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e-Procurement as a Strategic Advantage

As the economy becomes increasingly competitive, sustaining competitiveness and profitability requires organizations to focus on product innovation, higher quality, and faster response times, all of which must be delivered at the lowest possible cost. For many manufacturing and wholesale distribution organizations, this focus falls squarely on an effectively managed supply chain. Firms with the most competitive supply chains are and will continue to be the big winners in contemporary business.

While all of the links in the supply chain must be strong and well integrated, a key link that sets the foundation for the others is building a strong supplier base that can help the organization deliver on the competitive advantages needed to succeed.

Strategic Purchasing Functions

Purchasing can be seen as either strategic or transactional. Strategic buying involves the establishment of mutually beneficial long-term relationships between buyers and suppliers. As the role of purchasing grows in importance, purchasing departments are being charged with even more responsibilities.

Responsibilities include:

- coordinating purchase needs with user departments
- identifying potential suppliers
- conducting market studies for material purchases
- analyzing proposals
- selecting suppliers
- issuing purchase orders
- meeting with sales representatives
- negotiating
- administering contracts
- resolving purchasing-related problems
- maintaining purchasing records

Strategic purchasing enables firms to foster close working relationships with a limited number of

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suppliers, promotes open communication among supply chain partners, and develops a long-term strategic relationship orientation for achievement of mutual goals.

E-Procurement Benefits

Electronic purchasing, also known as e-purchasing or e-procurement, is a powerful tool that enables organizations to turn their purchasing department into a strategic function. E-purchasing automates and extends manual buying and selling processes, from the creation of the requisition to payment of suppliers.

Communication needed in competitive bidding, purchase order placement, order tracking, and follow-up are enhanced by the speed and ease afforded by establishing online systems. In fact, e-procurement is considered one of the characteristics of a world-class purchasing organization.

The use of e-procurement technologies in some firms has resulted in the following benefits:

Reducing costs - Costs can be reduced by leveraging volume, having structured supplier relationships and by using system improvements to reduce spending while improving quality and supplier performance. E-procurement eliminates paperwork, rework and errors.   Cost efficiency results from a variety of factors including reduced time between order creation and order fulfillment, greater selection of goods and services from which to choose, formation of trading communities to consolidate buying power, the opportunity to purchase surplus products and services below market prices.

Visibility of spend - Centralized tracking of transactions enables full reporting on requisitions, items purchased, orders processed and payments made. E-procurement also helps ensure compliance with existing and established contracts.

Productivity - Automated procurement processes can yield significant time savings at all levels across an enterprise, increasing opportunities for employees to focus on more strategically important tasks and functions.

Increased opportunity to leverage preferred vendor relationships - According to a leading e-procurement systems vendor, 80% of indirect goods and services are purchased from vendors classified as "other." This results from the frustrations and time delays inherent in processing paper-based purchases. This practice decreases the volume of purchases from preferred vendors and consequently drives up costs. Buyers can search electronic catalogs containing goods and services from multiple suppliers and compare products and prices on-line. Real time communication allows buyers to check current prices and quantities. Suppliers can provide instant PO status. In addition, internal users can obtain the items they want from a catalogue of approved items through an on-line requisition and ordering system, freeing up procurement staff to concentrate on strategic sourcing and improving supplier relationships.

Controls - Electronic catalogs provide a standardized listing of items allowing for easier item comparison. Business rules governing all users and all transactions can be built into the application. Regardless of where they're located, buyers can access catalogs using a

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standard web browser. Standardized approval processes and formal workflows ensure that the correct level of authorization is applied to each transaction. Compliance to policy is improved as users can quickly locate products and services from preferred suppliers and are restricted from making purchases outside of policy.

Best Practices in Getting Started with e-Procurement

E-procurement advantages can only be fully realized when the systems and processes to manage it are in place. In today's digital marketplace, businesses increasingly use

electronic systems for more efficient, predictable, transparent and secure management of their supply chains.

Consider these questions before you choose an e-procurement solution or provider, and consider how your answers will help you minimize the risks and maximize the rewards of your new system:

Is my organization ready for e-procurement? How will my current procurement processes need to change to maximize e-procurement?

Do you have a well-established procurement strategy and policy? How will e-procurement integrate into that strategy? If you don't have a

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Is Your Procurement Process a Strategic Advantage for Your Company?

Does it:

- support the firm's operations with an uninterrupted flow of materials and services;

- buy competitively and wisely (achieve the best combination of price, quality and service);

- minimize inventory investment and loss;

- develop reliable and effective supply sources;

- develop and maintain healthy relations with active suppliers and the supplier community;

- achieve maximum integration with other departments, while achieving and maintaining effective working relationships with them;

- take advantage of **standardization** and simplification;

- keep up with market trends;

- analyze and report on long-range availability and costs of major purchased items;

- continually search for new and alternative ideas, products, and materials to improve efficiency and profitability?

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strategy in place, how can you build one that will support e-procurement? Is your business model aligned with your system model? Where are the gaps and how can they be closed?

Best Practice: Make the technology work for you. Many companies select software they hope will make them more efficient, and they structure their workflows and processes around that chosen technology. Instead, you should first review your processes and determine where you need improvement, and only then select technology that best meets those needs.

How will I bring my suppliers on board?

E-procurement will change the buyer/seller relationship. How will your current supplier relationships need to change to maximize the e-procurement solution? What strategies must be developed to build and maintain those relationships?

Best Practice: When implementing an e-Purchasing solution, supplier engagement is a crucial success factor. They will provide all the information necessary to build and maintain catalogues, and have to integrate with the technology platform. Some supplier companies may not be ready to integrate with an e-procurement solution, while others may be veterans of such projects. An e-readiness analysis of the supply base is essential when selecting which suppliers to bring online.

How can I ensure a scalable solution that will support future growth?

Will your current infrastructure support e-procurement? Is your hardware configuration scalable to support additional servers, processors, and an increase in transactional volume?

Best Practice: Web-based procurement applications can be configured to meet the unique needs of buyers and sellers and be scaled to grow as the organizations grow. E-procurement software must be object-based to support the addition of custom or third party applications, as well as easy integration with your current back office systems, as the needs of your marketplace change.

Conclusion

Industry studies indicate that e-procurement is poised for explosive growth. Factors driving this growth include the number of buyers and suppliers participating, increased accessibility to authorized users throughout an organization, improvements in e-commerce software, and organizational growth. This translates into increased transaction volume that can easily overwhelm the capacity of an e-procurement system.

If your supply chain needs some strategic attention, considering e-procurement can help you lower costs, strengthen your supplier base, reduce the procurement lifecycle, and improve your overall control of the process.

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