E-procurement and the small supplier

Existing relationships with some suppliers may be in jeopardy as e-procurement enablement snakes through the supply chain. Rich Weissman looks at what smaller companies can do to keep pace

Sal's Supply was a dream supplier. This small valve and fitting distributor offered excellent service, consistently delivered on time, had perfect quality, and was by all accounts the low cost supplier in the commodity segment. Unfortunately for Sal, they were about to lose their largest customer's business because they could not interface with the new e-procurement application that they had recently installed.

Sal may not be alone. The entire supply chain is at risk as the gulf between companies with e-procurement capabilities and those without continues to broaden. The Internet and other e-commerce technologies are changing the way companies buy goods and services, select and manage suppliers and communicate throughout the supply chain. Web-based business-to-business services, coupled with rapid advances in electronic commerce tools, applications and opportunities, continue to affect the purchasing process.

Often, it is small and mid-sized suppliers who are in jeopardy, as they have not yet invested in the technology and expertise necessary to support the e-procurement needs of their customers. Those companies who do not join the burgeoning e-commerce movement in some manner may be left in the dust.

The efficiencies and effectiveness of e-procurement applications in supply chain management are well documented, and are key in maintaining a competitive market position. E-procurement platforms allow companies to streamline order processing, manage inventories, increase multi-dimensional supply chain collaboration and communication, automate payment cycles, and improve spend analysis, resulting in tighter procurement controls.

These efficiencies result in operational cost savings. Often, larger companies will invest in an e-procurement application that will have a dramatic and positive impact on their

business, forcing changes in the way business is conducted, how suppliers are selected and managed, and how purchase orders are let. Their supply base may change as well, with only those suppliers who can respond to the changing requirements allowed to remain. Those companies who are not utilizing e-procurement solutions in their own supply management processes, no matter what their size, may also be at a disadvantage.

E-procurement is causing significant changes in the supply base.

David Jacoby, president of the Wellesley, MA- based supply chain management consultancy Boston Logistics Group, recently completed a comprehensive supply chain study that incorporated e-procurement behaviors. "Smaller companies are implementing e-procurement less than other companies in the study," says Jacoby. "Micro companies, those with less than $100 million in sales, are basically not implementing e-procurement solutions at all, while small companies in the $100-$500 million range are implanting e-procurement a bit more. Yet many are still operating via paper transactions."

Jacoby sees that many of the mid-sized companies surveyed, those in the $500 million to $3 billion range, are often implementing enterprise-wide ERP and e-procurement systems. "Our study showed that large companies with more than $5 billion in sales were implementing e-procurement more than the average," says Jacoby. "They were usually using ERP or a specialized buy-side tool, such as Ariba."

Jacoby sees many reasons why small and mid-sized companies have been implementing technology-based sourcing on a limited basis. "The study showed that in some cases small purchase quantities and lot sizes just don't warrant a technology based solution," explains Jacoby. "Other issues concern a lack of funds necessary to invest in an e-procurement system and limited knowledge about the options available."

Additionally, he found that some small companies have not yet decided on the right technology. Yet, these suppliers may be in danger of losing the business of their customers who are migrating towards more e-procurement processes.

These suppliers may also be losing ground to similar sized competitors who are using e-procurement tools to improve their own operations. According to Jacoby, there are ways that small and mid-sized companies can get involved in electronic sourcing and procurement. They can use portals to source and buy maintenance, repair and operating supplies (MRO), use auctions to source indirect materials, implement EDI in collaboration with larger customers, and send requests for quotation (RFQ) via e-mail or with a specialized software package.

Once companies have adopted an e-procurement system, it is critical to understand the ramifications on the supplier community. "An e-procurement system without supplier involvement is unimaginable," says Karen Weinstein-Millson, director of corporate procurement for Natick, MA-based Boston Scientific Corporation. "Many organizations have struggled to form a cohesive strategy towards supplier participation and involvement."

Weinstein-Millson sees that some companies utilizing e-procurement processes have made the assumption that existing suppliers will simply migrate into their systems. They often do not consider the costs to the supplier, nor the relative sophistication needed for integration. Often, there is a lack of incentive and support for suppliers trying to manage

this process. "The feedback from the e-marketplace services suggests that the proliferation of technology has introduced complexity for the suppliers," says Weinstein-Millson. "Supplier resources are being strained when they are being asked to do the same things in a myriad of different ways, all looking to get to a common outcome."

While technology is often cited as a gating factor in e-commerce enablement, return on investment is also an important measure. "Automation is the key to eliminating transactional processing in procurement and ensuring the economical and timely processing of purchase orders," says Fred Solish, Managing Director of eParagon, the San Carlos, CA, provider of strategic sourcing services. "Buyers in all organizations are looking to reduce the time spent processing routine orders to spend additional time on the more strategic aspects of their jobs."

Solish sees that buyers will gravitate towards those suppliers that offer the tools necessary to make the buyer's life easier, such as offering a tailored online catalog for the buyer. Yet, it can be an expensive process for the supplier to enjoy that potential business, with no guarantees that the business will be there. While it may be hard to justify the risk and reward, those suppliers who ignore the gathering momentum of e-procurement could be in trouble.

Enter the large software providers to try to reconcile this buyer and seller quandary with a series of products and services that may help to narrow the gulf. "I am seeing a passive resistance towards e-commerce enablement," says Dave Stephens, Vice President of Procurement Development for Redwood Shores, CA, based Oracle Corporation. "Companies are getting around to it, but it is taking them a long time to do it." Stephens sees that large customers are driving the process, and that they will select suppliers based on how they will respond to the e-commerce challenges. "Large companies will continue to invest in automating their processes in order to drive productivity gains," says Stephens. "They need to adopt these technologies to stay competitive."

Stephens sees that technology is becoming less of a barrier of entry, and ultimately less objectionable for most companies, even the small suppliers and buyers who seem to be operating on the fringes of e-procurement. "Small buyers are turning to supplier networks to try to automate their processes," says Stephens. Applications such as Oracle's iSupplier Portal and the Oracle Supplier Network allow smaller companies access to an Internet based application, allowing for the automation of the buying and selling process. "Platforms like these are an opportunity for companies to narrow the gap between the haves and have nots."

E-procurement is here to stay. The days of uncertainty and apprehension of the use of technology in the supply chain management process have ended. What continues is an uneven application of the available e-procurement tools and a lack of urgency by smaller suppliers to use them. While there may always to a market for certain suppliers, no matter what their level of e-procurement enablement, customers of all sizes will soon chose suppliers not only on their product and service offerings, but on their e-commerce capabilities as well.

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