

E-procurement – what's all the fuss about?

Business is embracing internet-based changes in trading and procurement to achieve greater efficiency and reduce costs. Andy Tobin of Logica explains.

Did you know that National Power used to spend £75 to process a stationery order worth £50? Using software to buy directly from suppliers over the internet, they are reducing this cost to £10.

This means that every stationery order processed could put £65 on the bottom line profit of the company that wasn't there before. Known as 'e-procurement', this technique is attracting a lot of attention due to its potential to massively reduce purchasing costs.

Another reason to look at e-procurement is to stem 'rogue buying'. Anyone with a corporate credit card will be well versed in this. Why wait for two weeks for corporate purchasing to send you the latest version of MS Office 2000 when you can nip down to Tottenham Court Road and put it on your corporate card. This makes a mockery of any attempts to try and control spending and standardisation of suppliers within a company.

Wouldn't it be better if all the things you might need to buy to operate your office or department were available on a web browser for any of your staff to see. Orders can be placed directly and checked against personal spending limits. Every purchase can be tracked. Managers can log in and approve expensive purchases on-line with no need to sign hundreds of procurement requests manually. As soon as the request is approved, it is routed directly to the supplier for next-day delivery to your desk.

Catalogue

You can also exert much more control over which suppliers are used. Your company can build up a single internal 'catalogue' of all available goods and services from all suppliers. This allows you to restrict ordering to selected suppliers, and also lets you compare like offerings from different suppliers to get

Wouldn't it be better if all the things you might need to buy to operate your office or department were available on a web browser for any of your staff to see

the best price or quality.

Combined with corporate purchasing cards that can only be used on the e-procurement system, you are not only vastly reducing your procurement costs, but also controlling rogue buying.

Whilst the savings on stationery purchasing that National Power is now seeing are very large, a recent Goldman Sachs study has shown that companies can save anything from 2% (coal industry) to 39% (electronics industry) on their procurement by using automated techniques made available by the internet.

Isn't this just the same as that thing that used to be called EDI? Yes and no. EDI is used mainly to handle large scale

purchasing of parts and equipment such as in the automotive industry. EDI is being internet-enabled at the moment as well. However, 'traditional' EDI was always too expensive to be justifiable on smaller purchases. The advent of the internet has brought a single, universal, cost effective communications medium into play which allows 'son of EDI' to be put in place rapidly and to show real cost reductions.

Packages to handle e-procurement are now available off-the-shelf, though integration is required to make them operate with existing internal systems. Systems from companies like InfoBank and SAP can be installed as a 'buy-side' solution to get companies buying on-line. You do of course need to have your suppliers on-line as well. Companies with large buying power can often force their suppliers on-line, but it is essential that the buy-side of the purchaser can operate seamlessly with the 'sell-side' of the supplier.

To gain the greatest advantage, the supplier's sell-side also has to be integrated into their own stock control and order processing systems. This avoids the problems where customers order goods which are not in stock, and also allows customers to track orders in real time. Of course, the buyer's buy-side system has to be integrated with their own internal systems as well. This internal integration is termed 'in-side', and involves components such as security systems, system to system messaging hubs, payment facilities and so on (see Figure 1).

Software solutions

So, there is a potential dilemma. A company wanting to get into e-procurement can install an e-procurement add-on to their existing ERP system, or put in a completely new package solution, but it is worthless if there are no suppliers on-line to trade with. The suppliers mean-



Andy Tobin

FIGURE 1



while are being asked by many of their customers to trade on-line with them using different methods and different software solutions.

Another problem now arises. The internet is too big. Searching for 'office supplies' on Yahoo yields over 30,000 sites listed that are selling on-line. The internet offers much when it comes to choice and price comparisons, but with its massive growth comes the problem of too much choice, and how to separate the wheat from the chaff.

As a result, we are now seeing a very interesting evolution of the internet, and to understand it fully, it is necessary to go back in time. In the old days, traders wanting to buy and sell would gather in town markets. Buyers wanting sheep would go to the place where the people selling sheep would be, and vice versa. Trading groups evolved, and people did business face to face. Hence the cattle markets in towns were the trading communities of their day.

The internet of course allows you to do business remotely. It promises much in this respect, including relatively low cost of communications in real time. The potential for buying and selling on-line therefore increases as more people use it. Massive choice and the ability to get access to new markets is an obvious attraction.

Now, however, as a direct result of the size of the internet, the trading world is reverting to its old ways. Because there are so many stationary suppliers, computer suppliers, etc. using many different standards, they are grouping together in the old style of trading communities. The only difference is that those trading communities are going on-line.

These on-line trading communities are usually hosted or built by a company that wants to make money from bringing the buyer and seller together,

just like an insurance broker or travel agent does. They come in these forms:

- **open communities** – any company can become a member to buy or sell any goods within the community. Many different types of goods can be bought or sold. An easy way to get into e-procurement. An example is BT's Marketsite (www.marketsite.bt.com);
- **closed communities** – a large company and a group of their customers or suppliers gets together to form a community specifically for their own business. An example could be Ford and their dealers. These communities tend to be very tightly integrated with buyers being able to see deep into suppliers systems; and
- **vertical communities** – also called 'vortals', these are for all the companies operating in a particular industry sector. In the same way that a cattle market of old would have a feed sellers, vets, slaughterhouses and so on nearby, so these communities are intended to enable trade by putting all parties in an industry sector in one place. An example is GM's www.gmtradexchange.com.

The internet is too big. Searching for 'office supplies' on Yahoo yields over 30,000 sites listed that are selling on-line

These communities usually provide a normalisation facility, so that selling companies use the same format and nomenclature to describe goods that they are selling. This gets around the problems with two companies selling a 'bag of flour', where one company's bag weighs 1kg and the other's weighs 10kg. Standardisation in description is essential to ensure openness and interoperability across the community.

Savings

The initial idea of saving costs through on-line procurement can therefore open up whole new areas of trading and commerce. Whilst much of the media hype is centered around consumer-oriented sites like Amazon and Ebay, most of the revenue, savings and profits are in the business sector.

Knowing this, you can treat e-procurement as two things: it is a low-cost EDI that can save you money when buying the things your business needs to operate; and, if you extend this principle, you can also create a whole new way of doing business which would not have been possible without the internet. You can take advantage of this by being part of an on-line community, or you could even set one up for your own market sector. Be quick though, as vortals are sprouting like wildfire at the moment.

The trading world has come full circle, from the village market, to massive internet choice, back to the village market albeit on-line. Interestingly, the move from village market to the internet took hundreds of years. The move from the internet to on-line village markets has taken about 12 months. Hold onto your hats for micro-markets, on-line trading from mobile phones and more! ■

Andy Tobin is e-commerce director at Logica.