



Technology for next generation procurement

Executive summary

The current economic downturn presents procurement professionals with a rare opportunity to become more sophisticated and play a critical role in navigating their companies through the difficult times. They can push beyond the requirement for immediate savings to achieve long-term competitive advantage for their organisations.

Technology can play an important role in supporting worldwide organisations achieve the next stage in procurement excellence. Yet procurement professionals today are often overwhelmed by the variety of technology tools available and can be hostage to their IT department's choices of vendors.

This issue of Efficio Viewpoint provides an overview of the latest advanced capabilities in IT procurement today and explores some of the issues surrounding their deployment.

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Procurement's changing role

The role of procurement within a company continues to become more strategic. Tougher market conditions coupled with slow revenues present procurement with a rare opportunity to transform purchasing practices with strategic changes that push beyond immediate savings to achieve long-term competitive advantage.

Strategic sourcing is often the first step towards this goal. Procurement organisations that have applied a disciplined approach to their sourcing process have hugely benefited in terms of short-term savings and long-term sustainability.

Under pressure from tightening margins, many companies today are asking what the new "goldmine" in procurement is and how to achieve further value from their supply base.

SRM (supplier relationship management) and LCCS (low-cost country sourcing) have been two of the most popular strategic choices in recent times. Although challenging, they mandate changes in other business functions (manufacturing, logistics, inventory management), and often bring about a complete shift in a company's cultural paradigm. Companies that have decided to implement either – or both – of these initiatives need to invest in profound transformation programmes in order to be successful. This means adapting and aligning people, processes and systems enterprise-wide.

Technology can play an important role in supporting worldwide organisations to achieve the next stage in procurement excellence. The question is whether the technology market is equipped to support it.

Evolution of IT procurement technology

Until quite recently the available technology was far from satisfactory. Technology in the procurement and supply chain area developed quickly during the Internet bubble, creating a fragmented offering in the marketplace. In the early days, it addressed the issues that procurement brought to the table: raising requisitions and placing orders more efficiently. E-initiatives were initially focused around transactional processing - automating the purchasing process for high-volume, low value item categories such as office supplies and MRO.

Traditional ERPs such as SAP, Oracle and PeopleSoft and new e-procurement vendors such as Ariba developed their value propositions here. However, while the benefits were real, the applicability was limited as many categories could not be addressed through catalogues. As organisations started to realise the shortcomings of using technology in achieving purchasing efficiency, the next stage of technology investments focused on more upstream sourcing processes.

New niche vendors and industry-focused marketplaces appeared to serve this market, leaving most ERP and e-procurement vendors behind. The first marketed functionalities were e-auctions, which provided a quick return on investment and a good, easily-understood story to tell to the business.

However, the limits of e-auctions quickly became evident since they only improve the negotiation phase, not the whole strategic sourcing process. More importantly, auctions do not provide a long-term solution to the key issue of savings sustainability.

Next generation procurement technology – what to look for

Companies that are investing in procurement technologies today are looking beyond e-auctions and Rfx. Instead, they are using the technology tools to make quicker and more “value-driven” sourcing decisions.

Procurement organisations that have “industrialised” their approach to strategic sourcing are finding it beneficial to hardwire the new process in system suites that can provide decision-making support in the form of analytical tools (optimisation engines), reporting capabilities and workflow management, and that can provide detailed information and spend data (spend analytics) to feed a more repetitive sourcing process.

The most advanced practices are going further than that, looking outside the core sourcing process for further supply chain visibility and integration.

They are looking for functionalities and tools that can support a leaner and more efficient management of increasingly complex and fragmented supply chains, fostering visibility and information exchange at different steps from product development to delivery. At the same time, as the supply chain is moving away from the “control room”, companies need to be able to closely monitor the performance and risk associated with their suppliers.

While traditional ERP and e-sourcing vendors have made some progress in spend analytics and performance monitoring, these areas are still relatively immature. Regardless of claims by some vendors, there is no single, ready-built off-the-shelf application available. The question is often about whether to build in-house or utilise a strategic technology partner to develop a more comprehensive framework - or potentially a combination of both.

A clear vision and a well-planned IT development roadmap is essential. Organisational objectives and capabilities need to be properly reviewed and assessed before any decision can be made, or you may end up with yet another tool quietly sitting on the buyer's desktop.