

## **Internet Procurement: Take the Plunge**

By Scott A. Elliff

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Response to:

*I am the CFO of a 300-employee company. We do not have an e-procurement set up nor a designated procurement person. We have hardware, software, office supplies, and large printing costs. How can I save money using the Internet?*

**A: Be selective and you, too, can share in the benefits that are available.**

You can't pick up a newspaper or watch TV without seeing yet another article on the growth in B2B e-commerce or an advertisement declaring the Internet is fundamentally changing the entire landscape of business. So companies large – and in this case, small – are asking the same question: How should we get started? And, importantly, they are asking it with a careful eye toward separating the hype from the reality. Leave the big picture strategy to somebody else -- how can I use the Internet to get some practical, bottom-line results for my company?

**First, look to the Internet to streamline the purchasing process and reduce administrative overhead costs.** Though many small companies don't have a procurement department, a lot of time and effort is spent dealing with purchases of goods and services from external suppliers, much of it buried deep in the financial statements and job descriptions throughout the company. Someone is ordering the office supplies, using one method or another, tracking down discrepancies, expediting special orders and handling the invoicing and bill-paying paperwork. Not to mention the phone service, the heating system repairman, the off-site staff meeting location and arrangements and so forth. So the first place to start on the Internet is with transaction processing and overhead efficiency.

A whole host of providers now specialize in automating the wide range of everyday transactions which reduces the time and energy spent on them and lets employees redirect their time toward more important business functions. A rough rule of thumb: the full cost of processing each purchase order is about \$200 using traditional methods; companies that have used new software and tools to automate these activities find their costs are reduced by as much as 90 percent. This means for every 1,000 purchase orders either overhead is reduced or the equivalent of obtaining several new staff members for “free” is achieved with a newfound ability to cover the special projects and new business initiatives that otherwise just never get done because of the crush of paperwork.

**Second, consider ways to take advantage of the purchasing power of others in getting better prices for what you buy.** Larger companies are using auctions and other methods to leverage their volume and get better pricing on their substantial buys, but a small company is unlikely to be able to exert much impact on the marketplace. However,

even a small company is probably a member of several different groups, each of which is using the Internet to help drive better value for their members.

Your industry may have a “vertical marketplace” that offers preferred supplier pricing and terms for goods and services that are important to your industry – printing services, marketing and promotional assistance and other professional and technical services, for example. In addition, your landlord may be a member of a consortium that offers specially negotiated prices for goods and services that all tenant companies use such as telephony, computers and shipping. One of the keys to success here is to ensure the overall pricing is actually better across the full “market basket” of goods and services you use, including shipping costs and payment terms.

**Third, use the power of the Internet to explore new potential suppliers, services and technologies that can help your business.** Traditionally, larger companies have had a major advantage in finding new suppliers and taking advantage of the latest developments in manufacturing, distribution, marketing and sales, administration and other core business functions. Without full time procurement and R&D departments it’s just been too time consuming for smaller companies to aggressively explore the broad marketplace that exists “out there.” As a result, many businesses choose suppliers largely on the basis of locality, convenience and word of mouth – and probably don’t get the best overall deals.

The Internet has begun to level the playing field for smaller companies with the advent of powerful new search engines and a wide range of online clearinghouses of suppliers and service providers; tremendous amounts of information are now just a mouse click away. Looking for a new way to design and distribute printed materials? Now you can look well beyond the hometown group of suppliers you have used exclusively in the past. Looking for an expert in travel management, tax law or even e-procurement systems? Now you can post your requirements on Websites and clearinghouses designed specifically for soliciting interest from qualified suppliers of these services, wherever they are located.

**Finally, use the Internet to generate some additional cash flow.** The Internet can be used as a tool to help dispose of excess inventory or obsolete equipment which is another opportunity that will warm the heart of any CFO. Dozens of specialized sites now allow users to post the availability of material that is for sale, either at a fixed price or through an auction. At some price, there’s a market for just about everything, so why not take advantage of the opportunity to clean out that corner of the warehouse – and clean up the balance sheet at the same time?

**Conclusion.** The Internet is not a panacea, especially for smaller companies. But if it is used selectively, it can improve the pricing and efficiency of goods and services purchases for just about everyone. Many of the sites and service providers that can help companies achieve bottom-line improvements are featured in iSource Business magazine. A typical 300-person company in a service business could have external purchases in the millions; a 300-person manufacturing company would have substantially more. Perhaps it would be worthwhile to “run the numbers” and determine whether it makes sense to

dedicate someone to help take full advantage of the wide range of e-procurement opportunities that exist today, and that likely will increase in the future.

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