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E-Sourcing – A Kernel B-Strategy

Abstract

With cost competitiveness firmly entrenched as a leading concern for corporate executives, strategic sourcing has become a leading business strategy. Industry acknowledgement of this trend reaffirms that sourcing, which involves identification, evaluation, negotiation, and configurations of suppliers, products and services, provides the greatest and most direct level for controlling costs and managing performance across the supply chain. It is no secret in the procurement professions that, in private organizations and in all sectors of local and central government organizations, the drive to move services and processes online, is vigorous. Weak economic conditions and continued pressures to reduce costs and improve supply chain performance have paved the way for e-Sourcing. A comparative analysis of manual sourcing process and its automated version in terms of cost reduction, improved product quality, improved supplier relationship management, allows e-Sourcing to be introduced in organizations, in order to take advantage of best practice in procurement. It would be better to develop a supplier enabling strategy that incorporates aspects of supplier self-service which help the organizations in effective Supplier Relationship Management.

INTRODUCTION

The primary role of the procurement function in strategic business initiatives has begun to shift in recent times from a singular focus on cost savings to the broader management of supply, availability and risk, while maintaining competitive cost structures. E-sourcing, in the broadest sense, has generally over delivered on its promise of savings for the enterprise. In fact, the general adoption of e-Sourcing has served as the major catalyst in the transformation of many corporate procurement organizations from traditional back office function to strategic business partner. The reason for focusing on e-Sourcing is evident. It concerns the key role of e-technologies in increasing the efficiency and effectiveness of organization's processes and activities. The main focus of this article is on the manual sourcing process followed in the private organizations and its automated version of e-Sourcing.

Stucky, Wolffried (2007) provided readers with the basic conditions to understand the market mechanisms and the technological developments of the SRM market. Further on, the work gives a picture of the actual business environment in which the SRM vendors are in, and the main trends in the field, based on the main SRM functionalities such as e-Procurement, e-Sourcing and Supplier Enablement, which indicates users and software providers the future technological developments and practices that will take place in this area in the next couple of years.

Amelinckx, Isabelle (2008) argued that existing electronic sourcing theory has predominantly focused on the impact of electronic reverse auctions on price savings and has proposed various factors influencing this outcome. Such price savings have been widely claimed to come at the expense of the buyer–supplier relationship. Only a few research studies, however, have investigated the impact of electronic reverse auctions on the buyer–supplier relationship. Based on an extensive literature review and multiple case study research, they extend electronic sourcing theory by developing a conceptual model that considers a broader set of outcomes, posits organizational and project antecedents that a buying firm can manipulate to impact those outcomes, and introduces supplier-related factors that moderate the antecedent–outcome relationships.

Quayle, Michael (2005) focuses on real management implications of electronic procurement in small and medium size enterprises (SMEs) in Great Britain. E-procurement is supposed to revolutionize business in the 21st century. There appear to be many barriers to successful implementation. A major barrier is that of people. Those who have developed e-procurement capability have done so strategically but have yet to enjoy significant cost and time-savings. Electronic procurement is now, of course, well defined and can take the form of web based ERP, e-sourcing, e-tendering, e-auctioning, and e-exchanges. Strategically, e-procurement should create value for the firm. Electronic procurement is also seen as ideal for hyper-competition conditions.

MANUAL PROCUREMENT PROCESS

Procurement is the acquisition of goods or services at the best possible total cost of ownership, in the right quantity and quality, at the right time, in the right place for the direct benefit or use of organizations, or individuals, generally via a contract. Before stepping into the procurement process, a clear definition is required for the goods and services.

What Are Goods And Services?

The purchases made by any organizations can be mainly classified into three: direct material, indirect material and services. Direct materials are those raw materials and purchases that become the part of each unit produced and incur expenditure that can be included in the cost of the goods sold. eg: Machineries. Indirect materials are those materials, purchases and supplies which are used in the operation of the business but not directly associated with the production and are part of operating expenses. eg: office supplies. Services in simple terms can be defined as the work done by somebody for somebody else as a job, duty or favour.

MANUAL SOURCING PROCESS

Sourcing is the process of identifying, evaluating and negotiating with, and forming supply agreements with the suppliers of various goods and services. The procurement cycle begins with the process of sourcing. It is the decision up to buy. Manual sourcing process is usually tailored around the following process:

- To obtain details on product type, material specifications, required amount and quality with target delivery date from the client.
- To have direct negotiations with the suppliers, in order to obtain a product price quote which provides a competitive bid, and
- To produce an appropriate sample prototype for approval and if it is approved, product order is placed with the selected suppliers.

Sourcing process is designed to establish long-term supplier relationships. It screens out the non-relevant suppliers in each sourcing step and selects those suppliers who are the 'best fit' for the organization.

Transition From Manual Sourcing To Esourcing

Among the first enterprise business application areas to embrace the ubiquitous and user friendly attributes of the Internet and the World Wide Web, e-Procurement burst onto the scene in the mid-1990s full of promise. E-procurement focused on the narrow yet real challenge of automating the requisition-to-order process for non-production (indirect) goods, such as office supplies, computer equipment, and maintenance, repair, and operating (MRO), which account for 30% to 60% of spending at most enterprises. The value proposition of these solutions was simple: use automation to drive process improvement, cost containment, and contract compliance for a large corporate expense that was poorly controlled and managed manually at most firms. Best in class enterprises use formal strategic sourcing and e-Sourcing processes to drive greater e-Sourcing throughput, achieve higher average savings, and provide greater value to the enterprise.

E-SOURCING

E-Sourcing is the process of automating the manual sourcing process to identify, evaluate, negotiate, and supplier relationships that will effectively support supply chain and other business operations. Primary goal of e-sourcing is to efficiently determine the mix of suppliers, products, and services that can deliver the lowest total cost solution while meeting business objectives. In other words, e-Sourcing creates a specialized environment to carry out communications, document management and bid management where one can place tenders, Request for Quotes (RFQ's), exchange specifications, receive, evaluate and approve quotes. An e-Sourcing service requires the creation of a strategic yet consumer specific website, which allows buyers to seamlessly navigate for any information. The Internet enables one of the critical areas of business process allowing organizations to have access to new strategic partners, uncover new suppliers and streamline sourcing processes whi le s imul taneous ly lower ing cos t s significantly. Many of the e-Sourcing solutions utilize the Internet to deliver the service and applications.

Why E-sourcing?

Saving money is always at the forefront of every business decision but when it comes to purchasing and sourcing, there are a number ways to cut costs that are often neglected or which do not use to their full advantage. Many of the ways that are available to cut costs vary depending on the business.

In order to identify potential savings opportunities, companies need to take a straight look at their current operations to determine areas that need improvement. Rejected parts or excessive downtime are two of the most common problems for many companies and both these areas can significantly add to the cost of operations. To solve the problem, companies should call in their suppliers, provide them with the necessary information, and ask them to come up with suggestions. These suggestions will usually come in the form of valued-added services from the suppliers. These extra services can sometimes then become the backbone of the supplier selection process.

Many companies make the mistake of choosing vendors strictly on the basis of the quoted price; however, the lowest stated cost does not always spell the best deal for the business. Instead of focusing strictly on price, buyers need to evaluate suppliers additionally on their willingness to provide these value-added services. Another way for companies to save money over the long term is by tracking the performance of their suppliers. Once relationships with selected vendors have been formed, the company needs to begin assessing their overall job performance because poor performance translates into additional costs for the buyer.

Some analysts suggest that evaluation of vendor performance should be in terms of Total Cost of Ownership (TCO). Essentially, this means that the company looks at one event that the supplier is responsible for and uses that as an indicator of their overall performance. For example, if a vendor is scheduled to provide a delivery of raw materials in two weeks but misses the target date by a full week, then that delay would need to be figured into the costs of doing business with that vendor. Most companies do not currently use the TCO model for judging vendor performance and instead base their decisions solely on quoted costs. These companies generally find out in the long run that a low price does not always equal adequate performance.

Strategic Sourcing

One of the most overlooked areas in business, particularly when companies switch to e-Procurement, is strategic sourcing. In fact, some businesses may not even be aware of what exactly the term means. In a nutshell, strategic sourcing refers to efforts on the part of buyers to carefully evaluate and to form lasting relationships with suppliers. These relationships are generally mutually beneficial and also can involve a dramatic change in attitude of both buyers and suppliers. With strategic sourcing, businesses view their vendors as partners instead of simply commodity providers.

The problem with most companies and their vendor relationships is that they are not able to establish lasting vendor relationships. Majority businesses pick suppliers exclusively on price and very few take the time to thoroughly go into the backgrounds of the vendors that they do choose. In the long run, going through the RFP process for almost every purchase is more time-consuming and expensive than it needs to be. Additionally, suppliers have no real loyalty to their buyers because they realize that their buyers have no loyalty to them.

Thankfully, there are ways to repair and strengthen relationships even if these problems are present in the company's existing purchasing process. First, the organization needs to change its attitude towards purchasing and its suppliers. Once that adjustment is made, companies should begin creating a short list of suppliers to work with on a regular basis. These suppliers should not be randomly selected but should be chosen based on their experience, reputation, price, quality, and reliability. After the company determines the suppliers, contracts need to be discussed and negotiated so that they are mutually beneficial to companies.

Another way to strengthen those relationships is by using e-Sourcing software or e-Sourcing tools. These e-Sourcing tools could result in cost savings and improve communication and collaboration with suppliers. Some companies have already reported significant ROI within the first year of implementing e-Sourcing tool. The biggest benefit of the software is that it counteracts many problems that do arise during the strategic sourcing process. Essentially, if a company is truly interested in strategic sourcing, using e-Sourcing software and changing the existing method of purchasing can be a great way to enhance the procurement process.

STRATEGIC SOURCING PROCESS

In the last few years, the one thing most businesses were not worried about was having a scarcity of suppliers. For the past few years, the reverse was actually true. The supply of vendors was greater than the demand for their services and, as a result, buyers found the perfect time to begin using high-tech tools to assist in their purchasing decisions. One of the most popular of these was the e-Sourcing tools, which allowed suppliers to view an RFP via the Internet and place bids on fulfilling the project. The buyer then compares the bids and chooses the supplier who is the best fit for the company's needs.

In reality, these technologies have been an asset to both the buyers and the suppliers, because this will open up the procurement process to more potential suppliers and allow them to compete on more equal footing than traditional methods typically have. Once suppliers are selected, they have to accept their share of responsibility; suppliers need to be more creative to stay competitive in a market that is often driven by price. While a U. S. vendor may never be able to equal an overseas seller in price, they can offer extras, which will appeal to customers. Added-value services do give suppliers an advantage. Also, suppliers need to be willing to look at alternatives in order to get the job done at a competitive price. For example, if one type of metal is normally used to manufacture the goods, then suppliers can find a different, cheaper metal to substitute which will still meet the buyer's quality standards. All these steps can help suppliers keep a foothold in the industry.

Buyers also need to change some of their approaches to purchasing as well. Instead of focusing solely on price, they do need to begin figuring in those other factors into their final decision. Many companies who have adopted e-sourcing techniques or who are moving in that direction are also realizing the benefits of e-sourcing tools and centralized purchasing data. Essentially, centralized purchasing data is just what it sounds like: maintaining a single warehouse to hold all information related to the buying of business-related supplies. While the benefits of such a set up may not seem immediately clear, these benefits do exist. The following sections will outline some of these benefits and will describe some best practices.

First, centralized purchasing data makes it easy for everyone who needs the details of one vendor contract or who needs to track company spending to have access to that information even across multiple branches and corporate divisions. For companies this means that less time is spent trying to track down data and communicating with other branches to make sure purchasing behavior is consistent across each of these areas.

Second, creating a single warehouse for all purchasing data prevents companies from losing track of the company's vendor contracts. When a single company works with thousands of suppliers, it can be difficult to remember the aspects of each of the contracts. However, if all of that information is stored in one place, then it can be easily accessed and applied to buying arrangements or to manage the ongoing relationship. The benefit of this is that it can preserve vendor relationships, which can be weakened when a company goes to their competition to make purchases that the company had already contracted with the supplier to deliver. Since it is easier to purchase through a contracted seller, more buying is also made in that way. Before centralized purchasing data was possible, some companies attributed almost 50% of their spend to purchases made off-contract. Now, many companies who use centralized purchasing data report that number has dropped to less than 1%.

Perhaps most importantly, centralized purchasing data and e-procurement significantly speed up the purchasing cycle. An act once took companies as long as 30 days to complete can now be done within 24-hour period. Since purchasing data is accessible via the Internet and because most purchases are now being done over the Internet, companies can access the necessary order information and place an order much more quickly. Since e-procurement puts a stronger emphasis on developing contracts with vendors, much of the time spent securing a supplier is no longer required. In fact, e-procurement and centralized purchasing data have also shortened the time it takes to forge a contracted relationship with a seller. Ten years ago, the contract cycle had taken an average of 6-12 months to complete. Today, it takes around only 30 days for businesses that use advanced purchasing technology.

One additional benefit that centralized purchasing data in e-sourcing tool provides is improved opportunities for accurate risk assessment. Before warehousing spend information was possible, it was nearly impossible for a company to accurately determine what would happen if one of its primary suppliers suddenly went out of business or decided not to work with them any longer. The information needed to conduct an accurate assessment was spread across multiple divisions and departments, so the assessments could only be based on speculation not on data. With centralized purchasing data, conducting those types of risk assessments is easy because all the necessary information are housed in one location and can be used to predict and plan for those types of possibilities.

Of course, companies that have seen success with e-procurement and centralized purchasing data are also incorporating additional strategies to keep their purchasing processes modern and competitive. Many companies are actually using the Internet to expedite its accounts payable procedures and match its needs to available subcontractors' skills, among other things. While setting up of these types of initiatives may become costly at first, but the increased efficiency and savings that these programs deliver to the company can make them more profitable. E-sourcing is not solely responsible for spend under management improvements. However, studies findings clearly suggest that it is a prime contributor to increasing the amount of spend under management. Part of the reason for such improvements is that e-sourcing adopters are more inclined to have made spend management a leading corporate initiative.

KEY FINDINGS AND CONCLUSIONS

Internet-based procurement and sourcing automation (e-procurement and e-sourcing) had been quietly delivering measurable value to enterprises in the form of reduced material and operating costs, improved compliance, and increased total spend under management. Enterprises that employ advanced sourcing strategies are positively impacting product development cycles and building stronger supplier relationships by making better, more informed decisions. They are also driving innovation and to be certain, they are saving more money than their competitors. The key findings which drive the adoption of e-Sourcing are:

- Weak economic conditions and continued pressures to reduce costs: Optimizing corporate spending provides the single greatest opportunity to reduce corporate expenses and increase profitability. In order to quickly and efficiently streamline supplier relationships and leverage spending' across the organization, companies are relying more than ever on e-Sourcing solutions.
- Renewed corporate focus on the ability of strategic sourcing: The impact of e-Sourcing strategies on the supply chain goes far beyond the cost savings achieved through individual sourcing events. Strategic sourcing is an ongoing process that involves not only sourcing products or services, but also analyzing corporate spending, cultivating supplier relationships, and more aggressively managing contracts in order to continually refine the process.
- Analytical technologies designed to automate and enhance sourcing: Advances in Internet-based negotiation, collaboration and knowledge management automate the entire sourcing process. E-sourcing solution allows for continuous and strategic management of the sourcing process by enabling companies to connect sourcing to spend analysis and contract management functions within the organization.
- Significant and quantifiable benefits of early e-sourcing implementations: A recent study on strategic sourcing by AMR Research concluded that typical savings for selected categories fall in the 15% to 25% range. For a company with $2 billion in annual corporate expenditures, that translates to as much as $300 to $500 million in annual cost savings.

SUGGESTIONS & RECOMMENDATIONS

Strategic sourcing focuses on the high-impact upstream processes of procurement, supply management and ultimately the supplier relationship management. The suggestions andrecommendations of this report are intended to aid sourcing professionals drive sustainable improvement through their e-sourcing processes by utilizing advanced sourcing strategies and technology. The following strategies will help enterprises maximize their returns in terms of e-sourcing and reduction in cost and improved supplier relationship management:

- Invest more time at the front end of the sourcing process. The process efficiencies from e-sourcing really hit after your event has been launched. Invest the time you save after launching your event in front end activities like supplier discovery and developing stronger requirements.
- Leverage complementary technologies. Spend analysis and contract management systems are required to fully automate the strategic sourcing process. Adopt complementary functionality or solutions to manage and control a broader range of spending
- Expand advanced sourcing across a wider set of categories. Target a series of complex categories and set aggressive throughput targets. Leverage technology expertise from your solution provider, other customers and your peers.
- Focus on realized savings. This measure realized savings and correlates them to enterprise- level financial metrics (e.g., EPS). Part of this gap can be bridged by technology. However, it is also critical to get Finance involved along with other internal stakeholders so that budget impacts can be assessed and appropriate changes (i.e., decreases) implemented.

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