertainment company and inaccuracies related to the actual attributes reported on—GTINs, for example. Since some POS data will have inaccuracies, validation against known good data can streamline the replenishment process. Any invalid data needs to be culled out and brought to the attention of the appropriate staff in order to review the situation

ENABLING ACCURATE DATA

One of the world's leading consumer electronics retailers, Best Buy, won an award from VICS in 2007 for their initiative that combines data synchronisation with product information management internally, and a supplier facing product data quality tool that ensures product data is accurate before being synchronised and integrated into their systems.

For their own sake, entertainment companies should pursue product data quality initiatives for their data so they can ensure that the data they use, and the data they share with their supply chain partners, is accurate. Supply chain performance is only as successful as the data is accurate.

ORDER INFORMATION IS UNRELIABLE

In June 2008, Lora Cecere of AMR Research reported (How Well Does Your Company Take Orders?) that “While 40% of orders are transmitted electronically by B2B technologies, they are hardly hands-free processes. Instead, 50% of B2B orders are manually handled after receipt, adding over 24 hours to the order-to-cash cycle.”

Suppliers know that this manual handling often comes from erroneous data. Sometimes these errors are not caught and then suppliers are penalised for problems that they did cause. But, the problems could have been corrected. For entertainment companies that receive purchase orders electronically from retailers, validating inbound purchase orders against good product data will ensure that order information is good before it is brought into internal systems. The same validations for POS data must be performed as well, as the same bad data will show up in those files as well.

with the retailer. Data quality tools automate this process so that entertainment companies can efficiently and effectively validate inbound data and begin running reliable replenishment projections.

Optimising Product Distribution using Advanced Shipment Notices

After the initial product launch, shipping activities will continue for the life of the product using either traditional order management processes or a continuous replenishment model based on VMI. Success relies on:

- Retailers sending POS data in a timely manner to entertainment companies
- Entertainment companies verifying POS and order data accuracy and then correctly and quickly analysing that data to determine the recommended store-level order quantities
- Entertainment companies sharing results with the distributor
- The distributor producing the appropriate quantity of product and then shipping packaged units to the retailer.
- The replenishment shipment being in transit between 24 and 36 hours after the retailer sends the POS data

Shipments generally go by small package carrier and are delivered directly to a store. Entertainment companies usually use distinctive box artwork or labels to ensure quick recognition by store receiving staff that time sensitive entertainment products are enclosed. This ensures rapid replenishment—especially of new titles, the sales of which are the most time sensitive.

A key to ensuring that products are received and put on the shelf efficiently is the use of Advance Ship Notices (ASN). Distributors will typically notify both the retailer and entertainment company that the products have been shipped and are en route. Sending an ASN for each shipment will allow a retailer to know what to expect at each store and when it will arrive. This means that the store knows what is in the box and can plan for receipt. The retailer can also use this information to provide availability information to consumers for out of stock products. The use of data quality tools and an ASN can also help reduce “bad” shipments that lead to shortages and overages. The ASN tells the store exactly what is in the shipment, eliminating errors that occur when, for instance, the box is opened and the receiving staff assumes that all items in the box are one title when the three on the bottom are actually a second title.

Differentiating Performance on Retailer Scorecards

Entertainment companies have, until now, enjoyed a reprieve from compliance penalties for the most part. Increasingly, retailers are including entertainment companies in compliance, perfect order and scorecard programs. As a result, entertainment companies need to ensure that B2B performance maximises performance on scorecards or risk financial penalties and relationship damage. The average retail supplier in the United States loses approximately 2% of gross sales to compliance penalties. For a company with 6% margins, 2% is a significant number.

MATURE B2B

In February 2008, Lora Cecere of AMR Research released a study of 150 consumer product manufacturers (Want To Increase Revenue? Invest in B2B.). She reported that “among the study participants, 61% saw improved revenue from their B2B initiatives, and companies with mature B2B programs saw even better returns.”

It is critical for entertainment companies to deploy mature B2B programs as quickly as possible. B2B programs become more mature through integration with more retailers and automation of more types and quantities of documents.

The Perfect Order is one of many types of metrics being used within the retail industry to measure supplier performance and assess compliance penalties. The Perfect Order model consists of measuring these four things about an order:

1. Accurate Documentation
2. On Time
3. Complete
4. Damage/Defect Free

B2B plays a significant part in the first three of the four perfect order measurements. Automation of documents within a transaction ensures consistent and accurate information delivery, which helps to ensure that shipments are complete and on-time. A mature B2B program is a critical requirement for entertainment companies seeking to score well on retailer perfect order measurements. In fact, companies that automate their B2B appropriately should be able to reduce retail compliance penalties by up to 50%.

Minimising Technology Risk with High Availability Platforms

A mature B2B program also ensures availability of service. Backup systems and the ability to fail over to a secondary locale are essential. Systems must be available when and how the entertainment company needs. And “how” is a key word. The B2B system must have the ability to reliably handle all types of data. POS data is different from traditional order-to-cash document transactions. POS files are very large and time constrained. They need special processing. “How” also includes the fact that every retailer has a slightly different perspective on data, and thus an entertainment company must be able to send and accept the same data in different formats (EDI, XML, flat file and others) while using a variety of protocols (AS2, S/FTP, FTP/S and others) to transmit and receive the data.

Maturing your B2B E-Commerce Program

Achieving a mature B2B program requires integration of all appropriate documents (e.g. POS, Purchase Orders, PO Acknowledgements, Ship Notices and Invoices) with all large and mid-sized retailers. Maturity requires that product attribute data is accurate throughout the entertainment company’s systems and those of its distributor. A mature B2B program also enables synchronisation of that product data with retailers before the first order is ever placed. A mature B2B program completely automates order-to-delivery messaging—including orders, acknowledgements, invoices and ASNs—and POS data delivery with the validation of that information against known good product values. And the proper program should enable accurate invoicing as well.

Just as important, a mature B2B program will ensure global availability for trading with retailers around the world. It will include a team that can quickly and reliably onboard suppliers simultaneously in Europe, Asia, North America, South America, Africa and the Middle East. B2B program support teams need to speak local languages. Additionally, B2B applications must support trading with business partners that use different languages and currencies. Furthermore, B2B teams must not only speak local languages but also understand the challenges of doing business in different countries.

In summary the mature program is based on the number and types of transactions that are automated, the number of partners participating and the capabilities of the staff and tools supporting the program. Some entertainment companies have considered outsourcing B2B programs to the distributors, but identified several challenges. Potential problems include information, integration and role confusion when using multiple distributors. Furthermore, there is a risk that a distributor may go out of business unexpectedly because of the sharp decline in physical distribution volumes.

How, then, can an entertainment company best optimise B2B e-commerce to their advantage?

OUTSOURCING BRINGS VALUE

A 2007 study by Stanford Global Supply Chain Management shows that companies outsourcing their B2B saw an average of nearly 250% ROI. Nearly half the participants had outsourced for only a year—making the 250% number even more striking. The study shows that outsourcing starts paying benefits almost immediately. Some of those benefits include:

- Reduced backlog in B2B projects
- Two to four times the number of partners integrated
- Greater flexibility
- Less risk
- Better availability

B2B Outsourcing—The Fast Track to Mature B2B

An alternative to in-house and distributor run programs is B2B outsourcing to a specialised IT services provider. Such providers can customise an e-commerce program specific to the needs of an individual entertainment company. B2B outsourcing provides a mature B2B program right from the start. Entertainment companies that want to reduce the dual risks associated with digital distribution and retailer compliance requirements and also address the challenges faced with a growing global retail customer base need to consider outsourcing their B2B integration. B2B outsourcing providers with global operations already have staff located in the right regions, employ people that speak the local language, have built out the B2B technology infrastructure and are integrated to both the carriers and to government customs offices. Because of these factors, B2B outsourcing providers can enable a mature B2B program more quickly than an in-house initiative.

Entertainment companies can focus on what they do best if they are free from having to build out a B2B practice of people, process and technology. Meanwhile, B2B outsourcing can accelerate the ROI from supply chain automation programs by offering margin contributions within months of signing a service contract rather than waiting for several years until a software package and associated processes and programs are fully deployed. When a retailer changes its requirements, the outsourcing B2B infrastructure will support those requirements since the outsourcing business model is built and staffed just for such flexibility. Outsourcing offers entertainment companies not only reduced risk, but guidance from an experienced partner for a predictable, monthly cost.

As mentioned at the onset of this paper, the challenge facing entertainment companies is meeting today's physical supply chain demands while not investing too much in expensive hardware and integration software—systems that will potentially have rapidly diminishing value over the next several years. B2B outsourcing will provide the mature infrastructure an entertainment company needs when they need it but eliminates the need to purchase the software and the hardware to run it on. Outsourcing also eliminates the need to lose precious time and pay penalties while waiting for an infrastructure to be built or upgraded. Timeliness brings value since the move to digitised distribution is accelerating. B2B outsourcing also reduces or reassigns supply chain staffing costs.

In short, B2B outsourcing reduces the wait before a company starts seeing supply chain benefits while eliminating concerns with B2B inflexibility. A global B2B outsourcing

partner provides safeguards against business, regional, political and other changes that might require moving or changing operations quickly. A good B2B outsourcing partner is probably already doing today what you will need to do tomorrow.

About GXS

GXS is a leading global provider of B2B e-commerce solutions that simplify and enhance business process integration and collaboration among trading partners. Organizations worldwide, including more than 70 percent of the Fortune 500, leverage the on-demand services on GXS Trading Grid® to extend supply chain networks, optimise product launches, automate warehouse receiving, manage electronic payments and gain supply chain visibility. GXS Managed Services, GXS' B2B outsourcing solution, empowers customers with the expertise, technical infrastructure and program support to conduct B2B e-commerce with trading partners globally.

Based in Gaithersburg, Md., GXS has an extensive global network and has local offices in the Americas, Europe and Asia-Pacific regions. GXS can be found on the Web at www.gxs.co.uk.

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