

There's a Strategic Weapon In e-Procurement Service

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Abstract. Discover a strategic weapon to use in e-procurement service. Using success stories from a leading electronics firm, find out how to promote the growth and development of business solutions within the environment of strategic sourcing complexities. Gain insight into creating competitive advantages and keeping leadership position strong. Learn how iMarket Korea builds IT credibility and turns procurement service into a world-class success. Explore how technologies enable convergence and collaboration as solutions to supply management challenges in our global business arena.

Introduction. Throughout the world, B2B(Business-to-Business) commerce on the Internet is generating a lot of interest and attention. Companies doing business on-line markets will exert enormous influence over the way transactions are carried out, relationships are formed, and profits flow (Kaplan & Sawhney 2000). In fact, the evolution of Information and Communication Technology(ICT) has fostered the development of powerful tools that are expected to improve supply chain performance dramatically, through higher levels of process efficiency and integration (Cagliano et al., 2005). Thanks to electronic procurement (e-procurement) which has become more critical in public and private organizations, electronic transactions between organizations will soon dominate. E-procurement systems work for exchanging documents, opening bids and contracting, shopping electronically, paying electronically, and sharing information on goods & services as well as participants(Bendoly & Schoenherr, 2005).

The purpose of the research focuses on reporting the benchmarking case of the development and the effectiveness of an e-procurement system in Korea. iMarketKorea (IMK) has developed very effective and efficient e-Business model which are widely used decision support system in Korea. These systems incorporate the knowledge-based "policy" with which sourcing managers are able to select necessary factors and relative importance of those factors for their supplier selection. The

system reflects managers' previous knowhow and company's strategies, enabling consistent supplier selection processes and decisions.

Company Overview. iMarketKorea (www.imarketkorea.com, CEO Man-young Hyun), a Korean B2B e-marketplace, financed by 10 major Samsung affiliates and the Korea Development Bank, is the market share leader in the area of e-procurement service outsourcing. The company offers MRO & construction material e-procurement services including e-catalog management, reverse auction, global sourcing and focuses on facilitating a win-win situation for both buyers and suppliers through transparent business operations in its e-marketplace. Procurement services with best-of-breed in-house technology maximize iMarketKorea's ability to deliver a world-class comprehensive procurement service that can be tailored to the unique needs of the global market. iMarketKorea Inc., founded in 2000, continues to maintain its leadership in B2B e-procurement service market with 2 billion USD annual transaction volume and a core base of 500 large customers with whom it has comprehensive, long-term relationships. The breadth and depth of its technology assets and procurement services coupled with its global reach give iMarketKorea an early and significant lead in the procurement service provider space to demonstrate best practice in integrating advanced technologies into a broader procurement framework that includes comprehensive sourcing and supply base management strategies.

With MRO material as a substantial cost category, the SamsungGroup decided to address the unique, more complex business needs and operational pressure which face MRO purchases: The total purchase volume of Samsung affiliates had to be aggregated, the system improved, and category expertise at a breadth and prevent unnecessary overlapping investment in system improvement for individual Samsung affiliates. Goals to raise price negotiation power and reduce significantly procurement costs for the SamsungGroup had to be supported by program goals and actions to align internal functions, manage compliance and create accurate maintenance and purchasing plans, and manage external suppliers. iMarketKorea services began in January 2001 with the basic business model as centralized purchasing agent of SamsungGroup volume.

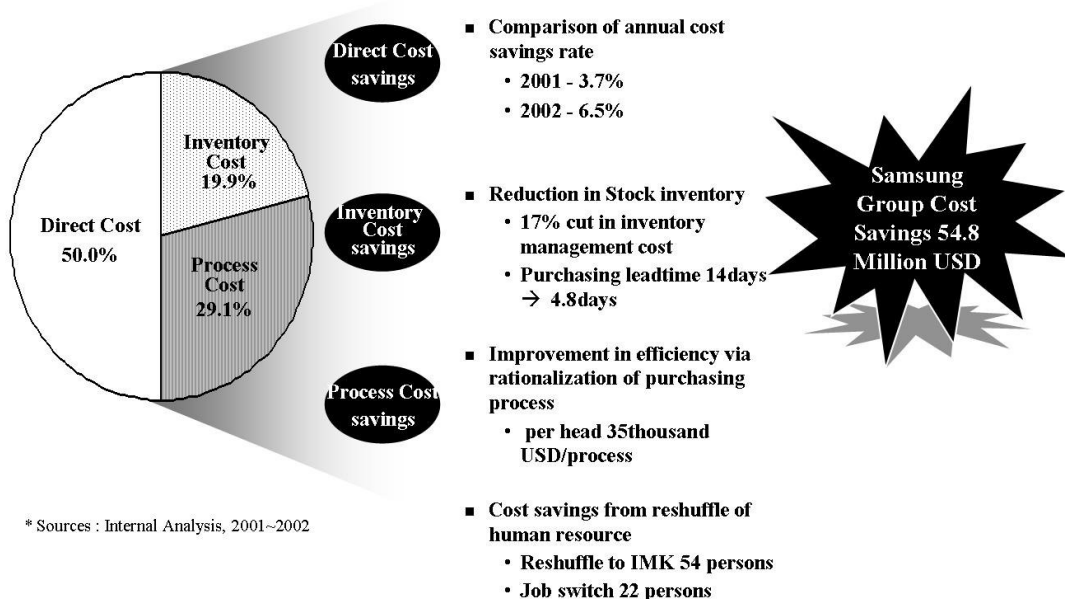
Although at start-up stage, iMarketKorea business was limited to Samsung affiliates, soon the company acquired SamsungGroup's confidence and trust after successful performance of significant cost savings, and was able to expand business to SamsungGroup's partners and investment companies and finally enlarge customer base to public companies.

Successful Launching. Within short time the company reached the break-even point and delivered the most rapid and measurable results to the SamsungGroup. These strategic and high impact results generated significant network effect.

1. Reduced purchase price of MRO material: co-purchasing, supplier integration, distribution channel rationalization resulted in margin reduction of middle distributors and alternation in import material suppliers offered improved quality.

2. Indirect cost savings: reorganization/repositioning of purchasing manpower, reduction in incidental costs related to purchasing process, improved spend visibility, compliance and process efficiencies without large investments in software and on-going maintenance.

3. After 2001, SamsungGroup's MRO purchasing competitiveness strengthened and resulted in cost savings of 55 Million USD for two consecutive years. (refer to diagram)



Challenges in Full-service Procurement. Although iMarketKorea successfully secured its position as the recognized brand in the e-procurement service market the company had to address the entire procurement value chain from savings identification, to negotiation, and most importantly, realization. Effectively integrating strategic sourcing and procurement services with best-of-breed technology to deliver a comprehensive procurement service that can be tailored to the unique needs of an individual buying organization and building trust between customer and supplier relationships were main challenges to iMarketKorea.

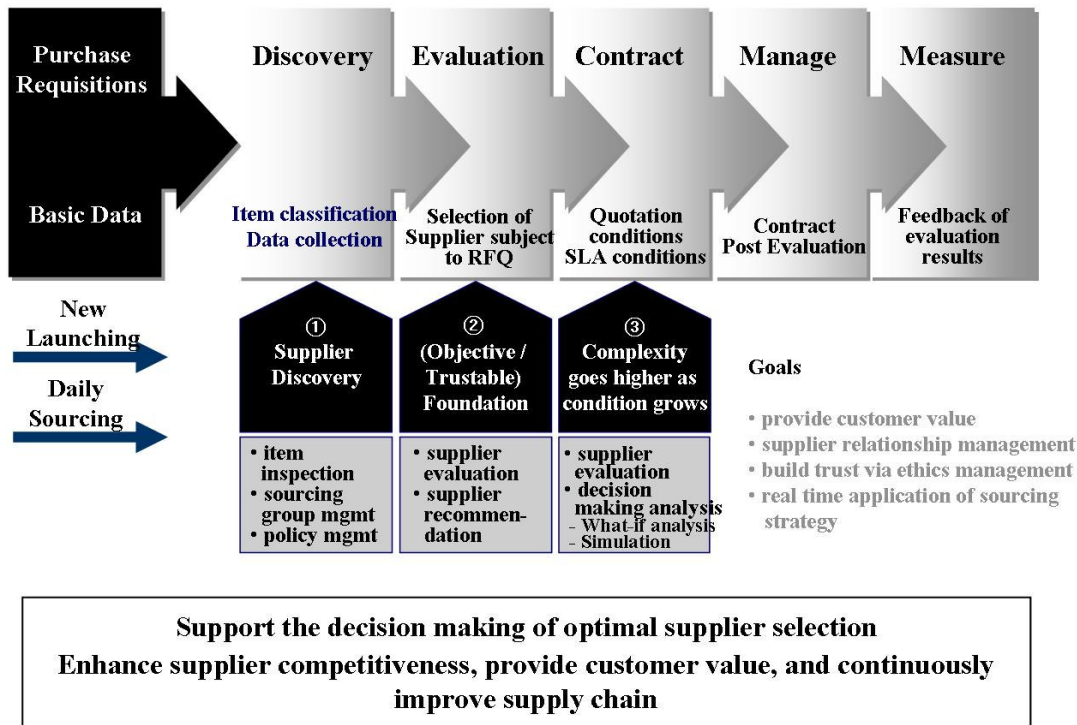
The right combination of expertise and technology tools proved to be solutions to issues on fiduciary agent, change management and sustainable value creation.

Solutions. To meet ever-increasing customer demands, iMarketKorea aims to align supply capabilities proactively by transferring some of these demands to suppliers - essentially requiring suppliers to contribute to and support a more efficient value chain. iMarketKorea has developed procurement technologies to unlock additional values, capture top and bottom-line value from supply relationships, and improve internal processes. Compliance on an ongoing basis and use of the following technologies to develop strategies for deriving continual improvements from the supply chain is the key to complete and mature sets of services that blends procurement automation with sourcing and supply base management strategies and services.

- Supplier selection decision support system, “Wise-i”
- Supplier Evaluation and Promotion system, “Smart-i”
- Mutual process improvement “JPI(Joint Process Improvement)”

iMarketKorea developed a sophisticated sourcing methodology, “5 Step IMK sourcing methodology” and Wise-i(World-class Intelligence Sourcing Enabler for iMarketKorea: sourcing decision making support system) to rapidly identify, evaluate, qualify, negotiate with, and manage an optimal mix of supply partners.

<5 Step IMK sourcing methodology framework>



Wise-i system as a decision support system within the e-marketplace, most importantly improved transparency and efficiency in supplier selection. Sourcing managers were able to select supplier in a more systematic matter based on analysis of main factors and weights of those factors recorded by supply managers with a great source of category knowledge and industry experience. As every decision making record remained in system, transparency increased. Also Wise-i promoted improvement in supplier evaluation and management capability. From supplier selection to supplier management, every performance index of supply base was created and stored in the system leading to continuous management, and this led to effective supplier evaluation and management (Smart-i system).

After the operations of Wise-i, iMarketKorea developed Smart-i(Supplier Management & Assessment Relationship Tool for iMarketKorea), a supplier relationship management (SRM) system focused on supplier performance rating to ensure that suppliers within its network maintain high levels of quality and on-time delivery to rapidly identify, negotiate with, and manage an optimal mix of supply partners. Performance measurement is the glue that keeps both strategies-procurement and corporate-aligned and working toward the same goals.

Smart-i system in detail enhances supplier relationship management, evaluates supplier performance, derives continuous improvement, expands best supplier pool, analyzes strategic opportunities, and differentiates supply relationship management process. Smart-i has demonstrated proficiency in evaluating and managing performance of supply partners and set up a foundation for collaborative planning at multiple tiers of the supply network with visibility into and influence over the supplier's supply chain operations.

Wise-i and Smart-i system technology creates supply advantage by understanding the role played by each supplier in its sourcing portfolio. A select number of supplier relationships become highly strategic and collaborative-while most others remain largely transactional. Those who are willing to move away from traditional operating modes soon learn an important lesson: Building relationships inside and outside the organization is an ongoing process that never ends. These tools that power collaborations with suppliers will add more value-added functions, while improving the integration of each enterprise with its suppliers and customers alike.

According to 3 Step Supplier Relationship Management, iMarketKorea integrated supply base in step1, improved internal sourcing process e.g. standardization via Wise-i and Smart-i in step2, and the remaining task is joint process innovation (JPI) in step3. Suppliers' ideas and capabilities can contribute mightily to new technologies, innovative offerings and the ability to deliver superior value to cost - and help drive revenue. The emergence of more collaborative approaches

involving joint process improvement has broadened the understanding of the supplier market to a global level and deepened the understanding of core suppliers.

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