EDI-ELECTRONIC DATA INTERCHANGE

What is EDI?
EDI or Electronic Data Interchange as its called is an application to application transfer of business documents between computers. For this transfer of files to happen, it requires that the sender and receiver agree upon a standard document format for the document that is to be transmitted. EDI is a new way of doing business. EDI provides a new, fast, inexpensive, and safe method of sending purchase orders, invoices, shipping notices and other frequently used business documents. The EDI documents are transferred very quickly, thus saving a lot of time.

How EDI operations work?
EDI starts with a trading agreement between you and your trading partner. You make joint decisions about the standard to be used, the information to be exchanged, how the information is to be sent, and when information will be sent. The information can be sent in 2 ways, a direct connection (Point-to-Point), or through a VAN.
To send a document, you use your EDI translation software to convert the document format into the agreed upon standard. The translator creates and wraps the document in an electronic envelope and puts the ID for your trading partner on it. If you attempt to do EDI without translation, you run a great risk of transmitting data that your trading partner will not be able to read. Your trading partners may use business applications on computers that are different than yours. The translator ensures that the data you send is converted into a format that your trading partner can use.

Advantages of EDI
Save Time
EDI also saves time over paper processing since the transfer of information from computer to computer is automatic and electronically done. There is no need to With EDI, retyping of information is not required. Also the errors are reduced to the minimum or none.

Saves Money
As there is no use of paper the cost of paper and paper processing is saved which is incredibly high compared to a properly implemented EDI program.

Improve Customer Service
The quick transfer of business documents and marked decrease in errors allow you to do business faster and more efficient.

Disadvantages of EDI
Too Many Standards
There are too many standards bodies developing standard documents formats for EDI. For example your company may be following the X12 standard format, while your trading partner follows the EDIFACT standard format.

Changing Standards
Each year, most standards bodies publish revisions to the standards. This poses a
problem to EDI users. You may be using one version of the standard while your trading partners are still using older versions.

**EDI is Too Expensive**
Some companies are only doing business with others who use EDI. If a company wants to do business with these organizations, they have to implement an EDI program. This expense may be very costly for small companies.

**Limit Your Trading Partners**
Some large companies tend to stop doing business with companies who don't comply with EDI. So you can do business with only those companies who are using EDI.