The power of eProcurement

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 (like the hotel business), suppliers have good reason to be skeptical of your ability to deliver corporate-wide volume. The supplier, armed with a large sales force, may feel he has more control over the purchasing decisions of your buyers then you do.

There are a number of industries where most purchasing decisions are made at the local level. The hospitality industry, where Birch Street focuses, is one. If you're in a sector like this, your organization may have significant corporate-wide 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. In most cases, accounts payable data lacks the detail to break it 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 then 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. 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, or 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 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 and more of your spend through the system.

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.

UNDERSTAND YOUR SPEND

First we need to gathering 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 setup 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.

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.

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 amongst your buyers to drive volume into 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 setup contracts in new categories you will reconfigure the e-procurement system to tighten controls accordingly to drive volume into those contracts.

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