

Transforming Supply Management through e-Purchasing Technology

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Abstract. Implementing ePurchasing practices requires providing the tools that will help supply managers select the “best” approach for their company. Undertaking these activities, require major changes within the organization. Preparing the organization for this change involves a process of first establishing the management environment, selecting the technology tools, and finally defining and implementing the correct strategy. Much of this presentation is taken from the principles in the textbook *ePurchasing Plus*.

Introduction. There is no doubt that the fundamental model of business is changing and the purchasing function is right in the middle of the transformation. All across the U.S. and abroad chief purchasing executives are factoring ePurchasingPlus into their corporate visions. This focus on leveraging technology to implement the changes required in purchasing has the potential to change everything about how a purchasing organization operates. ePurchasingPlus isn't about reinventing your purchasing department. It's about streamlining your current purchasing processes to improve operating efficiencies, which in turn will strengthen the relationship you have with your suppliers.

In many organizations the value of technology in the purchasing process is not well understood. Nevertheless, even at this early stage, the implementation of ePurchasing technologies is not only new but already yielding favorable results. In an October 1998 report on electronic purchasing, AMR research reported that the cost of processing an existing purchase order (PO) could be up to \$175--often greater than the value of the items on the PO. Early feedback from ePurchasing projects indicates that the cost can be reduced to \$10 to \$15 per order.

ePurchasing Plus. ePurchasingPlus are the actions taken by the purchasing organization to integrate Internet based technologies into the role of managing the upstream portion of the supply chain to reduce costs, time and increase productivity. ePurchasingPlus is a process and a set of tools for purchasing to meet the needs of the organization by streamlining its processes and leveraging technology.

ePurchasingPlus contains 4 components: 1) process changes; 2) use of technology tools (etools); 3) integration and 4) plus (organization & strategy)

Process changes include reengineering, supply chain issues and collaboration with suppliers. Reengineering here is used to mean the process of identifying and implementing an improved way of running the purchasing function in order to achieve procurement objectives that support the overall business needs.

Supply chain issues include all processes that extend from the supplier to the final customer and includes information flows as well as physical product flows.

Collaboration with suppliers is the process of communicating electronically with suppliers for all ePurchasing activities such as forecasts, demand management and order management etc.

Next the purchaser must assess the selection and use of the appropriate technology tools. There are a wide variety of technology tools and suppliers who provide these services. A select sample of these tools include: supplier relationship management, strategic sourcing software (eRFI, eRFQ, eNegotiations, etc.), public portals, EDI / XML, reverse auctions and others.

Integrating these tools within the existing system or configuring a totally new system and deciding how and what to do with the existing legacy systems pose a significant challenge for the organization and must be considered during the technology selection phase. How the existing MRP, ERP, warehouse systems etc. will tie into these tools is also a major consideration.

Plus (organization and strategy) is the final piece of the puzzle but perhaps the most important. Organizational changes will include transformation of people's roles and responsibilities. Purchasing moves from focussing on orders to managing purchase dollar expenditures and suppliers. In order to accomplish this skills sets must change. Purchasers are now focussed on managing the supply base and this involves understanding which strategies work best with which suppliers. Oftentimes the structure of the purchasing organization may change.

There may be a trend to reduce the number of purchasers required as productivity improves. However, enlightened management should recognize the profit generating potential created by freeing up purchasers from routine work. Armed with the proper skill sets these value seeking purchasers can contribute significantly to their firms bottom line profits. In line with this drive for increased profits the organization structure may become more coordinated as top level managers now have more ability to integrate and leverage purchases across several business units while keeping the overall structure responsive to the needs of the users. From an overall corporate strategy standpoint the purchasing goal becomes one of supporting the firms business objectives.

Correctly selected and implemented ePurchasing technologies get information to the decision makers faster." These decisions makers encompass all participants in the supply chain, such as suppliers & customers. Thus this information capability extends from inside the organization to the outside organization and to all members of the supply chain to form a virtual corporation. In this new business model decision makers have access to unlimited amounts of information.

References:

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