

# E Procurement – A Money Saving Factor

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## ABSTRACT

*An average organization spends 40 per cent of purchasing expenditure on non-production (indirect goods) items like travel, office supplies and services. Optimal supply chain collaboration requires streamlined, collaborative business processes and a supporting technology infrastructure that enables synchronization of information across the extended enterprise. As they strive for competitive advantage, today's organizations are increasingly reliant on deeper, more complex interactions with their business partners. While e Procurement can deliver significant 'buy-side' cost savings to business, a number of innovative companies, and marketplaces, are now looking at other appropriate areas of their business to drive forward their business performance throughout the value chain - both supply and demand. Automating the purchase of goods and services through implementing an e procurement system, organizations can make significant reductions on purchasing expenditures that boost the bottom line though significant hard dollar savings.*

*This paper explains why an e procurement implementation, as part of a total supply management strategy, is an opportunity for organizations to strengthen existing supplier relationships and improve processes. It shows how companies can gain immediate and tangible returns through e procurement.*

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## Introduction

'e procurement - Buy the right commodity at the right time from the right people'. An average organization spends 40 per cent of purchasing expenditure on non-production (indirect goods) items like travel, office supplies and services. Optimal supply chain collaboration requires streamlined, collaborative business processes and a supporting technology infrastructure that enables synchronization of information across the extended enterprise. As they strive for competitive advantage, today's organizations are increasingly reliant on deeper, more complex interactions with their business partners. While eprocurement can deliver significant 'buy-side' cost savings to business, a number of innovative companies, and marketplaces, are now looking at other appropriate areas of their business to drive forward their business performance throughout the value chain - both supply and demand. Automating the purchase of goods and services through implementing an e procurement system, organizations can make significant reductions on purchasing expenditures that boost the bottom line though significant hard dollar savings.

## E Procurement

E procurement is the purchase of goods or services electronically and is an integral part of an overall strategic procurement plan in the current business environment. The plan includes, but is not limited

to strategic sourcing or supplier rationalization, supply chain automation, and participation in one or more market-places. The commodities purchased can be operational resources (non-production) or production resources (raw materials).

E-procurement offers the ability to drastically reduce transaction costs and cycle times, thereby improving a company's bottom line. It enables the consolidation of the procurement process across various departments and also helps suppliers in terms of demand projections. eprocurement frees up the buyer's time to pursue strategic initiatives, like total cost reduction and continuous improvement, and building collaborative relationships with suppliers. It provides the means to efficiently manage these new relationships and facilitate the synthesis of suppliers into the organization's supply chain. This leads to ever increasing velocity in the supply chain, translating to the company's leadership in the market.

## Challenges & Strategies

Defining and integrating various processes and harmonizing operations between the organization, suppliers, and distributors. Implementing a technology on top of existing enterprise systems that will work to bring the disparate systems and the new procurement software together to improve operations

The focus is on streamlining of business processes along with building a digitized product catalogs and automating the RFQ -based purchase processes while providing integration with the ERP/ SCM systems. This holds significant promise in terms of improving supply chain efficiencies and helping companies achieve higher levels of operational excellence. It is estimated that the cost of placing a purchase order will plummet drastically and the increased choice and flexibility will make for higher levels of profitability. E-procurement increases transactional efficiency through transparent processes achieving via greater empowerment of purchasing managers'

### **Main characteristics of eProcurement**

- Negotiation - interaction between buyers and sellers
- Transaction - formalize the sale
- Fulfillment - delivery of items
- Settlement - instructions for payment
- Cataloging - specifications of items
- Discovery - lists of sources and vendors
- Scrutiny - review of offerings
- Adoption - deployment

### **Business process**

Traditional purchasing of operating resources – office supplies, equipment, and software can

account for 50-70% of total operating expenses of a business. Most companies have decentralized their procurement operation across multiple business units with a couple of thousand suppliers and an average of five to six contracts per supplier. Eprocurement harnesses the power of Web to ensure savings for the companies. Employees create all requisitions electronically. An automated approval process transforms the requisitions to purchase orders. The approved orders are electronically routed to the suppliers who in turn ship the goods and send the invoices back to the companies.

### **E-procurement - Automation of Requisition-to-pay Process**

E-procurement is perhaps the most direct and effective way for an organization to leverage the Web to reduce costs, improve productivity and boost profits. It automates and streamlines the process by creating a Web-based, self-service environment that pushes product selection and order initiation to the desktops of frontline employees while maintaining corporate trading agreements, workflows and authorization rules. The purchase department now focuses on upstream activities such as supply source development, negotiation and vendor management.

### **Benefits of e procurement for the company**

- Savings from reduction in the cost of ordering non-production goods

- Reduction in cycle time and Increased customer satisfaction
- Ensured streamlining of the procurement process and eliminated administrative overheads
- Cross-business entity analysis for better contracts and pricing
- Other savings accrued from re-organization of procurement professionals

Having decided to tread on the eProcurement path, there bound to have some impact on the organization as well as the supply chain. It's detailed below

### **Impact of eProcurement on the organization**

- Reduced costs of goods and services: eProcurement solutions made it easier for purchasers to buy 'on contract'; increasing buying leverage with key suppliers
- Better information for procurement management: Purchase data collected from an integrated, internal system could now be examined to identify and adjust sourcing policies and process flows as per need to help grow the company aggressively
- Better planning: True integration of inter-company business processes enabled

collaborative planning with suppliers, thereby reducing working capital requirements and lower required inventory levels

- Higher productivity: eProcurement solutions also made it possible for business consumers to do their own buying directly from suppliers. Consequently, purchasing professionals now have more time to spend on higher-value activities - building better supplier relationship, contract management.

### **New capabilities for procurement process**

- True integration of customer and supplier processes
- Cooperative supply chain management and planning
- Real-time access to supplier knowledge
- Surplus material/recycling
- Global trading networks

Company negotiating for its share of the supplier's savings

#### **1. Supplier benefits tremendously**

- Increased sales volume
- Automated order management
- Faster time to pay

- Lower inventory
- Lower service costs

## 2. Quantify/Qualify to help with negotiation

## 3. Negotiation point to be leveraged

### Impact of eProcurement on the overall supply chain

- Ordering: Reduced order costs, richer ordering experience, real time substitutions, pricing based upon availability, quality and accurate configuration
- Inventory: Fewer inventory shortages, shorter replenishment times, reduced shipment time, earlier notice of demand (demand planning/forecasting)
- Returns: Reduced paper processes, faster turn around, improved customer service
- Billing: Reduced billing/payment cycles, reduced errors, improved cash flow, more complex pricing capability
- Customer service: Better history of customer behavior

### Challenges

Accelerating technological innovation has compounded the problem by creating a proliferation of surplus and idle assets with the

associated challenges of obsolescence, waste and under-utilization. Experts have conservatively estimated that about 10 percent of the assets on a company's balance sheet are either surplus or idle. These issues are now in the radar for senior executives, especially in asset-intensive industries like energy, utilities, construction, healthcare and discrete manufacturing.

There are some challenges that have to be faced by the company adopting e-procurement. They are as follows.

- The company have to define the new business processes unambiguously
- If it is a large organization there will be several disparate systems that had to be knit together – a complex functional and technical proposition
- The buy-in of business users have to be sought to ensure that the solution meets the business objectives

### Solution

The eProcurement solution is threefold: first to close all windows on procurement control and gain compliance through easy-to-use tools like Ariba Buyer; second, streamline and speed up the procurement process; and third, to reduce the number of vendors and leverage the spending of the corporation, renegotiate best pricing

agreements. In other words it is a balanced deployment of technology, re-engineering and sourcing. All three elements need to function in tandem to make the solution work.

This process is not easy, but it is also not as intricate and complex as rocket science. The challenge is in picking a robust and flexible tool, integrating it with legacy systems, enabling supply base for electronic content and transactional interactions and more importantly getting the buy-in of business users.

### **Key issues in deploying an effective eProcurement solution**

- Ease of use, consistent user interface, functionality and flexibility
- Intranet-based deployment to all clients
- Approval and business modeling capabilities
- Document-based workflow capabilities
- Online, real-time access to key procurement information
- ERP integration
- Supplier integration
- Unique buying organization support
- Integration with legacy systems

### **Strategy**

Planning an effective eProcurement strategy includes successful introduction of new business

processes; not just automation of existing ones. In order for eProcurement solutions to meet their promised ROI, the company needs full participation and total commitment in using the system.

### **To create an effective eProcurement strategy, the company must:**

- Set supplier selection criteria
- Increase IT bandwidth
- Be aware of scale-up problems
- Evaluate various options
- Review supplier's content update strategies
- Mix and match solutions
- Choose compatible solutions

Once a company decides that eProcurement is a path that should be followed, the next challenge is how to achieve its objective. One method is to buy the right hardware and software, set it up, conduct training and announce to its suppliers and the rest of the world that the company is 'e-ready'. This success of the approach rests heavily on the rest of the world and the company's current suppliers, who also need to be willing to do 'e-business'. However, there could be a better approach.

The first step toward implementing an eProcurement solution is to introduce the paradigm change in process change the purchasing

organization of the company from a buying function to a procurement process.

This new approach allows for the inclusion of the total costs of acquisition in source selection.

To ensure success in eProcurement, it is important to ensure that the selected supplier is willing and also capable to participate in technology innovations, this should be a prime vendor selection criterion.

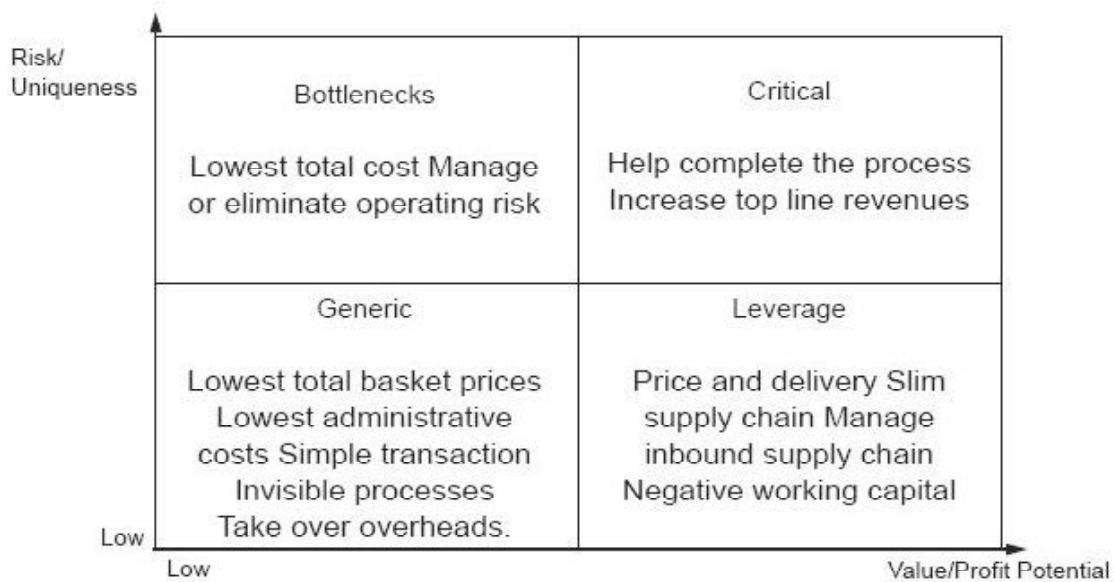
The next step is supplier rationalization - a planned approach to selectively lower the number of suppliers with whom the company does business. Reducing the supplier base will help in managing

the strategy and vastly improve the chances of having a successful eProcurement implementation.

### Supplier Rationalization

The first approach involves identifying key suppliers based on their performance. Every business has unique characteristics, and well-designed performance metrics should reflect this; however, there are some basic items everyone needs to measure. These include product reject rates, on-time delivery performance, completeness of orders and paperwork accuracy. Minimum standards for qualifying suppliers should be set, communicated and enforced.

Figure 2: Value-add a company wants from a supplier



The second approach in supplier rationalization is commodity contracting or aggregating your spending. The organization must ask if it really adds value to have more than one, or at most two, suppliers for things like office or janitorial supplies. The whole MRO (maintenance, repair and operations) category could be contracted out to a single source, if it makes sense. Some companies have chosen this route. However, a detailed spend analysis needs to be conducted, if outsourcing is the chosen way.

## Conclusion

The winners in this new economy will be those companies that can effectively leverage the Web to redesign, automate, and integrate all business operations; from demand capture, production planning, and purchasing to delivery, customer service, and new product development. These new e-Businesses will be built on a dynamic supply chain or series of supply chains - collectively known as a "supply net" - that can be assembled and adjusted as needed to provide rapid and optimal response to customer demand. Such hyper responsiveness will only be possible if all participants of an e-Business supply net can communicate, analyze, and collaborate on requirements, plans, schedules, and other business initiatives as a single, integrated, extended enterprise.

E-procurement is a panacea to most of the above issues, but it's bereft with its set of cons like implementation issues, user acceptance and so on. But a quick sanity check will confirm and dispel all doubts that the advantages and benefits of eProcurement will far outweigh the minimal risks involved in the implementation of this solution.

According to the Aberdeen Group, eProcurement have been able to realize the following benefits reduce prices paid for materials by 5% to 10%; shorten requisition-to-fulfillment cycles by 70%-80%, lower administrative costs by 73%, cut off-contract buying in half; reduce inventory costs by 25% to 50% on an average.

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