# E-Sourcing: What's Hot and What's Not

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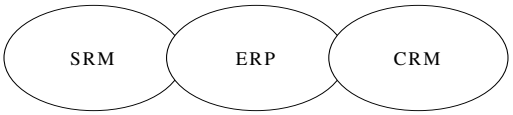
**Abstract.** E-business and e-sourcing were going to revolutionize business models at the start of the century. Five years later we have made much progress but not the amount originally forecasted. The e-procurement landscape is still very vibrant even though certain e solutions failed to live up to their hype, while other ones succeeded. There are also new areas within e-procurement software automation that are emerging. Will these provide the gains that are promised or will they disappoint? While forecasting the future is always uncertain at best it is important to see what new technologies are promising and how they are going to help the purchaser as we move into the future.

**Introduction.** A discussion of the many forms of e-marketplaces, consortiums, and technologies underlies any analysis of e-sourcing technologies. Certainly many of these solutions interact and overlap in the changing landscape of the e sourcing industry and need to be analyzed. As in any major management endeavor the keys to adopting good e sourcing model will require a good business model, the right management environment and implementation strategy. Successful implementation requires good technology selection. This selection is initially done at a high level, and focuses on what technology will be used and the amount budgeted for the project. Supplier selection is filled with financial viability risks. Finally, managing the contract software and user changes.

There are numerous ways in which supply managers approach the e-marketplace. Some of these methods include the use of seller sites, being part of an industry consortium, finding a third party provider to provide specific solutions or a suite of solutions, or having an ERP provider implement their sourcing solutions. Other organizations start this journey by at their analyzing their purchasing cycle. This cycle typically begins with the specifications, a requisition process, a sourcing cycle, negotiations, contract writing, order placement, order management, receipt, payment and evaluation. Since the sourcing process is a major part of supply management's process it can further be divided into spend analysis, supplier analysis, spend/supplier strategy, request for quote and or negotiation.
Suppliers will be ready with solutions at any of these points in the cycle. As the buying organization becomes more comfortable and satisfied with the processes and tools there is an attempt to decide how these solutions fit together. Is the specific solution primarily content related, tactical in nature, a sourcing solution, or an integrative/collaborative effort? Finally, in a supply chain environment an ideal integration includes several sourcing solutions as well as others and extends out from the firm internally and includes both upstream and downstream solutions. (Figure 1). In summary to analyze what is hot and what is not involves many variables and should be applied within the framework of each individual firm and be matched

with their appropriate level of experience and stage in the sourcing cycle. Determining which of the sourcing issues where hot or not involved discussions with numerous third party providers as well as high level supply officers. The categorization of technologies as mature or growing may be a better label than hot or not given the existing level of competency with these tools.

Figure 1
The Ideal Integration




Source:ePurchasing plus,2002

Source: ePurchasing plus
Antonette,Giunipero, Sawchuk, 2002

**A Changing Marketplace.** Several of the initial e-sourcing providers have struggled in the tough marketplace during 2001 and 2002. These include such names as MaterialNet, Purchasing Center.com , and even Commerce One. At its peak Commerce One had a market value of 20 Billion dollars. At the end of 2002 the company had $110 million in cash but as of September 2004 it was down to $700,000 and expenses were greater than cash inflows. The specialized technology in the area of process management of the purchasing cycle was solid but became easily duplicated by other third party solution providers. Even a late partnership with SAP did not sufficiently revive revenue growth. Commerce One's vision of connectivity among business partners through marketplaces using a proprietary technology was not realized. Instead the market became more of a conglomeration of marketplaces with generic interfaces, as well as ad hoc adoption between buyers and suppliers or through business partners.(1) Purchasing Center.com which was established to bring buyers and sellers of MRO items together in one electronic marketplace never quite found its niche. Particularly when large MRO suppliers such as Grainger and Mc Master Carr quickly developed their own sell side sites leaving Purchasing Center.com's vision as an intermediate marketplace source for MRO items thwarted. Buyers questioned the value of using a third party and sellers went forward with their own website developments. The company subsequently filed for bankruptcy. Other players have been more fortunate and able to merge or be acquired by competitors.

Consolidation has also happened with in the Strategic Sourcing areas. For example in 2002. One source identified seven leading vendors of strategic sourcing software. The seven idenified were: 1) Ariba; 2) B2emarkets; 3) PurchasePro, 4) eBreviate; 5) Free Markets; 6) MaterialNet; 7) Entomo; and 8) PeopleSoft. As of January, 2005 only two of these eight firms have kept their independent names (Ariba and Entomo). The others have gone through buyouts, acquisitions or mergers. MaterialNet went out of business the others became part of a consolidating industry structure. Purchasepro was acquired by Perfect Commerce; Free Markets by Ariba; PeopleSoft by Oracle; and Ebreviate by A.T. Kearney,

These marketplace changes are reminders of the importance a buyer must attach to performing their "due diligence" prior to acquiring e-procurement software.(2) Such changes

also highlight the competitive nature of the industry. According to the Wall Street Journal two-thirds of publicly traded software companies lose money. Despite the money losing businesses demand for e-procurement applications is expected to grow at 8% in the 2003-2008 time period according to AMR research. E-procurement software categories that were expected to grow included, Business Process Outsourcing, low cost country sourcing, compliance management, supplier management, analytics, data management services and benchmarking. (3) While the large software players in the ERP space such as SAP and Oracle will provide the Supplier Relations Management and other Modules there is plenty space for individual third party source providers. Finding the ideal one stop solution may not be ideal particularly when many of these third party suppliers will interface with the SAP and or Oracle software directly or through the use of middleware.

**Sourcing Technologies.** Purchasers need to crawl before walking into the e-procurement space. Thus using sell side sites to place some requirements is a good starting point but it is not the destination. Next the purchaser can issue RFQ's electronically and begin to efforts to develop a buy side site will begin to take care of the tactical and procedural needs. Those with ERP systems will already be approving requisitions and placing orders over the ERP system. Benchmarks from the Hackett group highlight some of the efficiencies that tactical e-procurement can provide. For example the percentage of total requisitions that were approved on line for average firms was 47% while at world-class firms it was 100%. At the average firm the requisition to purchase order cycle time was 50 hours at the world-class firms it was 1.4 hours. Tactical buying e-procurement solutions do not receive the fanfare or publicity of those on the strategic side. Growth in these sectors will be varied with less on the eRFI/eRFQ areas but higher levels in the automation of the entire cycle what is being termed the "req to check cycle". Another hotter application in this area is imbedding Sarbanes-Oxley compliance measurements and requirements into existing e-purchasing applications and processes. Finally any knowledge management systems that help streamline and simplify the requisition to purchase order cycle by focusing on the electronic retrieval and storage of documents are valuable. These systems should reduce the amount of time required to process a transaction, the number of times it must be handled and increase the visibility of the audit process.

Once efficiencies in the purchase cycle are obtained the next stage of the process is moving to the more strategic approach. One of the early solutions in the sourcing area was reverse auctions. There is a need to take a holistic view of the entire spend and determine the specific current buying categories that that characterize the total buy? Certainly the first question to be asked is what do we buy and whom do we buy it from and finally where is it used. Thus spend analysis has become popular starting point for and this area will continue to be a popular application. Data cleansing of item descriptions and supplier base lists are also important here. The next step in spend analysis is to determine which business units are using the items. The following categories discuss some of the more popular e sourcing areas and their relative popularity in today's market place.

*Cataloguing.* This application could easily fall into the purchase cycle area but is also considered part of sourcing at certain firms. The application of putting manual catalogues on line is very mature and being sourced to low cost providers. Many firms initially did this internally and are now moving it outside at substantial cost savings. The benefits of good cataloging provide inputs into sourcing management.

*Reverse Auctions.* As mentioned above this is one of the most popular and most discussed areas within esourcing. This application has reached maturity. Companies using it are on their second or third provider. They have tried it, used it and have achieved a degree of savings. It is a tool in the supply manager's bag. The software has become commoditized and is readily available from several providers. The existence of a seller's market in many commodities has given suppliers more power decreasing buyers use of r/a's in certain commodity areas.

*Spend Analysis.* The capture and categorization of spend is a critical component of spend management process. Properly capturing and classifying what is spent by the organization is key input for the remainder of the sourcing cycle. Right now this software is quite hot according to third party e-providers and supply managers.

*Spend Management.* Spend Management addresses supply base issues, leveraging volume and other sourcing strategies. This is a software area that is in great demand as firm's try to piece together a cohesive sourcing strategy.

*Sourcing Optimization.* There is a great deal of confusion about what this actually means. Some supply managers consider this the automation of the RFQ/RFI process. Meanwhile, others feel it applies to related purchasing areas such as transportation and logistics or services. Meanwhile others have used it on complex multiple business unit purchases. From the third party provider side everyone indicates they offer this solution. The technologies are very different. Some Excel/Spreadsheet based while the more sophisticated are based on complex combinatorial mathematical models. This is one area where marketing will make a difference. Suppliers of this technology must demonstrate the power such solutions in the supply management area. Thus this area is mixed but has much future potential as supply managers begin to grasp the power of such software.

*Contract Management.* This software solution is more likely to be used for service purchases. It incorporates the final contract including the user's specific requirements within the contract process. Specific items included are insurance requirements and expiration dates as well as the appropriate specifications and service level provisions. Firms having more services purchases are demanding this model in their e-sourcing solutions. It is very hot in such environments.

*Collaboration.* Optimize our collaboration processes with both internal and external constituents. One firm tied this into reports from their Field Auditors who generated scoring information from field evaluations. A property that failed on a specific component (e.g. .fire alarms) would show up in a Supply Management report enabling the buyer to proactively provide the general manager of the property with exact material specification and cost to remedy the issue. Such collaboration dramatically reduces the cycle time of correcting issues and placing that room or public space back in service (available inventory). There are a wide range of opinions regarding collaboration and how much and what type of information is shared. This is an underdeveloped area but one that will be used much more in the future.

*Outsourcing Management.* The decision on when to outsource depends on the organization's level of expertise and committed resources to a given category of spend. There are third party providers who offer the commodity expertise and will automate the spend cycle for an organizations non-strategic or critical purchases. Prior to making this decision a determination

needs to be made to identify their core competencies. Evaluating the outsourcing software will also require the analysis of the commodity expertise of the items being outsourced. In some cases this could involve a partnership with a full line supplier in the area.

*Supplier Performance Management.* Evaluating supplier perfomance is an area that is currently seeing increased demand. More specific data on supplier performance is necessary for setting improvement targets in cost quality and delivery

**Conclusions.** Determining what is hot and what is not in the e-sourcing space is a difficult chore given the variation in organizational expertise, resources, and commitment. However certain technologies and solutions have matured (such as reverse auctions and eRFIs/eRFQs) while others are showing strong demand (such as Spend Analysis and Spend Management). Prior to using any of the technologies discussed above it is important for supply management to gain management approval and work with the IT department to insure a smooth transition in implementing some of these tools. The future will bring much more sophisticated collaboration tools.

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