E-Procurement: Benefits and Barriers

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Introduction:
In the world of e-commerce there are lots of innovative application to support the whole process of supply chain and one of the best emerged is e-procurement. At one stage the companies used to spend a lot on their supply chain, this has been significantly changed due to e-procurement. Within the current competitive market, now the focus is on cost reduction and overall efficiency in the procurement work. In order to evaluate the benefits, it is very important to know: What procurement really is? What all is done in it? When is this process used and how the things work under it? Procurement is not just purchasing or selling of the product and services but it is the umbrella term including loads of functions in it.

MacManus’s (2002) recognition of the differences in meaning between “procurement” and “purchasing” is of relevance here. Quoting the dictionary of purchasing terms, MacManus (2002) explains “procurement” as denoting “…the combined functions of purchasing, inventory control, traffic and transportation, receiving and inspection, storekeeping and salvage and disposal operations”. The Business Dictionary (online) defines it as combination of various things including, “…purchase planning, supplier research and selection, price negotiation, supply contract negotiation, inventory control and disposals…” besides many other functions.

Now if the function/process of e-procurement is talked about, as the name shows every process is done electronically which starts with placing the order by utilizing negotiation deals, purchase approval, online payment, invoicing and product distribution and some hi-tech system also provide facility of online ordering tracking.

Discussion:
One of the very first questions which can arise for e-procurement, after introduction to organization, is: *Why to adopt it?* Talking about the benefits will be the best answer for their question.

Hawking and Stein (2002) provide a synopsis of the benefits of e-procurement from various historical studies as:

- Price reduction
- Improved contract compliance
- Shortened process cycle times
- Reduced administration costs
- Enhanced inventory management
- Improved visibility of customer demand
- Improved visibility of supply chain capacity
- Reduced operations and inventory costs
- Negotiated unit cost reduction
- Increased accuracy of production capacity
- Enhanced decision making
- Improved market intelligence

Some of the above benefits have now been elaborated and discussed further. Easy sourcing of the product and supplier which include identification, evaluation, negotiation of products and supplies can be done very easily from the best place for the best of prices. Most of the companies want their procurement process to be privately and strategically hidden from the outsiders which is only possible if done online or electronically and on same hand gives full transparency to the insiders.

Increasing efficiency in the supply process with time management (fulfilment of the required order in time not too early to avoid storage and not too late to affect production process) is also one of the hallmarks of e-procurement.

As the ordering process will be done online along with all negotiation deals it will result in reduction of cost and inventory management. It is noticed that most organizations spend more than 30% of their income on purchasing goods and services. This is leading them to adopt e-procurement to reduce strain on their budgets and make it more cost effective.
It further helps in getting rid of disadvantages of the traditional paper-based procurement method, like error-prone, expensive and resource intensive (mainly human resource).

Last but not the least is that e-procurement provides market intelligence to the companies which help them in their supplier selection and dealings. Furthermore, it enhances effectiveness which comes from ‘increased control over the supply chain, pro-active management of key procurement data, and higher quality purchasing decisions within organizations’.

But all these privileges are affected by some of barriers which can be broadly categorized into three main categories; Technological, Organizational and Environmental. These shall be discussed in this part of the paper.

Technology always becomes a barrier if it is inadequate and insufficient. Furthermore, this situation become worse if there is no skilled staff to support or their information system knowledge is not up to the mark.

If the Organization’s internal culture is not technology welcoming, which means that there is no top management or employees’ support, then it can be the biggest hurdle as this is the foot step in adoption of e-procurement. Lack of integration with business partners or the suppliers can also resist adoption of e-procurement. Many researchers have highlighted that e-procurement benefits have not been fully delivered, and the main reason identified for this is the lack of tangible results is mainly because of the traditional resistance to IT-based process innovation.

Cost becomes a big issue whenever organization is heading to change; especially technology wise, as the implementation cost is too high and sometimes the amount of benefits accepted do not justify the amount of cost.

External environment has to be supportive from all sides if company wants the adoption to be a success. External environment includes competition intensity, partner/supplier readiness and government regulatory and legal boundaries. If the competitors

Out of the various barriers and risks associated with adoption of e-procurement, Galloway and Jamieson (2003), who ventured to develop taxonomy of the risks associated with adoption of e-procurement, found the top three risks to be:

1. Change Management

2. Partner Relationship Risk (and trust issues)
3. Switching costs

The Table below tries to match some of the drivers with the barriers to the adoption of e-procurement.

<table>
<thead>
<tr>
<th>Driver</th>
<th>Barrier</th>
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<tbody>
<tr>
<td>Improved Visibility of Customer Demand</td>
<td>Inadequate Tech Infrastructure of Partners</td>
</tr>
<tr>
<td>Reduced Administration Costs</td>
<td>Lack of Integration with Business Partners</td>
</tr>
<tr>
<td>Improved Market Intelligence</td>
<td>Implementation Costs</td>
</tr>
<tr>
<td>Reduced Operational and Inventory Costs</td>
<td>Company Culture</td>
</tr>
<tr>
<td>Enhanced Decision Making</td>
<td>Inadequate Business Processes to support e-Procurement</td>
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<tr>
<td>Improved Contract Compliance</td>
<td>Regulatory and Legal Controls</td>
</tr>
<tr>
<td>Shortened Procurement Cycle Times</td>
<td>Security</td>
</tr>
<tr>
<td>Improved Visibility of Supply Chain</td>
<td>Co-operation of Business Partners</td>
</tr>
<tr>
<td>Management</td>
<td></td>
</tr>
<tr>
<td>Increased Accuracy of Production Capacity</td>
<td>Inadequate e-Procurement Solutions</td>
</tr>
<tr>
<td>Enhanced Inventory Management</td>
<td>Upper Management Support</td>
</tr>
</tbody>
</table>

Table: Drivers and Benefits of e-procurement (Adapted from: Hawking and Stein, 2002, p4)

Conclusion:
This paper identifies a number of barriers and benefits for e-procurement and thereafter assesses the strength of these factors. E-procurement has gained a more strategic position in organization. It has the potential to transform the relations between suppliers and customers. The discussed benefits above will tilt the scale to the adoption side and the barriers will restrict this new adoption. In the world of e-commerce if e-procurement adopted in a company, it will shift the whole process to strategic side and by this gives opportunity to the organization to become procurement professional. E-procurement develops the company as it provides overall market intelligence. The topic definitely
need more research which will help companies in the adoption the boon of e-procurement. It will be worth ending with a e-procurement adoption model proposed by Chan (2002) highlighted below. This model tends to collate the factors worth considering when adopting e-procurement.

![E-procurement Adoption Model](image.png)

**Figure: E-procurement Adoption Model (Chan, 2002, p2326)**

**References**


• The Business Dictionary (Online): http://www.businessdictionary.com/definition/procurement.html