CHAPTER 2 - OVERVIEW OF E-PROCUREMENT SYSTEMS

The e-procurement is not just a system that enables the end user within companies to make purchases of goods or services online. With the development of a properly implemented e-procurement system, it can be upgraded to link the companies and their business processes directly with suppliers while managing all interactions between them. This includes management of correspondence, Request for Information (RFI), Request for Proposal (RFP), E-tendering, Vendor Management Inventory (VMI), questions and answers, previous pricing, and is able to send events to all participants in all of the selected emails. This helps create a more efficient communication channel and ensure a transparent process on procurement decisions.

A good e-procurement system will help a firm organize its interactions with its most crucial suppliers and become the business partner in handling the change in the business environment (Aberdeen Group, 2001; Eyholzer and Hunziker, 2000; Arthur Andersen Business Consulting, 2001). The e-procurement system provides a set of built-in monitoring tools to help control or analyse expenses, assure maximum supplier performance and provides a platform for suppliers to communicate with the company. It provides an organized way to keep an open line of communication with potential suppliers during a business process and a channel for new suppliers to participate at the tender stage or request for a proposal. The system will become the channel for the managers to confirm

pricing, and leverage previous agreements to assure each new price quote is more competitive than the last.

E-procurement refers to the purchase of goods, and even services, via the Internet for business purposes (Kyte, 2001a, b, c). For example, if a company needs a new fax machine, a representative can go to the local office supplies store and purchase the equipment, however, they may end up paying more than is necessary and the purchase will be more difficult to track, particularly if that business is part of a larger company with multiple offices. With an e-procurement system, purchases can be regulated and tracked more efficiently so unnecessary or extravagant purchases are nearly eliminated. In addition, an e-procurement system streamlines the purchasing process because employees no longer have to take time away from their schedule to go to the store and shop around. Instead, they can go online, place the order, and get back to work. Some companies that have put e-procurement systems in place have seen as much as a 25% decrease in waste and savings of millions of dollars annually (Aberdeen Group, 2001; Eyholzer and Hunziker, 2000; Arthur Andersen Business Consulting, 2001).

While the benefits of an e-procurement system may be significant, companies must introduce the system carefully if they want it to be successful (Kyte, 2001a, b, c). One adoption strategy that has worked for other businesses is simply to take it slowly. Instead of attempting to bring all business purchases online immediately, companies bring different categories of purchase online one at a

time. For instance, a business may begin by buying its stationery supplies over the Internet, then its computer equipment, and eventually its temporary staff.

The incremental approach to e-procurement implementation has several benefits (Kyte, 2000b). For example, the approach allows the staff to become familiar with the system and with using the system for necessary purchases. Additionally, it gives suppliers the chance to adopt the appropriate technology.

Another important implementation strategy is to determine beforehand the specifications for all of the products and services required by the business (Hope-Ross and Reilly, 2000a). Generally, this process involves determining what type of ink cartridges the printers require, what brand of ink pens are used, what style of desk chairs are needed, etc. While this step may seem time-consuming, it prevents employees from using the e-procurement system to make unnecessary purchases for items such as palm pilots, leather chairs, or expensive writing instruments.

Despite taking these precautions when implementing an e-procurement system, many companies still find that they must also work hard to avoid some common pitfalls (Kyte, 2001a, b, c). One of the biggest problems these companies have found is that employees simply refuse to use the system. Implementing the system slowly and providing the necessary training can help employees feel more comfortable with e-procurement and more inclined to make use of the

system. Another common problem is that many companies do not have a plan in place to deal with purchasing items that are not available through the online suppliers. When this occurs, these businesses usually fall back on using the corporate credit card and the local office supply store, which undermines the benefits of e-procurement. Instead, these businesses could explain to their existing online suppliers what goods or services they require, then allow the suppliers the opportunity to meet those needs for them.

The bottom line is that e-procurement systems can be effective in reducing waste and saving money, but special steps must be taken to effectively implement the system and avoid the types of problems that can hinder the successful adoption of e-procurement systems (Kyte, 2001a, b, c).

2.1 E-Procurement Process

2.1.1 Vendor Master Maintenance

E-procurement provides a platform for new suppliers to register their application online. The platform will state all the selection criteria such as paid-up capital, size of the company, annual turnover, year of operation, major client listing etc. The new suppliers are able to review the requirements and compare with the selection criteria when processing the registration online.

Furthermore, the existing suppliers are able to update their company profile from time to time and ensure that the data on the e-procurement system is accurate.

2.1.2 Request of Proposal

A request for proposal (referred to as RFP) is an invitation for suppliers, often through a bidding process, to submit a proposal on a specific commodity or service online (Rajkumar, 2001). A bidding process is one of the best methods for leveraging a company's negotiating ability and purchasing power with suppliers. The RFP process provides a proper structure and allows the risks and benefits to be clearly identified upfront before any procurement decision is made. The RFP purchase process is lengthier than others, so it is only used where its many advantages outweigh any disadvantages and delays caused. The added benefit of input from a broad spectrum of functional experts ensures that the solution chosen will suit the company's requirements.

The RFP may dictate, to varying degrees, the exact structure and format of the supplier's response. The creativity and innovation that suppliers choose to build into their proposals may be used to compare suppliers' proposals with each other at the risk of failing to capture consistent information between bidders and, thus, hamper the decision making process. Effective RFP typically reflects the strategy and short/long-term business objectives, providing detailed insights upon which suppliers will be able to offer a matching perspective (Kyte, 2001a, b, c). Similar requests include a request for quotation and a request for information.

2.1.3 E-tendering

The traditional tendering process involves the owner of the tender publishing the notification of tender through the media, such as a newspaper, for a particular period. After that the tender participants will collect the hardcopy of the tender document and fill in the requirements and submit before the closing date.

Currently, the e-procurement process provides the platform for the owner of the tender to publish their tender through the network (Hope-Ross et al., 2000). The tender event is able to send the invitation online to all the participants at the same time thereby reducing the processing lead-time. For the submission process, the tender owner is able to review the tender bidding price at the same time and expedite the procurement decision as well. The whole process is more transparent and the price bid by suppliers will more competitive as well.

2.2 Conclusion

This chapter explains the e-procurement development and business process involved in the e-procurement system. The three main processes (vendor master maintenance, request for proposal and e-tender) found in e-procurement system have been identified and discussed. In the following chapter, the relevant literature will be reviewed.