

E-BUSINESS & E-COMMERCE

Session #9

E-Procurement

Learning Objectives

Students able to *identify* the benefits and risks of e-procurement

E-procurement

- The electronic integration and management of all procurement activities, including purchase request, authorization, ordering, delivery, and payment between a purchaser and a supplier (Chaffey, 2005)
- Procurement refers to all activities involved with obtaining items from a suppliers, this includes purchasing, but also inbound logistics such as transportation, goods-in and ware-housing before the item is used (Kalakota and Robinson, 2000).
- The used of e-procurement is sometimes considered as part of 'strategic sourcing' where it is used to deliver commercially significant benefits to the company.
- E-procurement should be directed at improving performance for each of 'five right' of purchasing: (1) at the right price; (2) delivered at the right time; (3) of the right quality; (4) of the right quantity; and (5) from the right source.

Business tends to buy by one of two methods

1. Systematic sourcing – negotiated contracts with regular suppliers, typically in long-term relationships.
2. Spot sourcing – fulfilment of an immediate need, typically of a commoditized item for which it is less important to know the credibility of the supplier.

Participants in Different Types of e-procurement

- Traditional manufacturers which produce physical goods that are generally sold to other corporate customers
- Direct sales manufacturers similar to traditional manufacturers except that they bypass intermediaries and sell direct to end consumers via web or phone channels
- Value-added procurement partners act as intermediaries to sell products and services to other businesses
- Online hubs are industry-specific vertical portals
- Knowledge experts who produce information goods
- Online information services provide unique information to end users that is either original in its development or provides a unique editorial perspective
- Online retailers include start-up e-businesses and more traditional multi-channel retailers
- Portal communities seek to aggregate different online information services into an integrated customer experience

Simple classification of different types of applications of e-procurement

- e-sourcing. Finding potential new suppliers using the internet
- e-tendering. The process of screening suppliers and sending suppliers requests for information (RFI) or requests for price (RFP)
- e-informing. Qualification of suppliers for suitability.
- e-reverse auctions. Enable the purchasing company to buy goods and services that have the lowest price or combination of lowest price and other conditions via internet technology.
- e-MRO* and web-based ERP. These involve the purchase and supply of the products which are the core of most e-procurement applications

*MRO = maintenance, repairs and operations, of manufacturing facilities

Drivers of e-procurement

1. Control - Improving compliance, achieving centralisation, raising standards, optimizing sourcing strategy and improved auditing of data
2. Cost - Improved buying leverage through increased supplier competition, monitoring saving targets and transactional cost reduction.
3. Process - rationalisation and standardisation of e-procurement processes giving reduced cycle time, improved visibility of processes for management and efficient invoice settlement.
4. Individual performance - knowledge sharing, value-added productivity and productivity improvements.
5. Supplier management - reduced supplier numbers, supplier management, and selection and integration.

Benefits of e-procurement dan e-SCM

		Value Creation		
		Efficiency	Effectiveness	Strategic
Dimension				
	Planning	Implement rich media for company-wide interaction	Provide online executive Information systems	Facilitate knowledge management between partners
	Development	Standardise platform for cross-functional design	Share detailed requirements between partners	Enable concurrent design across virtual organisation
	Inbound	Support electronic transactions with supply partners	Generate supply flexibility through e-hub communities	Offload replenishment responsibility to supply partners
	Production	Integrate internal systems	Exchange production data between partners	Optimise utilization of global capacity
	Outbound	Support electronic transactions with customers	Furnish customised instantaneous order status	Institute direct fulfilment via logistics partners

Barriers and risks of e-procurement adoption

1. Competition issues, e.g. in exchanges using collaborative purchasing.
2. Possible negative perception from suppliers, e.g. their margins reduced further from e-auctions.
3. Negotiated procurement benefits may be shared with other exchange users who may be competitors.
4. Creation catalogues can be a long process and costly to suppliers.
5. Culture profile within the organizations, e.g. resistance to change.

Main source

1. Chaffey, D. (2015) E-Business and E-Commerce Management: Strategy, Implementation and Practice, 6th Edition. Pearson Education Limited, Harlow, UK.

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