Strategic Sourcing and e-Procurement – Which One, or Both?

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Summary. It is doubtful that any subject in the history of procurement or supply chain management has created more excitement and enthusiasm than "e-procurement". It promises to revolutionize the way we do business, and produce significant savings. The subject of strategic sourcing creates almost as much excitement, and possibly even more return-on-investment (ROI). It is therefore incumbent upon all procurement/supply chain professionals to become conversant on both of these subjects, and to understand the relevance of each to the procurement process.

Having spent considerable time researching the subjects for my employer, and having interviewed innumerable professionals who were successful or not-so-successful with strategic sourcing and/or electronic procurement programs, I was struck with the realization that successful programs are often more attributable to the fundamental "procurement" aspects, than to the "electronic" aspects. Therefore, this paper is intended to summarize the substantive items which are critical to development and implementation of successful strategic sourcing and/or electronic procurement/supply chain management (ePSM) programs.

This author's research and experience has revealed that there is a tremendous amount of work which must be accomplished relative to the non-electronic aspects of procurement/supply chain management, before any real progress can be made in the electronic aspects. In fact, it should be emphasized that ePSM is NOT just about automating the existing procurement process.

The attached "best practices chronology" illustrates this principle. As may be observed, most of the initial efforts to establish the ePSM process must be accomplished BEFORE the first electronic order is transmitted to a supplier. Failure to follow such a chronology has resulted in significant problems for many organizations.

Process re-engineering has been the KEY to successful implementation at most companies which have pursued strategic sourcing and ePSM. Successful companies indicate that most of the savings from an ePSM project could NOT be realized without re-engineering the procurement processes. A common theme was that utilization of existing procurement processes with electronic tools will only result in faster, but more expensive processes!
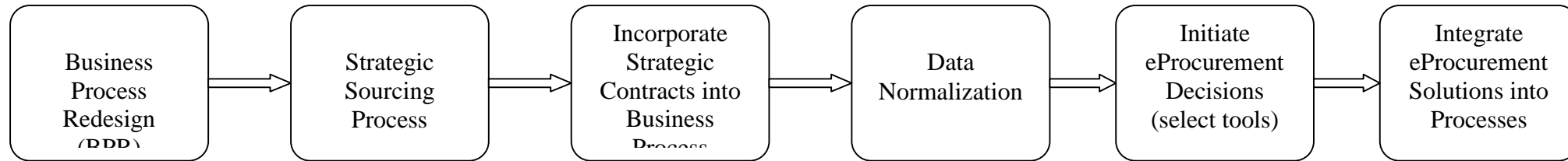
While there is considerable diversity in the approaches utilized and issues experienced by companies implementing ePSM, there are some common denominators among virtually all of them. These were repeatedly cited as the "keys to success", and are summarized below. As may be noted, many of these "keys" are also directly related to the strategic sourcing aspects of procurement.

1. The biggest obstacles to ePSM are NOT technical. Most companies found that procurement process changes were much more significant than anticipated. The amount of effort that is required to make necessary cultural changes was universally under estimated.

2. ePSM will not work without first establishing strategic supply chain management, with aggregated volume contracting throughout the purchaser company. i.e.: if a company has not established the strategic sourcing foundation with strategic suppliers, there will be serious limitations on the implementation and success of electronic processes.

3. Part number standardization/rationalization will require resolution to realize the full effect of strategic sourcing and ePSM. Several methodologies are being utilized, but UNSPSC appears to be the system utilized or anticipated by most.

4. Procurement and contracting fundamentals must be addressed in establishing and managing contracts with suppliers. Preferred supplier programs are the foundation of ePSM. Development of national or global contracts with key suppliers must be done BEFORE attempting to facilitate the transactions with electronic tools. Electronic tools do not replace these contracts or the underlying relationships; however, they do provide the ability to drive procurement volume through these suppliers.

5. Purchasing skill sets are considerably different in the ePSM environment. Most traditional procurement professionals are NOT prepared for this environment. Contract management skills are the key to successful implementation and optimization of both strategic sourcing and ePSM. These skills are not commonly found in existing procurement organizations. Therefore, personnel will require training or replacement. This is a foundation that many companies painfully found to be lacking in their implementation programs.

6. Early involvement of preferred suppliers in the development and implementation of electronic tools will accelerate the success of ePSM programs. Don't leave them out of the ePSM planning process.

7. The implementation of strategic sourcing and/or ePSM cannot be relegated to a secondary function, low priority, or part-time job for key personnel. Those who fail to dedicate the necessary resources to the implementation process, will experience serious pain, and significant delays in their implementation process.

8. Executive sponsorship of the teams implementing the strategic sourcing and/or ePSM projects is of paramount importance. Without adequate prioritization of assets and visibility of these projects, the cultural and process changes needed to accommodate either or both of these will be lacking.

9. Don't underestimate the significance of electronic supplier catalog creation and maintenance. Most suppliers are NOT really prepared for this challenge, and will require assistance with this process. It must be the supplier's responsibility, with oversight by purchaser personnel.

As may be concluded, e-procurement is NOT just about automating the procurement process, and strategic sourcing is NOT simply about consolidating your purchases. In fact, the majority

of effort and ultimate success will be in preparing for implementation of either or both. If the foundational issues are addressed, and the cultural/process changes are accomplished <u>prior to</u> commencing the implementation process, the success of your ePSM project will be significantly improved, or substantially assured.

eProcurement Best Practice Chronology

| Business Process Redesign (BPR) | → | Strategic Sourcing Process | → | Incorporate Strategic Contracts into Business Process | → | Data Normalization | → | Initiate eProcurement Decisions (select tools) | → | Integrate eProcurement Solutions into Processes |

Business Process Redesign (BPR)
- ❖ Map existing processes
- ❖ Optimize commonalities
- ❖ Eliminate uniqueness and redundancies

Strategic Sourcing Process
- ❖ Analyze current spend patterns
- ❖ Assess supply chain
- ❖ Select strategic suppliers
- ❖ Develop sourcing strategy
- ❖ Conduct corporate-wide strategic sourcing
- ❖ Establish

Incorporate Strategic Contracts into Business Process
- ❖ Implement strategic contracts at company level
- ❖ Establish monitoring procedures
- ❖ Report results to corporate management

Data Normalization
- ❖ Suppliers - DUNS numbers
- ❖ Commodities – UNSPSC
- ❖ Item numbers - ?

Initiate eProcurement Decisions (select tools)
- ❖ Reverse auctions
- ❖ Consortium procurement
- ❖ e-procurement software purchase
    e.g.:Ariba or C1
- ❖ Application Service Provider (ASP)
- ❖ Supplier-provided internet access, e.g.: Staples & Grainger
- ❖ Vertical exchange e.g.: Metalspectrum
- ❖ Some, or all of the above

It's not simply automation!