



# EXPERT ADVICE

## Harnessing the Power of E-Procurement

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As you gain more confidence in your ability to measure, predict and control spend, you can be more aggressive with volume commitments to suppliers in exchange for better pricing. As you set up contracts in new categories, you will reconfigure the e-procurement system to tighten controls accordingly to drive volume to those contracts.

Suppliers may be willing to offer you favorable pricing in exchange for your business, but that assumes you have enough control over your spend to direct your purchasing dollars to them. In businesses with multiple locations where purchasing decisions are made at the local level, suppliers have good reason to be skeptical of your ability to deliver corporatewide volume.

The supplier, armed with a large sales force, may feel he has more control over the purchasing decisions of your buyers than you do.

There are a number of industries where most purchasing decisions are made at the local level. The hospitality industry is one. If you're in a sector like this, your organization may have significant corporatewide purchasing volume, but it can be difficult to translate this into a strong negotiating position due to the distributed nature of the business and the inherent difficulty in measuring and controlling your spend.

Effective supplier negotiations also require that you know what your organization is buying; from whom you are buying; in what volumes; and at what price. Again, the distributed nature of these sectors can make collecting this kind of [data](#) very difficult.

### A Big Difference

In most cases, accounts payable data lacks the detail to break down into categories and products. This detail is what's required for truly effective vendor negotiations. You can bet the vendor knows exactly what each of your locations has bought from him, in what product mix and at what price. Without detailed data and analytics, you're going in with far less information than the vendor.

An online e-procurement portal can make a big difference. It provides a single place for all your buyers to go, allowing you to focus, direct and track your spend. Tracking allows you to follow-up on off-contract buying to see if it serves a legitimate business need or if it's an area where more control is needed.

However, absolute top-down control over the buying decisions is not the goal. After all, the reason these organizations have a distributed buying model is presumably because there is a compelling business need for local purchasing decisions -- typically to react to

local micro-market conditions. The goal is to strike the right balance between local and centralized control.

The e-procurement software should provide ways for you to [dial up](#) or down the level of autonomy provided to local buyers. To be effective, these settings need to be granular. Perhaps some categories of spend are highly standardized, so you'll want to control those at corporate and clamp down the e-procurement configuration accordingly.

## Balancing Central and Local Control

Other categories may require more local autonomy in the selection of products, or the use of local suppliers, so this flexibility is configured in.

Perhaps the "autonomy factor" is not by category but by location, region, brand or user groups within locations. The software needs a cost-effective way to model these drivers for your business so it can provide the right balance between central and local control.

The easier the [system](#) **Error! Hyperlink reference not valid.** is to use, the better end-user traction you will get. A good system will provide value to the end-user as well as corporate purchasing.

In the best cases, users get hooked on the speed and ease of purchasing through the system and will not want to buy outside of it, effectively moving more of your spend through the system.

The purchasing transactions pushed through the system should be stored in a single database repository with the ability to perform roll-up reporting across locations. Analytics that allow you to slice the data along multiple parameters are key to zeroing in on the information that will increase your leverage in supplier negotiations.

## Supplier Participation

With an e-procurement system in your corner, you should be able to enter vendor negotiations with a detailed understanding of your organization's spending habits and a high degree of demonstrable control over where your company's purchasing dollars go.

These two factors -- data and control -- will increase your leverage substantially. Imagine being able to get into a conversation like the following:

"Mr. Cheese Supplier, look at this report from my e-procurement system. You can see that last year we purchased 15 million dollars of cheese products through our system. I can put your products in my e-procurement catalog, or your competitor's. What's your best price?"

Supplier participation can make an e-procurement implementation more successful and cost-effective. You may be wondering why a supplier would choose to help you in this effort as they fully know it will increase your negotiating leverage against them. The answer is competition. Suppliers want your business and if they don't participate, one of their competitors will.

With an e-procurement system in place, you have taken back control and are setting the ground rules for suppliers looking to earn your business. In most cases, they are ready and willing to jump in.

However, the e-procurement solution must make participation a straightforward and cost-effective proposition for your suppliers. This means providing a variety of tools for a supplier to hook up to the system to update catalog content and receive orders.

## Three Important Steps

Whether or not your organization is just getting started or has been honing the practice for years, an e-procurement system can help you take it to the next level. Generally, the following three steps can help companies build an effective spend management program:

1. **Understand Your Spend.** First, you'll need to gather the data as to what you're buying, who you're buying from, in what quantities and at what price. An e-procurement system setup in a wide-open configuration can be the engine that collects this data. A wide-open configuration means that the system is set up to provide full autonomy for local buying decisions.

The idea here is not to change behavior but to simply capture the buying decisions your organization is making. Implementing an e-procurement system in this configuration and running it this way for several months will allow you to gather your spend data in a centralized database for analysis.

2. **Rationalize Your Spend.** With your spend data collected in one place, analysis can start. You're looking for opportunities to consolidate vendors and items so you can drive more volume to fewer vendors and get more negotiating leverage. With this data in hand, you can start vendor negotiations and put some supplier contracts in place.
3. **Optimize Your Spend.** Now that you have selected specific vendors and have contracts in place, you can begin to tighten controls in the e-procurement system in those areas and begin to change behavior among your buyers to drive volume to your contracted suppliers.

As you gain more confidence in your ability to measure, predict and control spend, you can be more aggressive with volume commitments to suppliers in exchange for better pricing. As you set up contracts in new categories, you will reconfigure the e-procurement system to tighten controls accordingly to drive volume to those contracts.

The process of understanding, rationalizing and optimizing should continue in an iterative process as you gain more control and hone the process over time. **EGT**

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