

BACK ORDER/PRODUCT AVAILABILITY NOTIFICATION

GREEN PAPER

Issue Statement

Back orders create non-value-added expenses. This issue paper identifies tools that can be used to minimize these non-value-added costs, since the reality is that on-going fill levels of 100% are not realistic. Shortages do happen.

These costs are realized through a potential 'lost sale', as well as through the resources and time required to manage back orders from both trading partners' perspective.

For all concerned, the traditional management of back orders involves extensive follow up, additional handling and shipping charges, not to mention the loss of goodwill resulting from the negative impact on service levels.

Issue Analysis

There is no standardization of policies for handling back orders. Some manufacturers/distributors accept back orders. Others do not, and instead, have a re-order policy.

The perception is that the three channels of distribution selected can potentially generate their own particular back order scenarios and different sets of challenges:

The three channels:

- ◆ Manufacturer to Wholesale
- ◆ Manufacturer to Retailer
- ◆ Wholesaler to Retailer

However, in reality they are all focused on the same key issues:

Common challenging issues:

- How are their customers' shorted, regular replenishment orders filled in the most expedient and cost efficient manner?
- How are shorted, upcoming promotional items handled? And lastly,
- What role—if any--does e-commerce play in managing back orders?

Electronically Challenged:

Organizations that do not have e-capability may find that managing backorders is easier and less time consuming than a reorder policy. However, they may continue to order and place false demands on inventory, hence causing unnecessary returns.

In the retail sector, backorders may still be active. However in the interim, they may source product elsewhere, then not need backorder product(s) when it comes in.

Electronically Capable:

Organizations that are electronically capable are more apt to move to a reorder policy. Exceptions and promotional items* would need to be identified. Depending on order patterns, they may miss out on stock availability. If stock demands increase, the safety stock may have dwindled prior to the receipt of the next replenishment order.

Goals:

1. Minimize the non-value-added costs resulting from the management of back orders.
2. Fill these shorted items in the most expedient manner.
3. Ensure promotional items are identified and handled accordingly.
4. Maximize the potential of available e-commerce capabilities in the solution process.

Recommendation - Future Scenario, i.e., all trading partners e-Capable:

The recommended best practice scenario is to have a re-order only policy. Eventually, all trading partners will be e-Capable and conducting e-Based business throughout the supply chain.

In determining how to implement this recommendation, consider the following:

For customers with an order cycle time (purchase order to product receipt) of less than one week, a reorder only policy would be in place. For order cycles of greater than one week, a backorder management policy would be in place.

For the latter customer, an Advance Shipping Notice (ASN – EDI Transaction set 856) may eliminate the need to manage backorders, regardless of the order cycle time. The ASN is a shipping notification that contains product shipped, routing, trailer SSCC-18 number, bill of lading number, shipping and delivery dates, as well as, volume and weight.

***Exceptions – Definitions:**

Promotional Items: Any product offering that receives promotional support beyond any regular acquisition cost and payment terms.

Exception Items: Extraordinary circumstance or items that have been agreed to between trading partners such as life saving drugs and critical hospital products.

Product Availability Notification Best Practice

Back-orders create non-value added activities for Manufacturers, Distributors and Retailers and therefore increased costs. It is recommended that trading partners utilize electronic communication for backorder information. It has been noted that information on product availability can be interpreted differently and communication of these dates can vary by several days between trading partners and even within organizations.

The product availability notification procedures/processes have been developed in order for a manufacturer to effectively provide their trading partners with a status report from the day product(s) have been shorted or no longer available (e.g. discontinued products). The system allows for the manufacturer to change the date and alert their trading partners when new information about the status of the product is available.

In order to address the communication issue relating to product availability, CAPDM is recommending the use of the 870 EDI Transaction set for notification. The 870 Order Status Report has been approved by Electronic Commerce Council of Canada (ECCC) as the Canadian standard for communicating product availability (*see attached 870 Order Status Report*).

Electronically communicating information for all three channels should eliminate the inconsistent information, and provide a more efficient and effective way to communicate product availability information. As a result, customers will be better able to plan for replenishments of out of stock items.

Common Challenging Issues

- How retailers are receiving information from the manufacturer or distributor today
- How updates in product availability information are being communicated
- How accurate, timely and consistent is the current product availability information
- Capability of all channels to send/receive electronic updates

Goals

- Minimize the non-value added costs resulting from the management of product availability
- Communicate this information in the most expedient manner
- Ensure accurate and precise information is delivered to all levels within the supply chain

This process should be followed in implementing the 870 EDI transaction set:

Manufacturer

The *manufacturer's release date* is entered into the manufacturer's computer system. This date represents the first date the product is available for shipping from the manufacturer's warehouse. If there is a change in this release date, the system automatically reissues a new 870 EDI Transaction to any accounts that have previously ordered the products since the shortage. There are three possible formats in which the product release date message can be provided through the 870 EDI transaction:

- Simple Item Message: this format provides for the product notification of a single message for one item
- Multiple Item Message: this format provided notification of several items, possibly from different P.O.'s – no quantity information provided
- Multiple Detailed Item Information: various items identified, from one or more P.O.'s and the associated quantities are identified.

Distributor

The distributor receives the 870 EDI transaction. This information should be integrated into the distributor's computer systems. This information should be made available to buyers, expeditors, customer service, logistics and order entry. The distributor should factor in lead times, receiving and re-stock time, in calculating the *distributor's release date*. If the retailer places an order, this date would appear on their invoice as the availability date.

Electronically Challenged

Organizations which do not have the capability to transact an 870 EDI should communicate this information to their trading partners via fax or e-mail.

This information is critical to an efficient supply chain and should be delivered to your trading partners regularly.

Glossary

Manufacturer's release date – The first available date the product will be shipped from the manufacturer's warehouse. This is critical information for the distributor's buyer and expeditor.

Distributor's release date – The date the product will be ready to ship to the retailer i.e. manufacturer release date plus lead time, receiving and re-stock time. This is critical information for the retailer.

Evaluation Criteria

To aid in implementation, the CAPDM pharmacy distributors are encouraged to utilize the evaluation criteria chart below. Once implemented, the evaluation chart can be used to measure the performance of a manufacturer in regards to back order management.

Back Order/Product Availability Notification Green Paper Evaluation Criteria

	Unacceptable		Acceptable		Best Practice
Back Order Policy	No system for Back Orders - No ASN capability, no allocation management, poor communication flow		Back Order held for predetermined amount of time, Adequate information flow, possible electronic communication i.e. ASN, manual allocation process		No Back Order Policy - Allocation process - Automated notification process - ASN utilization- Great information flow