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BRIGHT FUTURE FOR E-PROCUREMENT

New study shows benefits outweigh the costs

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By Xueying (Ci Ci) Fan | November 03, 2009



Electronic procurement has matured significantly since its initial hype a decade ago, according to a study from Ryerson University. The research shows more than 75 percent of the 334 purchasing managers surveyed have been using e-procurement for over a year. More than half have been using it for over three years.

For the purpose of the research, e-procurement refers to the use of networked computers and the Internet to

purchase goods and services. The survey data is in stark contrast to earlier studies that found e-procurement use in Canada was limited.

"We were expecting that adoption rates and satisfaction scores would be much less than they were, given the lack of press e-procurement has been getting lately," says Tim McLaren, associate professor in the Ted Rogers School of Management with Ryerson University.

In fact, the curiously sparse media coverage sparked the idea for the project. "More and more organizations seem to have derived significant benefits from using e-procurement, yet in many cases, this seems to be the result of several years of small, quiet pilot projects rather than large, highly-visible technology implementations," McLaren notes.

He likens the gradual uphill climb of e-procurement to the adoption of the Internet, which grew slowly for a number of years before exploding into the mainstream in the late 1990s.

Baby steps are key

In March 2009, McLaren and his colleague Catherine Middleton, associate professor at Ryerson, sent questionnaires to members of the Purchasing Management Association of Canada (PMAC) who have achieved the Certified Professional Purchaser (C.P.P.) credential.

Responses were gathered from a variety of industries in Canada, including manufacturing, resources, government, non-profit, and other services. The annual sales of responding organizations ranged from under \$1 million to more than \$1 billion. Funding and access to the study participants was facilitated by the Canadian Purchasing Research Foundation.

The survey revealed a key finding: Baby steps are the trick to mandating the use of e-procurement. As a way to take it slow, many organizations focus their efforts on indirect supplies. While 28 percent of firms have mandated the use of e-procurement for indirect goods or services, only 19 percent have done so for direct good or services.

Working out the kinks

Many suppliers of indirect goods and services, such as maintenance, repair and operations, have already made their product catalogues available electronically or via web sites, McLaren says.

Purchasing transactions for indirect supplies are often lower risk and easier to set up in a contract as opposed to the direct spend used for the production of an organization's own goods or services.

"If usage of a new system is made mandatory before all the kinks in the new procedures, policies, and technologies are worked through, it can be a financial disaster and a real barrier to getting people to adopt any future technologies," McLaren explains. "It's much safer to work out all the problems and

develop the new procedures for your organization doing small, pilot tests and only make usage of e-procurement more widespread and mandatory once you have learned how to make [it] work in your organization.”

Despite weak enforcement, current e-procurement usage is strong. The most frequent uses cited by respondents include purchasing from existing suppliers, purchasing from new suppliers, and placing orders through a single supplier’s web site.

Conversely, making payments or placing orders through a multi-supplier web site were the least mentioned uses. E-procurement was most widespread for transactions involving individual suppliers rather than multiple suppliers.

“It would appear that the dream of using a single e-marketplace web site from which you could procure all of your supplies has not become a reality for many companies,” McLaren says.

“There are a few industry-specific sites that have had some success, but the business model for building such multi-supplier web sites has been really tricky to establish. Other research has shown e-marketplaces can only really be viable once a critical mass of suppliers, customers, and transactions has been established, but no one wants to join if there isn’t already a critical mass, so it’s a bit of a catch-22.

In terms of the private versus public sectors, there are clear distinctions in e-procurement adoption. The biggest difference is in managing tenders, which is the second greatest area for e-procurement usage for the public sector, most likely because this sector made it a strategic priority. But it doesn’t even make the top nine for the private sector.

The hype cycle continues

When it was first introduced, researchers and analysts predicted e-procurement would reduce administrative costs, shorten order fulfillment time, and increase collaboration between business partners. It was predicted to be a driver of efficiency in virtually every aspect of supply chain management.

Unfortunately, market observations were disappointing. Just as quickly as they had materialized, plans to apply the new technology were shelved. The pattern isn’t unique to e-procurement, though, according to McLaren. Gartner Inc. and others have observed the same trend with every major new technology, which led to their introduction of the “hype cycle” concept.

“With every new technology, we get caught up in the enthusiasm for its long-term potential, and lose sight of the fact that it usually takes many years of organizational learning and adjustments before all the challenges are worked through and we start to make productivity gains using the new technology.”

However, e-procurement technologies and vendor markets have matured over the past several years. The most successful technologies are being acquired by larger vendors such as SAP or Oracle, while the solutions that were less viable have now disappeared from the market.

“There was a lot of hype around using technology for reverse auctions and e-marketplaces, but these have really seen only limited success in niche applications, compared to the more boring but successful use of technology to consolidate the purchasing of office supplies—something that can add surprisingly substantial value for larger organizations.”

The study found the greatest benefits of e-procurement are spending less time on low-value tasks, finding new suppliers, paying less for supplies, and negotiating with suppliers. Since e-procurement technologies can automate many of the routine tasks that previously required abundant faxing, phoning, and emailing, it isn’t surprising the greatest benefit was around freeing up time for higher value-added activities.

“What the survey results also indicate, though, is that e-procurement systems would appear to be really good at providing the data needed to negotiate better terms and prices with suppliers,” McLaren observes.

“Many organizations have seen very immediate gains in their negotiations once they have a better handle on all the various transactions that were previously dispersed throughout their organization.”

Talking the same language

Studies in the past highlighted three major challenges to implementing e-procurement: immature software, a lack of standards, and employee resistance. Managers worried about not getting the desired returns for the investment, and about security and confidentiality in a virtual environment.

Similarly, e-procurement users were leery of being replaced by automated machines or others more suited to the position after the changes. In contrast, the latest Ryerson study suggests user and manager resistance is no longer a major issue. Now, the greatest challenges relate to the difficulty of integrating procurement systems internally and externally, and lack of standard data formats.

The first step is dealing with the challenge of translating between different ways of referring to data. McLaren calls up the example of referring to product as a ‘skid of soda’, versus a ‘pallet of pop’. That said, there have been tremendous gains made in Internet technologies, data communication standards, such as XML, and more agile Internet-based software development. Overall, McLaren is

hopeful about the future of e-procurement.

And, it seems, so is the rest of the business world. Looking at the benefits and challenges, 41 percent of respondents in the study agree the benefits outweigh the costs of e-procurement systems, as opposed to the 13 percent who disagree.

Only 24 per cent of participants are satisfied with their organizations' current levels of e-procurement implementation; 72 percent feel their organizations would benefit from more usage.

There appears to be a growing realization that over the long term, e-procurement will play an increasingly substantial role in supply chain management. **b2b**

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