

**WEEK 8:
E-PROCUREMENT AND
GLOBAL SOURCING**

QUESTION:

**WHERE IN THE WORLD
SHOULD I BUY __?**

LEARNING OBJECTIVES

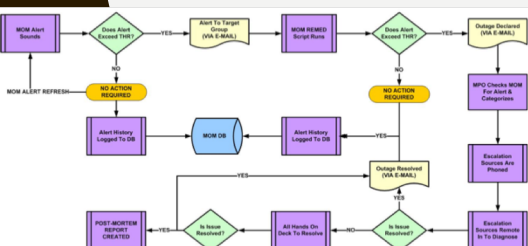
- Procurement Process
- e-Procurement
- eAuctions
- Strategic Sourcing

BUSINESS FUNCTION

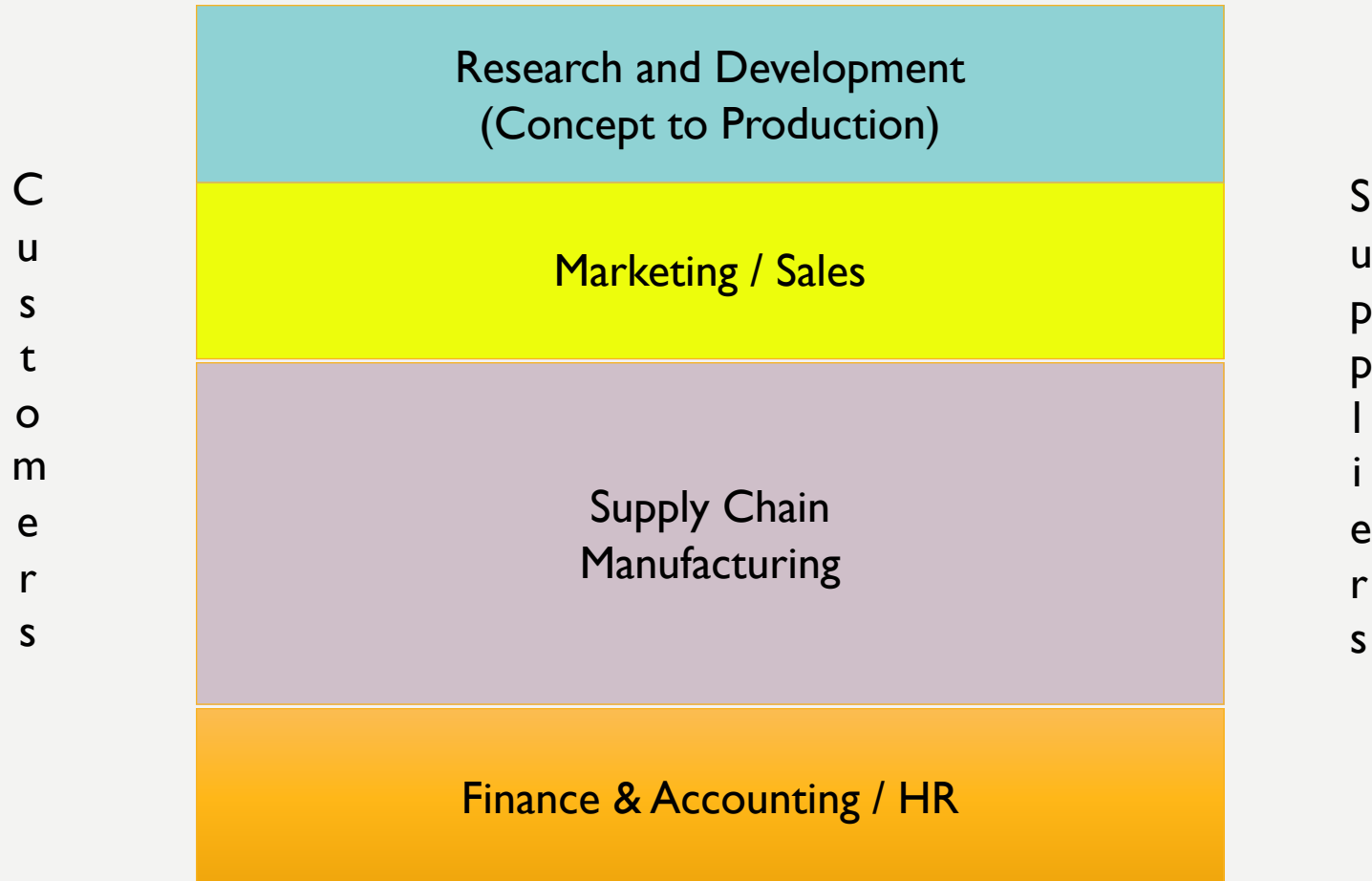
Function

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

Business Dictionary

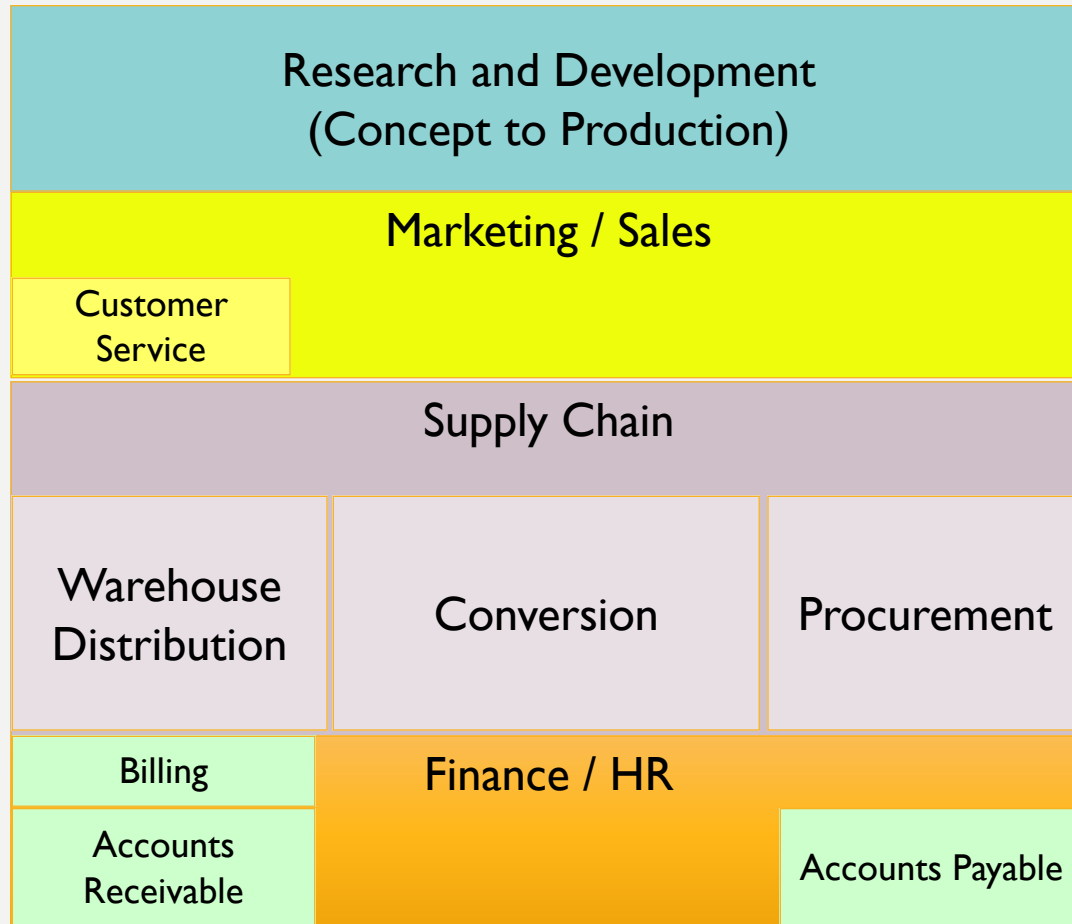


TYPICAL BUSINESS FUNCTIONS / ORGANIZATION



NEXT LEVEL OF ORGANIZATION / FUNCTIONS

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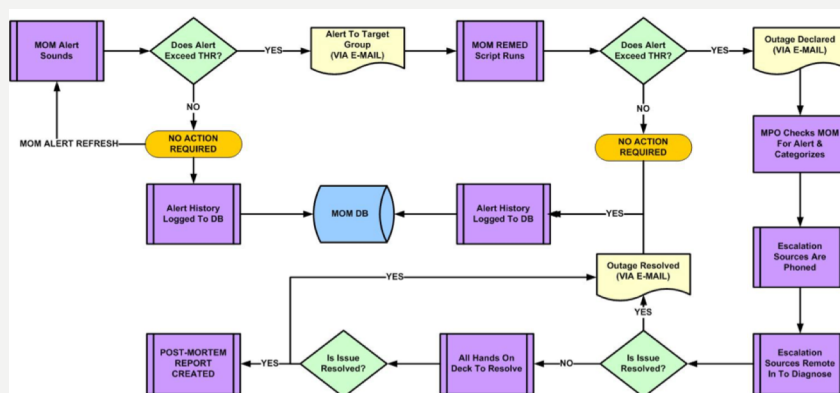
BUSINESS PROCESS

Definition

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

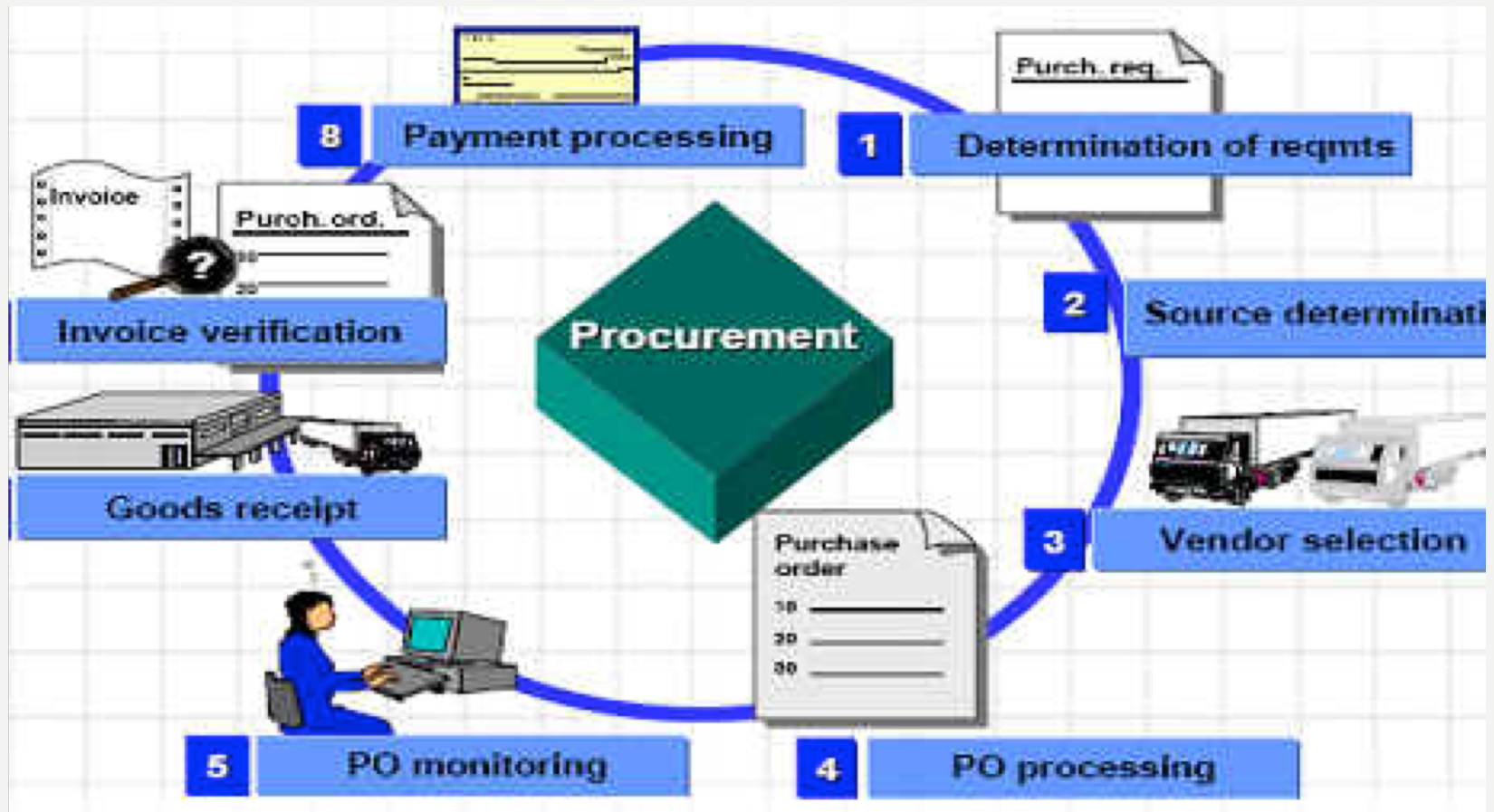
Business Dictionary

‘Actions an enterprise takes to achieve value creation ’

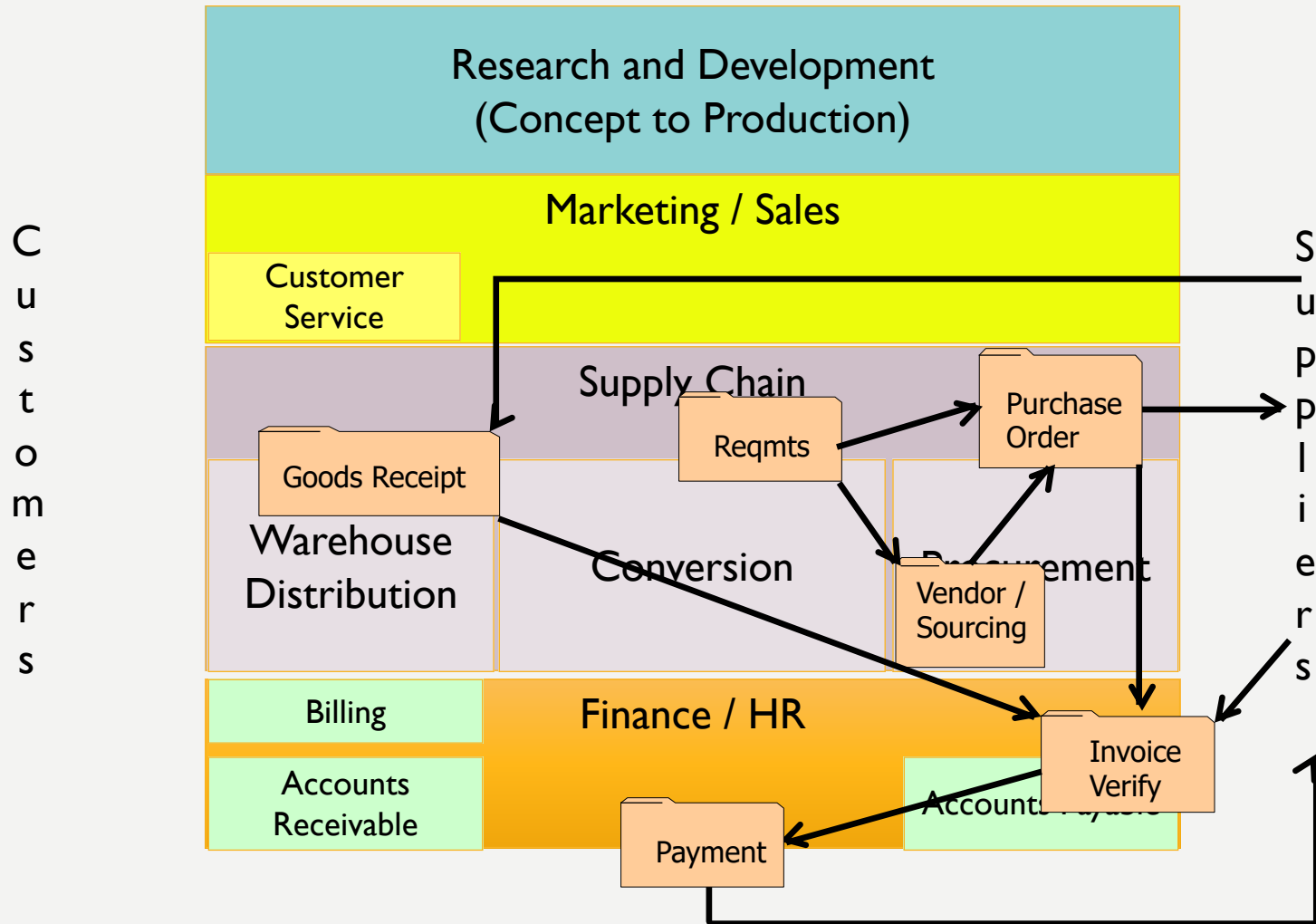


ISACA

Typical Procurement Process



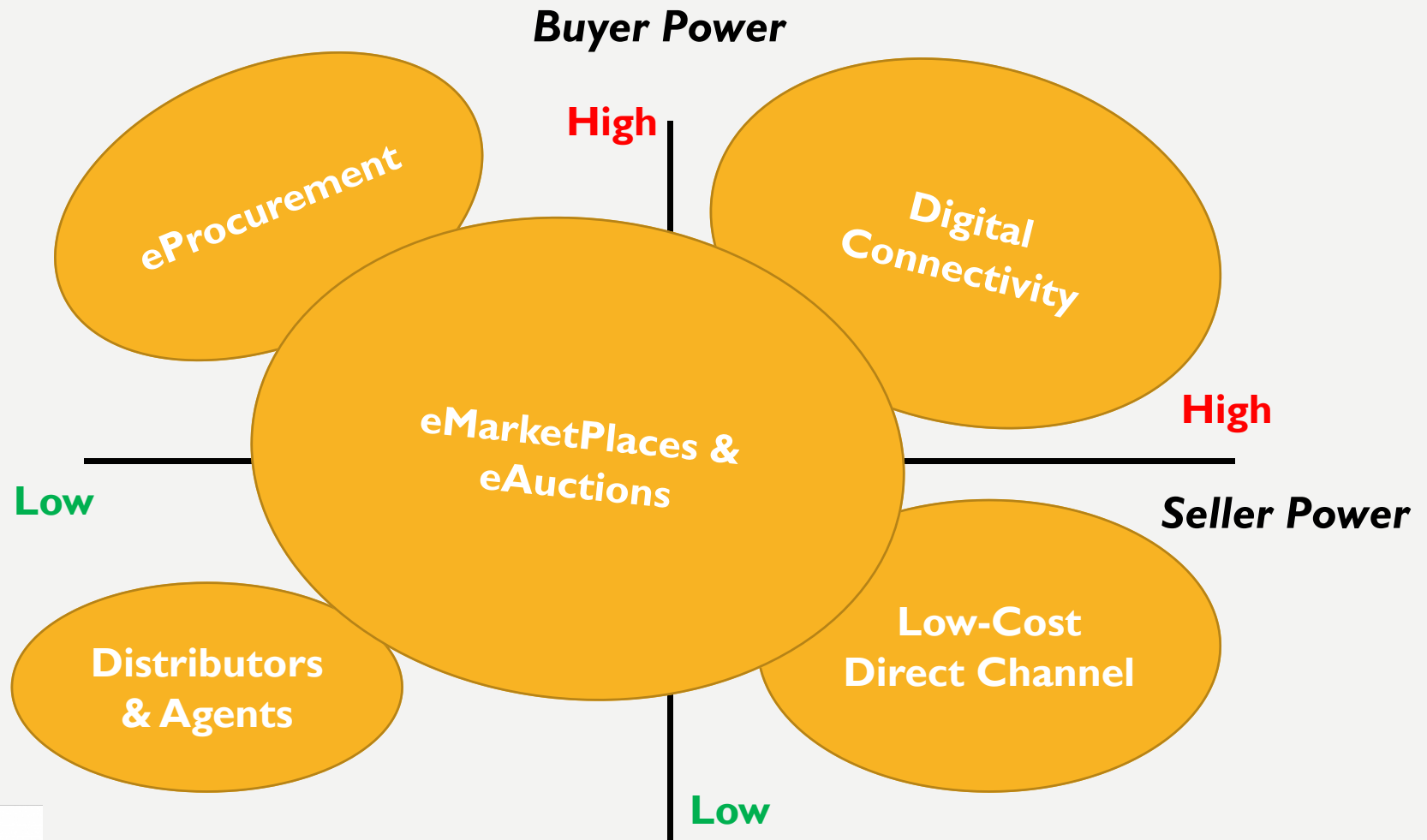
Procurement at GBI



LEARNING OBJECTIVES

- Procurement Process
- e-Procurement
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MARKETPLACES — Who has the Power?



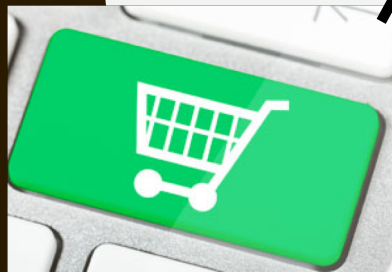
EPROCUREMENT

- 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

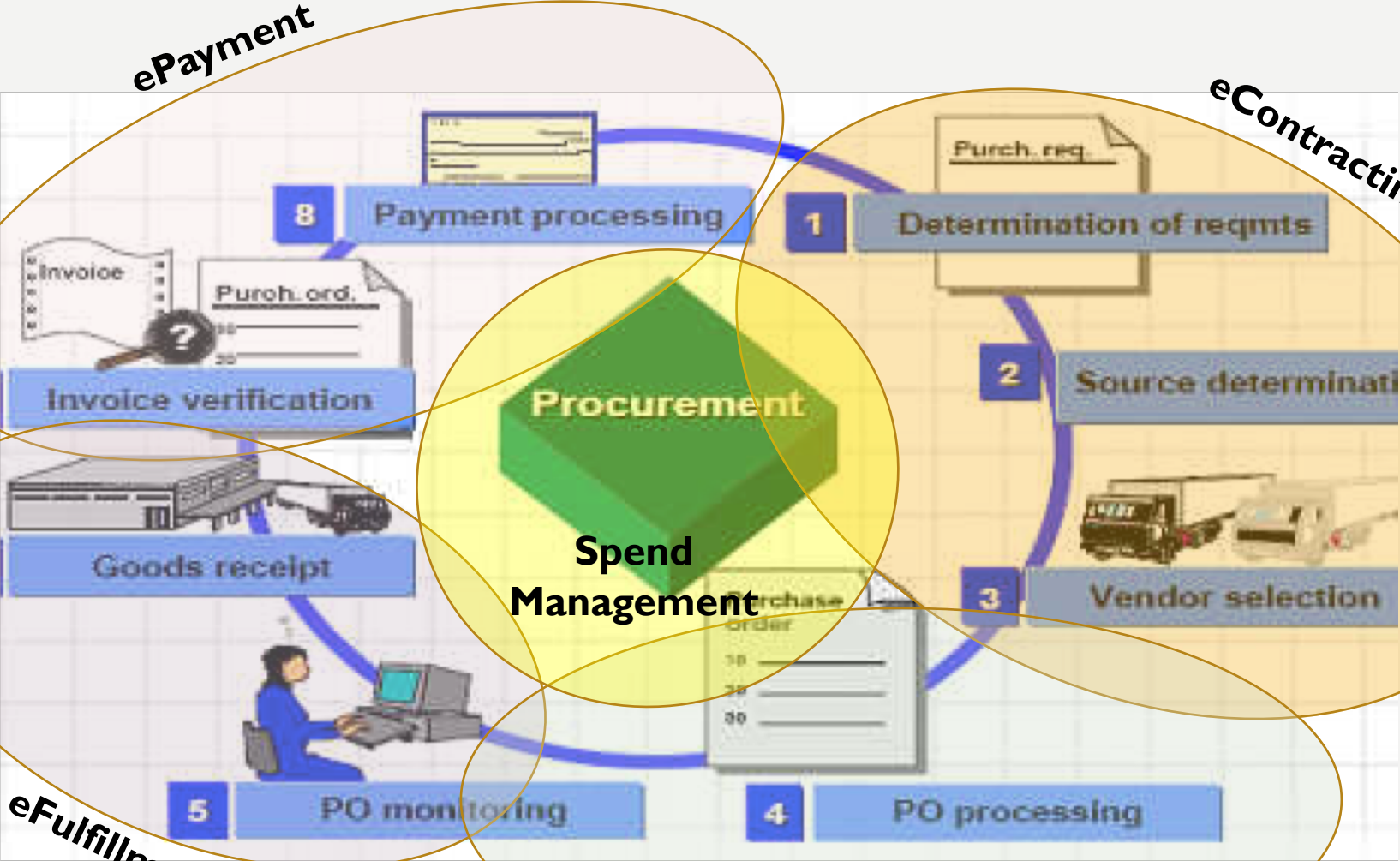
WHAT CONSTITUTES EPROCUREMENT?

eProcurement =
eContracting +
eRequisitioning +
eFullfillment +
ePayment

Spend Management



Procurement Process



ECONTRACTING

CONTRACT



Contract:

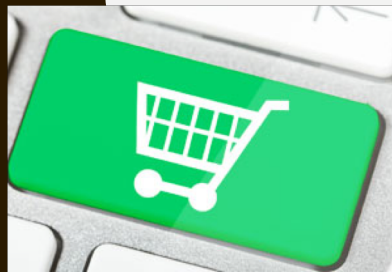
Agreement between entities that creates an enforceable obligation to do or refrain from doing a particular thing. Typically includes Price / Value Details

'e' Enables

- Identify sources of supply online and contract directly via the Web
- Significantly reduced cycle time and costs
- eRequisitioning with pre-approved partners

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



EPAYMENT

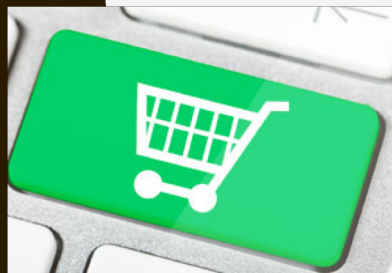
ePayment

– 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?)



EXTRACTING VALUE FROM EPROCUREMENT

Where is the value?	eRequisitioning	eContracting
Reduce administrative costs	<ul style="list-style-type: none"> • Improve productivity by eliminating paper-based processing • Allow procurement department to focus on value-added activities 	<ul style="list-style-type: none"> • Improve productivity by eliminating paper-based processing • Enable simultaneous multi-supplier negotiations
Enable better sourcing and supplier management	<ul style="list-style-type: none"> • Provide detailed spend data (item and user level) for fragmented categories • Provide performance information through desktop receiving 	<ul style="list-style-type: none"> • 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.)

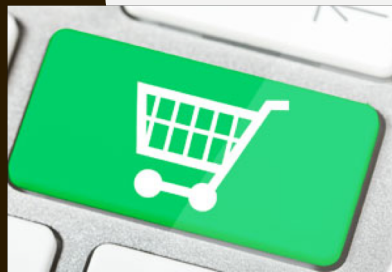
Where is the value?	eRequisitioning	eContracting
Rollout and sustain sourcing deals	<ul style="list-style-type: none"> • Enable instant take-up of new contracts by making new terms available to entire organization • Prevent supplier proliferation by embedding preferred suppliers in the system 	<ul style="list-style-type: none"> • Increase take-up of spend outside of eRequisitioning through contract databases • Create closer collaboration with key suppliers
Enable supplier benefits	<ul style="list-style-type: none"> • Improve productivity by eliminating paper-based processing • Reduce errors • Guarantee spend volumes 	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none">• Find additional potential suppliers	<ul style="list-style-type: none">• 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 \$\$)



LEARNING OBJECTIVES

- Procurement Process
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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



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



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

LEARNING OBJECTIVES

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STRATEGIC SOURCING

- **Strategic sourcing:** the development and management of supplier relationships to acquire goods and services in a way that aids in achieving the immediate needs of the business
- Systematic and fact-based approach for optimizing an organization's supply base and improving the total value proposition.

STRATEGIC SOURCING

Scope Can Include

- Direct, indirect, MRO Procurement
 - Goods, Services, Business Processes
 - Manufacturing
-
- In the past, *sourcing* was another name for purchasing
 - As a result of globalization, sourcing implies a more complex process suitable for products that are strategically important

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





Design

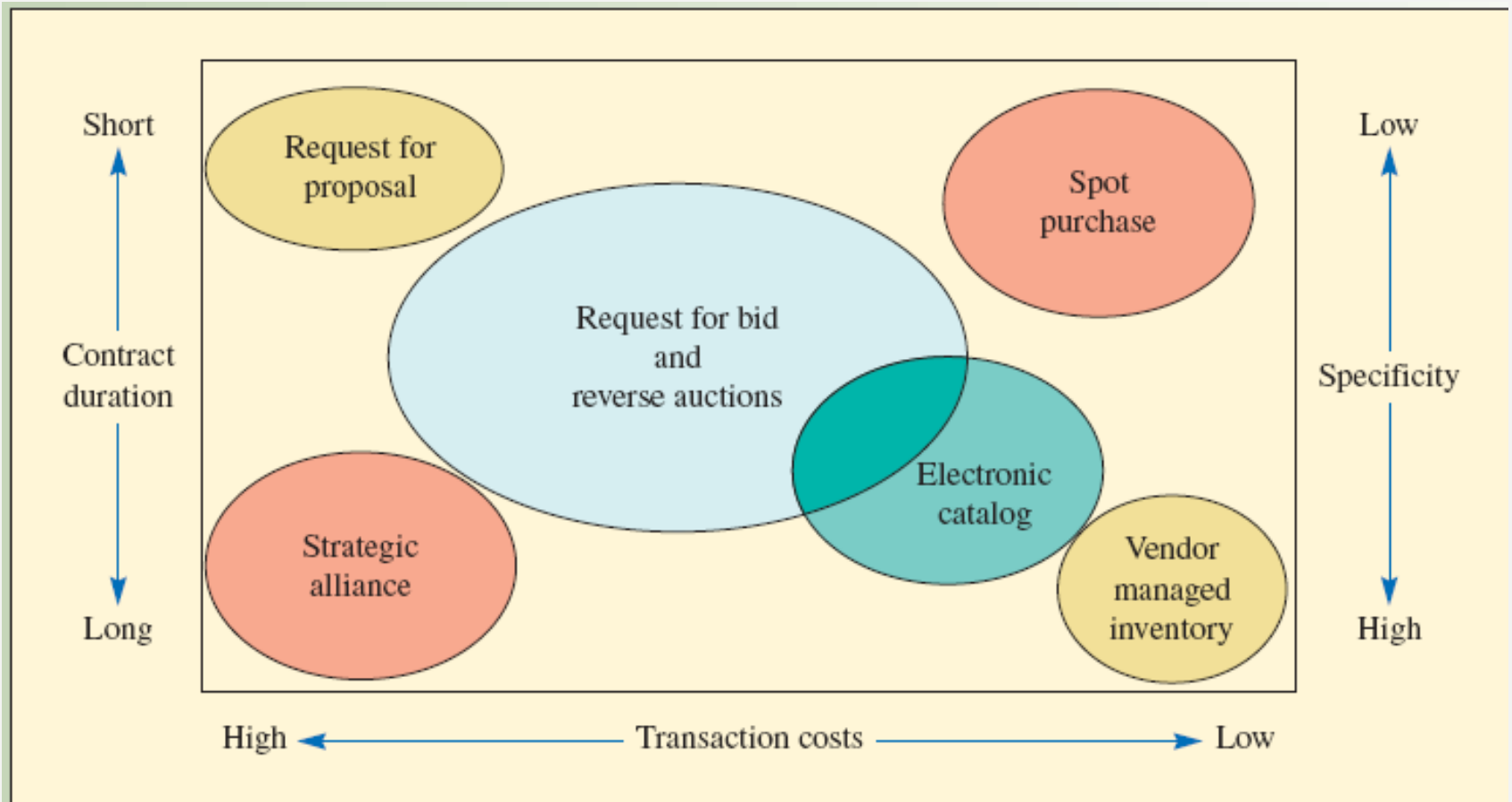
COLLABORATION

- 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?
 - Before: Not easily sustainable due to:
 - Lack of compliance
 - Poor Coordination of tasks
 - Paperwork inefficiencies
 - Now: strategic sourcing initiatives can be linked to an eProcurement solutions

THE SOURCING/PURCHASING DESIGN MATRIX



SUPPLIER ASSESSMENT FACTORS

- _____
- _____
- _____
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- _____
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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*)



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
- Outsourcing
- Looking just in low-cost countries



- Questions!