Week 8:
e-Procurement and Global Sourcing

Question:

Where in the World should I Buy ___?

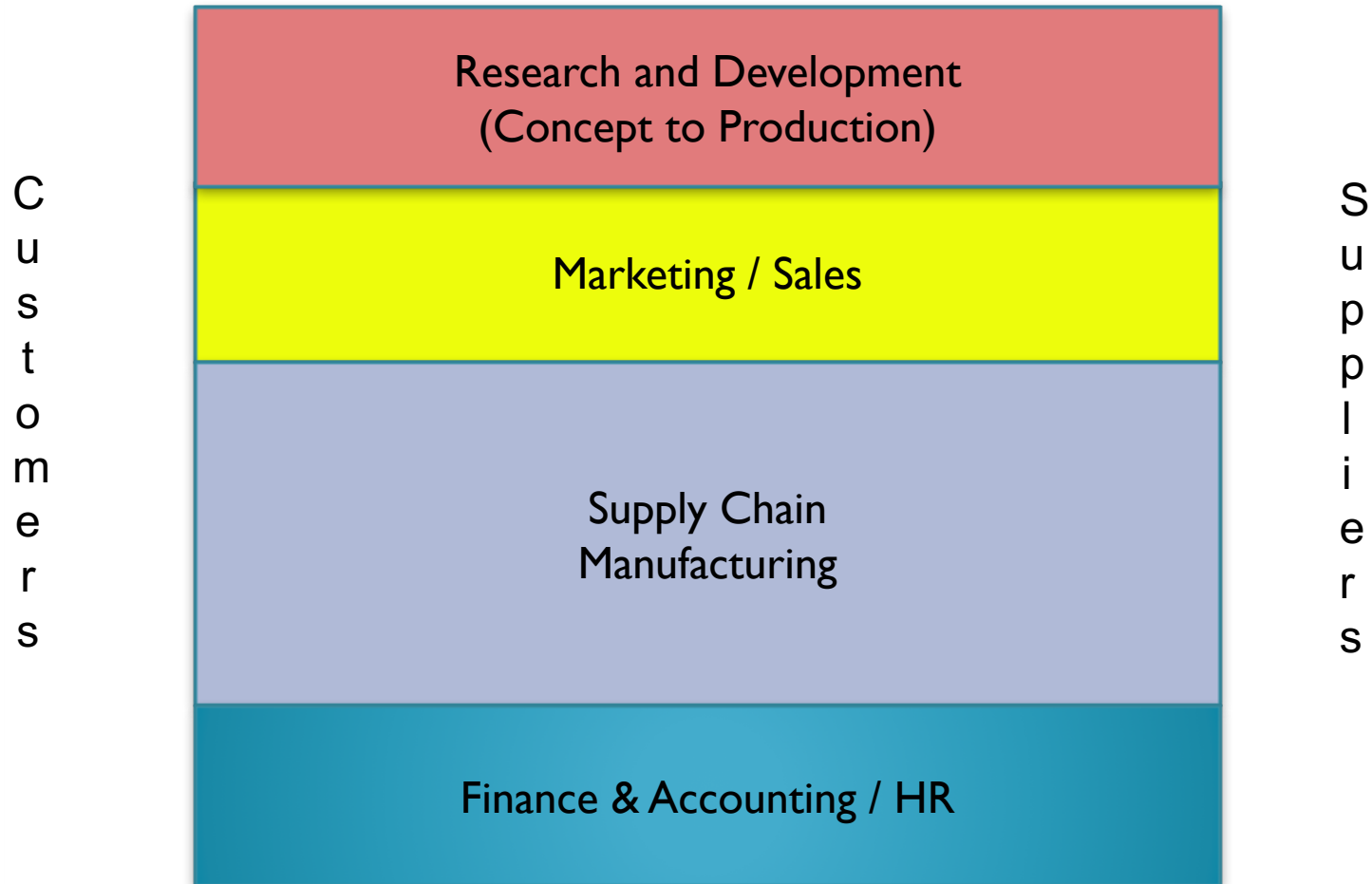# Learning Objectives

- Procurement Process

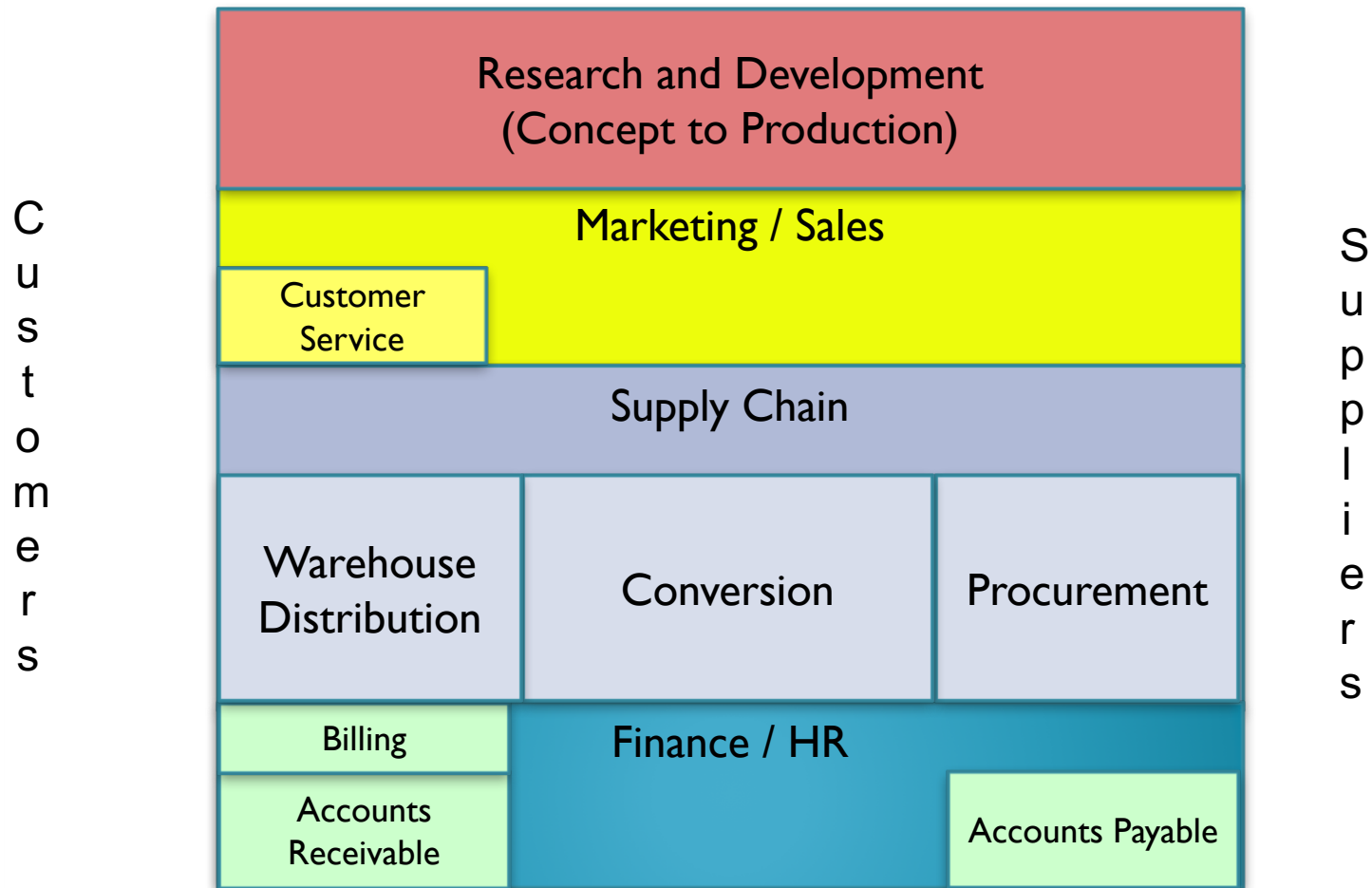- e-Procurement

- eAuctions

- Strategic Sourcing

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Business Function

Function

'An operation / group who perform related tasks routinely to achieve a part of an organization's mission ..'

Business Dictionary

Typical Business Functions / Organization

Customers

Suppliers

Research and Development
(Concept to Production)

Marketing / Sales

Supply Chain
Manufacturing

Finance & Accounting / HR

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Next Level of Organization / Functions

Business Process
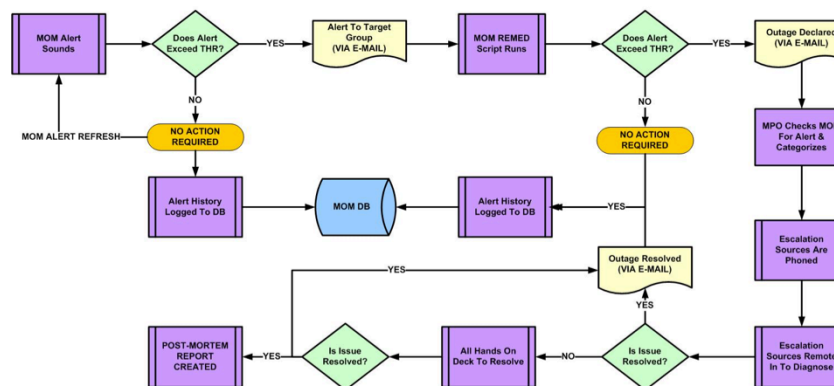
Definition

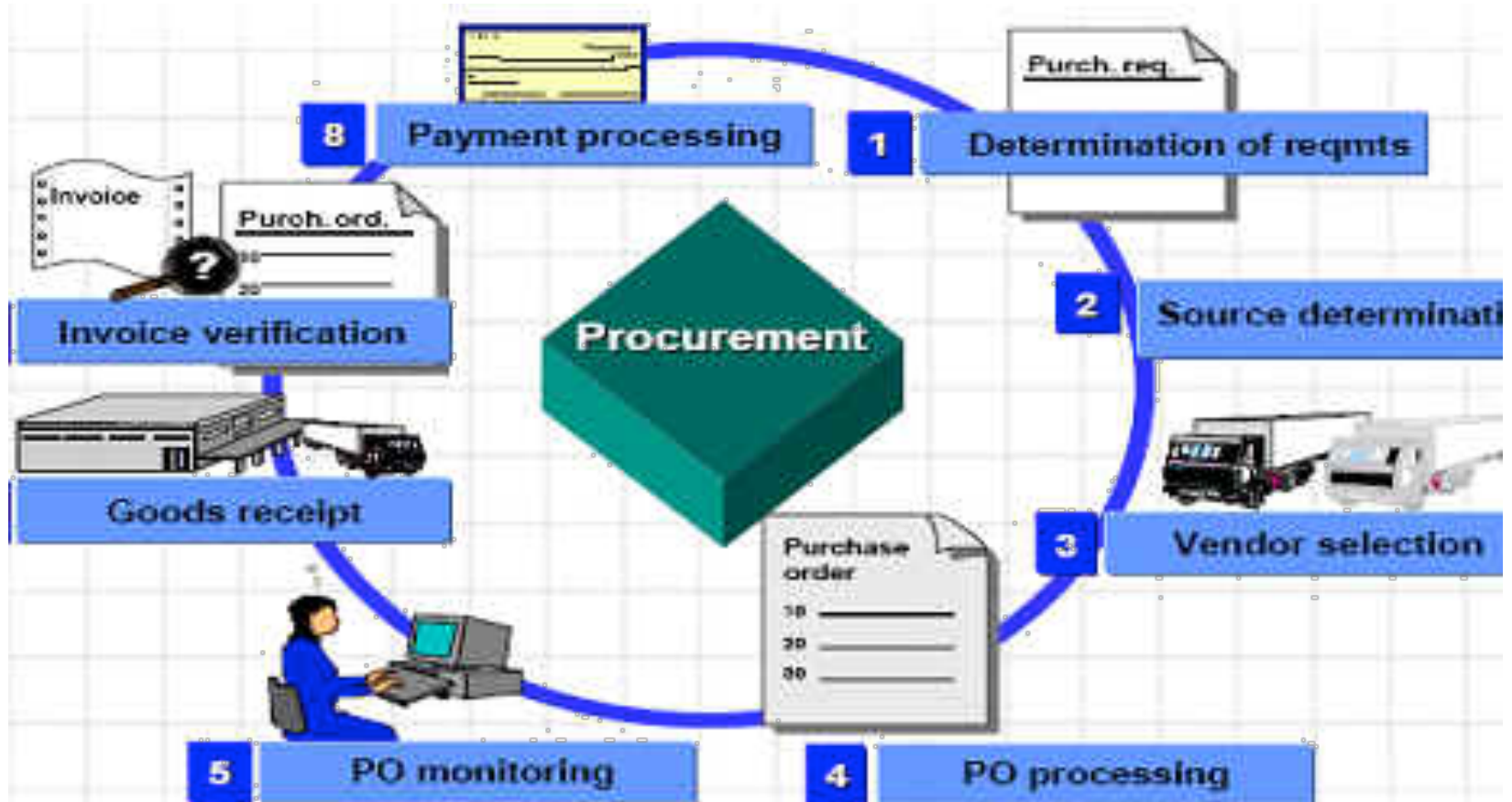'A series of logically related activities / tasks performed together to produce a defined set of results.'

<div align="right">Business Dictionary</div>

'Actions an enterprise takes to achieve value creation '

<div align="right">ISACA</div>

Typical Procurement Process

Procurement at GBI

Business Process Vs. Function

Function

'An operation / group who perform related tasks routinely to achieve a part of an organization's mission ..'

Business Dictionary

Process

'A series of logically related activities / tasks performed together to produce a defined set of results.'

Business Dictionary

'Actions an enterprise takes to achieve value creation '
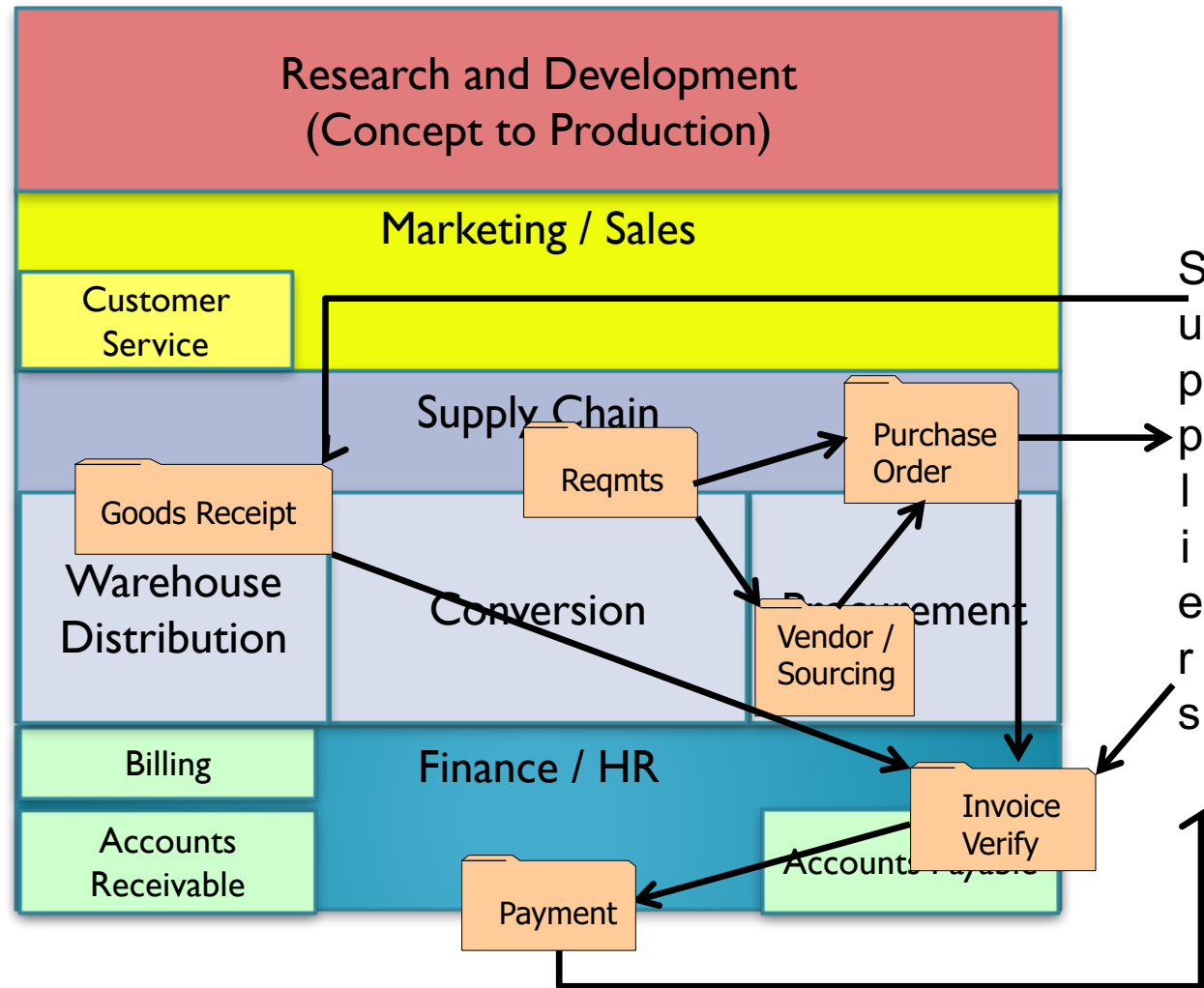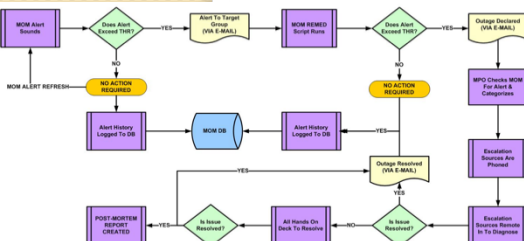
ISACA

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MARKETPLACES – Who has the Power?

Buyer Power

eProcurement

Digital Connectivity

High

High

eMarketPlaces & eAuctions

Low

Seller Power

Distributors & Agents

Low-Cost Direct Channel

Low

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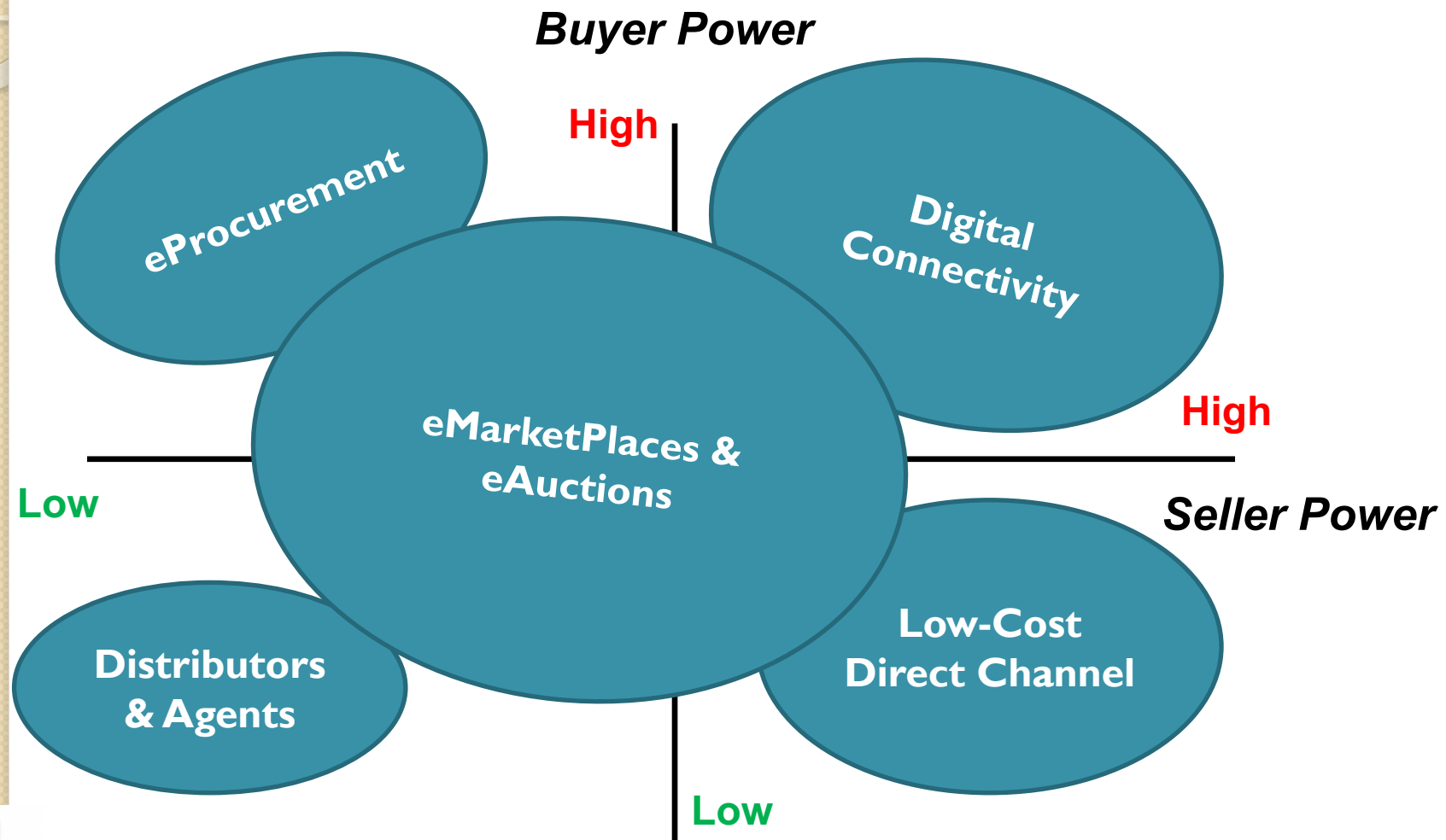
eProcurement

- Procurement
  - Process to acquire raw materials, components, from suppliers to execute operations

- eProcurement
  - Use of Internet (I/T) to facilitate, integrate, and streamline procurement process

- Why is it important?
  - Procurement spending represents between 40% and 80% of the cost of goods sold
  - If done right, generates impressive results, competitive contracts and sustained benefits

What constitutes eProcurement?

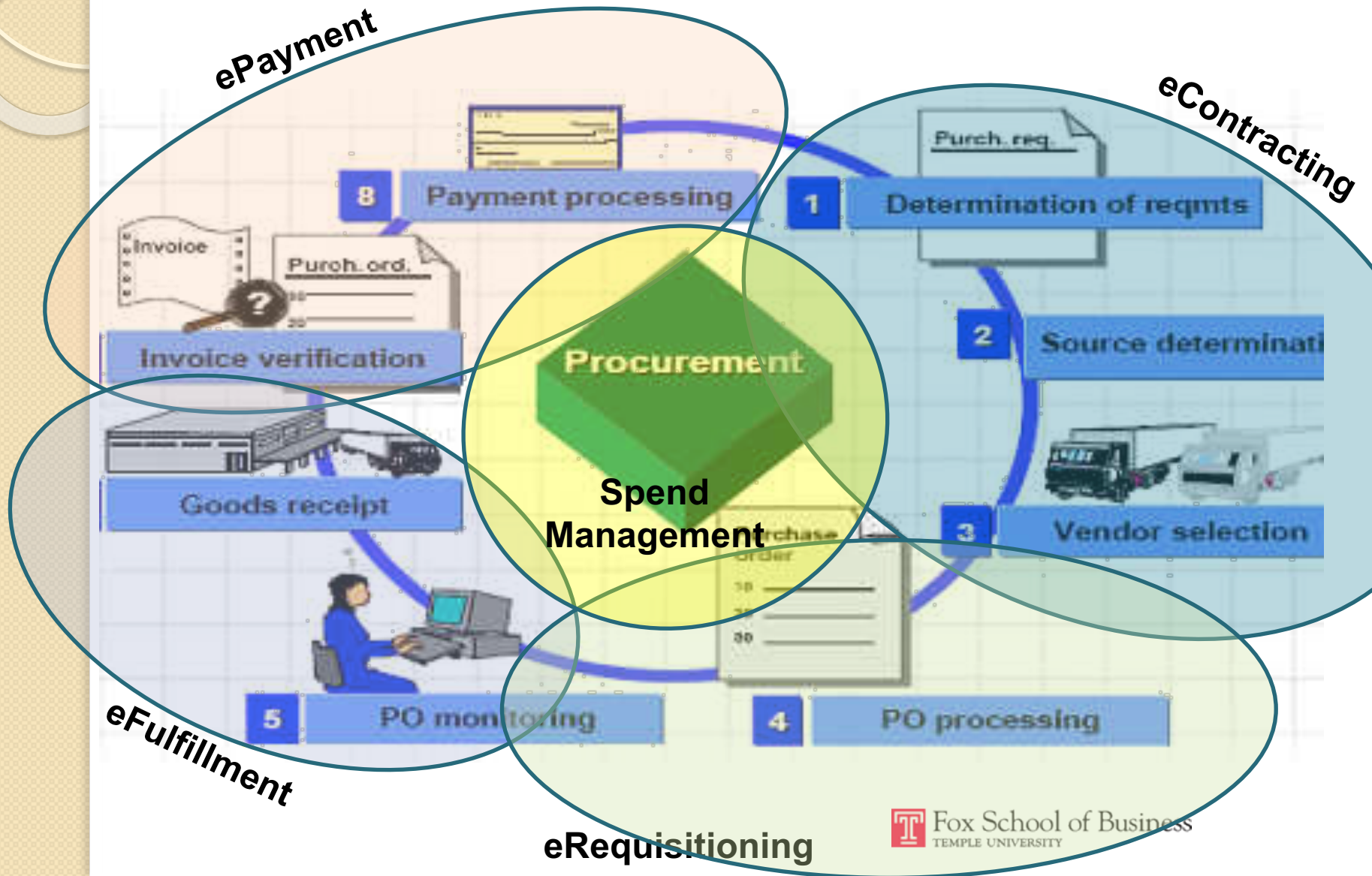eProcurement =
eContracting +
eRequisitioning +
eFullfillment +
ePayment

Spend Management

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Procurement Process

ePayment

eContracting

eFulfillment

eRequisitioning

Spend Management

Procurement

8 Payment processing

Invoice verification

Goods receipt

5 PO monitoring

1 Determination of reqmts

2 Source determination

3 Vendor selection

4 PO processing

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eContracting

Contract:

Agreement between entities that creates an enforceable obligation to do or refrain from doing a particular thing. Typically includes Price /Value Details

'e' Enables

◦ Identify sources of supply online and contract directly via the Web

◦ Significantly reduced cycle time and costs

◦ eRequisitioning with pre-approved partners

eContracting

CONTRACT

Providers:

LIVExchange™ - Technology to power branded negotiations, auctions, negotiations

FreeMarkets bought by **ARIBA®** **SAP®**

F&I EXPRESS SIMPLIFY YOUR F&I Auto Finance & Insurance

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eRequisitioning

- eRequisitioning or eBuying
  - Self-service purchasing within framework of Contracts (and Marketplaces)
  - Enables users within a firm to place orders with suppliers
  - Orders are made from an electronic catalog of pre-negotiated items
  - Mostly done using a Web browser
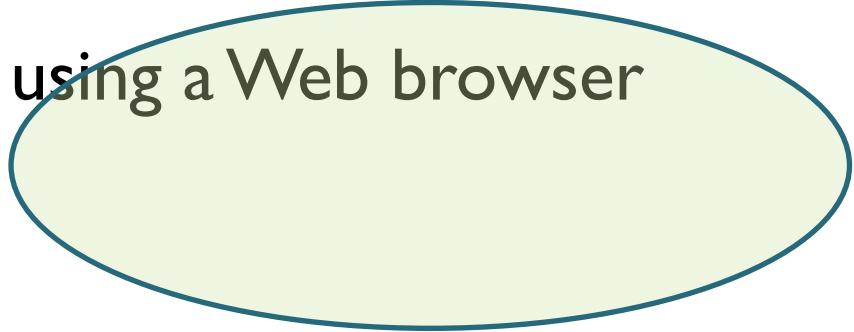
eFulfillment

Delivery (with tracking) of goods or service

- Vendors themselves have key responsibility
- 'e' Enables
  - Visibility of Information
  - Coordination / Collaboration
  - Fewer Errors
    - Material / Service
    - On-Time
    - Correct Quantity
  - Less Paper

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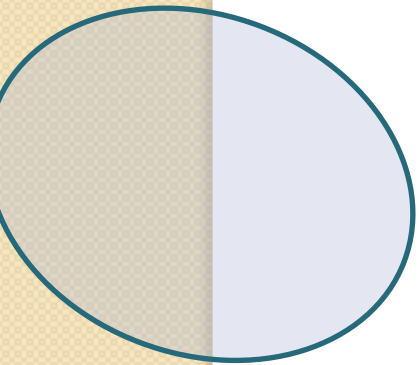
ePayment

ePayment

- Key Requirements
  - Control: Pay only for what received (good quality) and at correct price
  - Fewer Errors
- 'e' Enables
  - Improved Control
  - Manage Errors
  - $¥ - Bank to Bank (or via Blockchain?)

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Extracting value from eProcurement

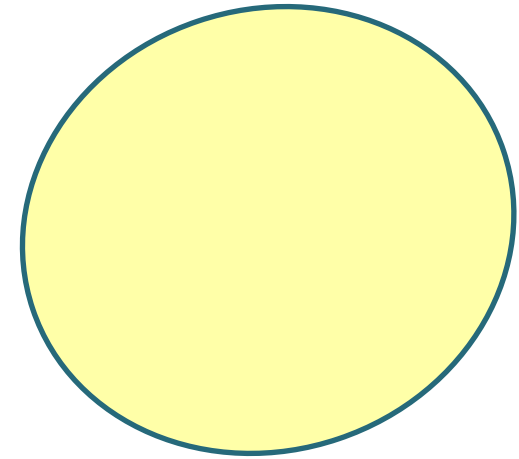| Where is the value?	eRequisitioning	eContracting
Reduce administrative costs	• Improve productivity by eliminating paper-based processing • Allow procurement department to focus on value-added activities	• Improve productivity by eliminating paper-based processing • Enable simultaneous multi-supplier negotiations
Enable better sourcing and supplier management	• Provide detailed spend data (item and user level) for fragmented categories • Provide performance information through desktop receiving	• Deliver up-front step-change benefit followed by incremental benefits through online bidding • Enable focus on value-added activities • Reduce sourcing cycle time

Extracting value (contd.)

Where is the value?	eRequisitioning	eContracting
Rollout and sustain sourcing deals	• Enable instant take-up of new contracts by making new terms available to entire organization • Prevent supplier proliferation by embedding preferred suppliers in the system	• Increase take-up of spend outside of eRequisitioning through contract databases • Create closer collaboration with key suppliers
Enable supplier benefits	• Improve productivity by eliminating paper-based processing • Reduce errors • Guarantee spend volumes	• Improve productivity by eliminating paper-based processing • Improve visibility of market information through online bidding • Improved supplier measurement

Extracting value (contd.)

Where is the value?	eRequisitioning	eContracting
Increase Competition	• Find additional potential suppliers	• Increased supplier competition can lower purchasing costs by as much as 20 percent • Global reach to broaden pool of qualified suppliers • Facilitates more predictable pricing

Spend Management

- Data and Decisions about:
  - What am I really Spending?
  - With whom am I / should I Spend
  - Am I getting what's promised for that spend?
- 'e' Enables
  - Data collection, Analysis tools
  - Control
  - Broader vision / span (Goods, Services, Sourcing)
  - Better Decisions (save $$)

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Learning Objectives

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- eAuctions

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Common types of online auctions

- English auction
  - Most common type; the auctioneer announces a price, and bidders quote increasing amounts till no higher bids are received

- Dutch auction
  - Reverse of the English auction; the auctioneer announces a high price, which is lowered until a participant is willing to accept the bid

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Common types of online auctions

- Sealed bid first-price auction
  - All bidders submit their bids separately, without revealing their bids. Highest bidder wins. Variation: sealed second-price auction

- Reverse auction
  - Sellers compete by pushing down their prices progressively until no seller is willing to make a lower bid. Example: Priceline.com

- Combinatorial Auctions (bid on package of items)

- Multi-stage (Qualify => Negotiate)

Where auctions are used

- Reverse Auctions – buying materials

- Auction off excess inventory

- Auction off excess factory capacity

Common Elements:
- No existing 'free' market
- Unique items for sale
- Limited buyers / Sellers
- Bring interested parties together

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Auction or not??

- High-technology procurement seldom purchased through an online auction (high information content / specification to sale)

- Auctions common in procuring MRO (maintenance, repair and operations) products (i.e. low-end electrical and mechanical goods), not requiring high degree of precision

- Potential to damage buyer-seller relationships

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Strategic Sourcing

Definition:

Systematic and fact-based approach for optimizing an organization's supply base and improving the total value proposition.

Scope Can Include

- Direct, indirect, MRO Procurement
- Goods, Services, Business Processes
- Manufacturing

Why companies outsource

➢ Cost Benefits

- Labor arbitrage
- Scale efficiencies
- Eliminate capital $$ and risk
- Better Practice

➢ Quality Benefits

- Expertise
- Experience

Why companies outsource

- Aggregation Benefits
  - Capacity
  - Inventory
  - Transportation
  - Procurement
  - Information
  - Receivables
  - Relationships

eDesign Collaboration

- 80 percent of the cost of a purchased part is fixed in the design phase

- Design collaboration with suppliers can result in reduced cost, improved quality, and decreased time to market

- Design for logistics, design for manufacturability

Strategic sourcing

- Identify strategic mix of suppliers to fulfill demand
- Goals: Improved cost & service
- How does the Internet help?
  - <u>Before</u>: Not easily sustainable due to:
    - Lack of compliance
    - Poor Coordination of tasks
    - Paperwork inefficiencies
  - <u>Now</u>: strategic sourcing initiatives can be linked to an eProcurement solutions

Supplier Assessment Factors

- Cost, $$
- Quality of products
- Leveraging quantity
- Where they operate
- Response time
- Reliability
- Long term sustainability

- Landed costs (freight, …)
- ____
- ____
- ____
- ____
- ____
- ____

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Supplier Assessment Factors

- Replenishment Lead Time
- On-Time Performance
- Supply Flexibility
- Delivery Frequency / Minimum Lot Size
- Supply Quality
- Inbound Transportation Cost

- Pricing Terms
- Supplier Viability
- Information Coordination Capability
- Design Collaboration Capability
- Exchange Rates, Taxes, Duties *(total Supply Chain costs)*

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Strategic Sourcing

IS

- Focused on Lowest Total Cost of Supply / Ownership
- Getting best ___ at best value
- Collaborative Process
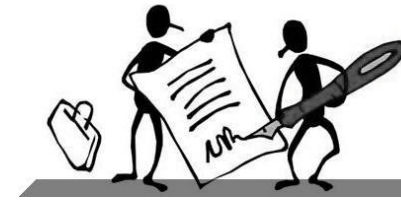- Data / fact driven

- Continuous

IS NOT

- Focused only on cost
- Getting cheapest ____
- Only involves Purchasing
- Decisions based on opinion, unjust preference
- One time project

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- Questions!

Extra Slides

Types of Contracts

- Product Availability
  - Buyback
  - Revenue Sharing
  - Quantity Flexibility

- Coordinate supply chain costs

- Increase agent (sales person for hire) effort

- Contracts with performance improvement incentives