YOU KNOW IT MAKES SENSE

MARRAKECH CEO **KELLY MURPHY** EXPLAINS WHY CORPORATE TREASURERS AND FINANCE DIRECTORS SHOULD TAKE A CLOSER LOOK AT E-PROCUREMENT IN THE DRIVE FOR OPERATIONAL EFFICIENCY AND WORKING CAPITAL MANAGEMENT.

Companies today are under huge pressure to cut the cost of doing business. In the past decade, intensive merger and acquisition activity has transformed what were once fragmented industries, with many competing companies vying for their slice of the market into leaner industries and fewer but larger corporations competing for dominance.

Corporate procurement, which can account for as much as 60% of a large company's total cost base, is a key area where efforts to cut costs can have a real impact on competitive positioning and the cost of doing business. Currently, companies can waste millions of pounds every year because they rely on outdated manual and paper-based procurement processes. Procurement operations are plagued by inefficient product selection and sourcing, time-consuming manual ordering processes and off-contract purchasing.

Large firms' purchasing cycles and approval times are lengthy, and they lack the data and resources required to perform procurement in a more cost-effective and strategic manner. Internal process inefficiencies frequently prevent staff from acquiring the goods and services they actually need. So purchasing even the most basic goods and services is an expensive process that is impossible to properly control.

Companies also annually send and receive thousands of invoices and other billing documents, such as credit and debit notes, to and from trading partners. For the most part, suppliers continue to generate and send paper billing documents to their customers. This process is labour-intensive, inefficient and costly.

The same can be said for customers on the receiving end of all this paper work from suppliers, the processes around managing and reconciling these documents.

WHY STRATEGIC PROCUREMENT? Strategic procurement is the key weapon that large companies have in the battle to control procurement costs. Addressing any of the following procurement-related issues will enable companies to reduce the costs of goods purchased and the cost of how they buy those goods:

▪ **Supplier management.** Does the company know who its suppliers are, what it buys from them and how much it spends?

▪ **Demand management.** Does the company purchase goods and services it does not really need?

▪ **Supply chain relationships.** What is the best way for suppliers to meet the company's service needs?

▪ **Contract compliance.** Do employees purchase from contracted suppliers and are suppliers meeting their contracted levels of service or quality?

▪ **Purchasing policy and processes.** Does the purchasing function allow the rest of the company to get its job done, or is it perceived as a bottleneck?

▪ **Communicating with suppliers.** what level of technology capability does the company's suppliers have?

▪ **Purchasing errors.** How much time is spent on incomplete orders, returned goods and organising credit or debit notes?

▪ **Technology evaluation.** How can the company better leverage existing technology investments to reach supply objectives?

How can companies address these issues and in the process transform how they do business with trading partners? The answer: by web-enabling their entire procurement processes through e-procurement.

WHY E-PROCUREMENT? The combination of new online procurement services that automate all or part of the requisition to settlement process and the new strategic emphasis on the procurement function has made e-procurement the hottest area of internet commerce today. Why? Because streamlining existing purchasing processes holds out the promise of immediate cost savings for companies.

A critical factor driving the adoption of e-procurement is the fact that procurement savings flow directly to the bottom line. As well as providing process-cost reductions and lower administration costs, effective e-procurement can result in reduced inventories, lower cycle times and improved competitiveness, all of which contribute to increased revenue and profitability.

Companies may have achieved efficiencies restructuring back office processes, but the procurement function for the most part remains an administrative, paper-based process. Automated

procurement promises to change purchasing and account reconciliation processes dramatically, making them faster, cheaper and more efficient.

E-procurement helps companies manage the workflow and administration involved in procuring and paying for goods and services. It also encourages better sourcing and supply management. To follow are some key points of effective e-procurement:

- it streamlines initial sourcing of suppliers and goods and services;
- automates the requisition, ordering and tracking process;
- manages payment and electronic invoicing between companies and their suppliers; and
- records and analyses information about company spending.

So how does it work? E-procurement systems typically give authorised employees access to suppliers' electronic catalogues. The catalogues provide a customised view of the suppliers' products and their pre-negotiated prices. An employee makes a selection and the request is either cleared automatically or sent to a manager for authorisation, depending on built-in 'rules'. The requisition is logged and the order goes to the supplier. The company can then track the progress of the order from initial requisition to delivery.

Advanced e-procurement systems manage invoicing and payment and allow firms to monitor the entire business transaction online. They also log all transaction data, so companies have a complete picture of how resources are being used, and this information can be leveraged to secure better terms from trading partners.

THE BENEFITS OF E-PROCUREMENT. Web-enabling procurement processes can potentially bring benefits across the whole of the procurement sphere. Initially, B2B e-commerce technology tended to be focussed on transactional applications, such as generating purchase orders (POs) electronically and price clearing applications such as reverse auctions. While these applications can produce some tangible benefits in the short term, the real benefits will be reaped from web-enabling and fully integrating processes across the entire procurement sphere.

Sourcing. Web-enabled sourcing solutions that enable companies to make better and faster sourcing decisions are gaining increasing attention as companies strive to cut costs and gain competitive advantage over rivals.

So far, most attention has been focussed on 'quick-win' price reductions from reverse auctions, which involve suppliers placing downward bids in an online auction or event for a contract to supply specified goods or services. On average, providers of reverse auction solutions suggest that savings of 15% are possible, although the figure will vary from sector to sector.

The opportunity goes beyond product cost savings, though. By improving supplier identification, evaluation, negotiation and selection, companies not only guarantee the best price, they also ensure that they get the most reliable suppliers with best quality goods and services.

Purchasing. Web-enabling purchasing promises to change the purchasing process dramatically, making it faster, cheaper and more efficient. For large companies, it can achieve two main types of benefits, process and price, which result in savings that directly affect the bottom line.

Process benefits come from streamlining internal purchasing processes, such as creating requisitions, getting approval for

requisitions and sending purchase orders to suppliers. According to the Aberdeen Group (E-procurement: Finally Ready For Prime Time, March 2001), e-procurement has the potential to reduce requisition-processing costs by as much as 70%. Buying companies surveyed by Aberdeen spend an average of £20 processing an order through an automated procurement system compared with £70 per requisition for orders processed manually.

Price benefits come from securing better prices from preferred suppliers. Currently, employees frequently buy more expensive goods and services from non-contracted suppliers in an effort to avoid inefficient and bureaucratic procurement processes. However, web-enabling purchasing makes it easier for employees to buy from contracted suppliers, as well as giving companies greater control and visibility over what it purchases and from whom. The result is cheaper goods and services and improved customer service from preferred suppliers.

Financial processes. The internet is changing the way companies send invoices to each other because it represents an easier-to-use and lower-cost alternative to traditional paper-based invoicing or to more sophisticated electronic data interchange (EDI) solutions.

For large buyers, electronic billing reduces the time and costs associated with processing invoices. Electronic invoicing eliminates paper bills and Gartner Group (B2B Electronic Invoicing And Payments, December 2000) estimates that the average relative cost of presenting an electronic invoice is less than half the cost of presenting a paper invoice.

The automation of receipting processes for buyers also cuts down on data-entry errors, so reducing the level of disputes a buyer has to raise. Efficient billing processes provide treasurers with greater control over the timing of payments and the management of outbound cashflow. Companies are therefore better positioned to avoid late payment charges.

A significant derived benefit of electronic invoicing is that data in accounts payable and receivable systems becomes more transparent, which opens up a whole range of other financial services (for example, enhanced payment and settlement services and electronic invoice discounting) that can enhance working capital management and add to companies' bottom lines.

IT'S ALL ABOUT CUTTING COSTS. Increased globalisation is bringing stiffer competition and intensifying the pressure for large companies to cut costs. Two areas where businesses can have a direct impact are the prices they pay for goods and services purchased from suppliers, and the cost of making these purchases.

Implementing an end-to-end strategic procurement programme that streamlines and automates the entire procurement process – from initial sourcing to purchasing, goods receipt and payment – has the potential to provide large companies with substantial cost savings that go directly to the bottom line.

How do companies implement strategic procurement? By web-enabling how they do business with suppliers through implementing e-procurement.

Continuously cutting the cost of doing business is key to remaining competitive and maintaining a healthy bottom line, so treasurers and finance directors would do well to sell the message of e-procurement to their procurement colleagues.

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