Computer Reseller News

E-Sourcing Grabs Hold -- Procurement software helps mid-market integrators solve immediate cost-saving challenges

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Procurement and e-sourcing software offers a way for enterprise and mid-market businesses to analyze purchasing needs, develop contracts, assess potential suppliers, compare bids, gauge the performance of existing suppliers-plus manage the entire process. In truth, these applications are related to the B2B exchanges that arose during the dot-com boom but that largely failed to live up to their potential. But unlike B2B exchanges, procurement applications are beginning to take hold mainly because they focus on helping solve immediate cost-containment and purchasing challenges, according to integrators and CIOs that have deployed e-sourcing solutions. And although many of the early adopters have been enterprise accounts desperate to contain costs, the flexibility of the software has enabled mid-market companies to jump into the game, they said.

"The sourcing process was largely ignored by the exchanges; there was never a tool that provided a power user within the sourcing and procurement group with the ability to automate," said John Christensen, senior partner at San Francisco-based Deloitte Consulting, which has dedicated a practice to this evolving category.

But that is changing, and prospects for the e-sourcing market look bright. AMR Research predicts the strategic sourcing market will grow to $1.8 billion in 2006 from $350 million in 2001, driven by the technology's ability to deliver rapid return on investment (ROI). In a recent report, the research firm found that many companies using strategic sourcing technology realized savings of 10 percent to 15 percent on direct goods costs and 20 percent to 25 percent for some contractual services obtained through the e-sourcing process. Interest extends across a broad range of industries, although companies in the retail, manufacturing, pharmaceutical and financial services industries are adopting the technology most readily, said Christensen. "Across the board, sourcing is important to every vertical right now," he said.

"The reason companies are spending money on software in this particular category is because it is easy to demonstrate ROI in the near term," said Steve Sharp, president and CEO of Frictionless Commerce, a strategic sourcing software vendor in Cambridge, Mass. Frictionless counts a number of large and boutique integrators including Deloitte Consulting among its partners for deploying and integrating Frictionless Sourcing, its portfolio of sourcing software modules. "The current trend is toward creating a platform that offers a CFO visibility into the process," he added.

Automotive giant DaimlerChrysler has used e-sourcing technology and exchange services from Covisint-the B2B automotive exchange founded by DaimlerChrysler, Ford, General Motors, Oracle and Commerce One, among others-to support its Five Star Market Center initiative for automobile dealers, said Susan Unger, senior vice president and CIO, Information Technology Management, for DaimlerChrysler, Auburn Hills, Mich. The Five Star program enables dealers to leverage DaimlerChrysler's purchasing power to buy everything from office supplies to uniforms to PCs at lower prices via the Internet, said Unger. The automobile maker also used sourcing technology internally to manage one of the largest bidding processes ever for PCs. "Online bidding has been a significant way of reducing costs," she said.

Likewise, **Gregor Bailar,** executive vice president and CIO of Capital One Financial, a Falls Church, Va.-based financial services company, said e-sourcing technology helped his company cut costs associated with his IT purchasing process. "It has delivered incredible value to us from dropping the cost perspective, to raising the quality and delivery reliability," Bailar said. "It now takes us days [to accomplish] what used to take us weeks or months to get a person on staff [to handle]."

For example, Capital One has automated the way it acquires computer memory components by allowing nine different preauthorized suppliers to bid on specific proposals that carry predetermined time and transaction conditions. Over time, Capital One plans to extend this service to other types of purchases, he said.

But e-sourcing involves much more than just automating auctions.

"Companies in every industry need to source something," said Steve Ricketts, vice president of marketing at Emptoris, a four-year-old e-sourcing vendor in Burlington, Mass., that counts Cap Gemini among its integration partners.

Ricketts said strategic sourcing technology also enables companies to assess and track the performance of suppliers. Emptoris shipped version 4.0 of its product, Emptoris Sourcing Portfolio (formerly ePass), late last year. The software offers a modular approach to handling tasks, and new modules in version 4.0 include contract management, which lets users build multi-item, multi-term requests and manage complex pricing arrangements; project management, which offers centralized control of different sourcing requests; and supplier assessment, which helps companies audit whether or not their suppliers meet certain certification or performance requirements. The Emptoris suite also includes a decision support module, workflow features and a dashboard for contextual report creation.

By offering a modular approach, many e-sourcing vendors hope to entice customers to start small with procurement savings and then extend the process to additional departments. "By handling more categories of spending, we are actually able to help a company achieve a much higher rate of savings," said Kevin Potts, director of product marketing at Emptoris. "One of the key themes is the concept of self-funded deployment," he added.

Indeed, Deloitte Consulting's Christensen said it is not unusual to see clients adopt a procurement solution on a hosted basis so they can test the concept before spending money on a license. "If you are a chief purchasing officer in today's economy, you don't have a large capital IT budget. You need to strike an arrangement and use the savings to fund the budget to buy the software," he said.

Aside from providing a quicker ROI, Emptoris' Potts said hosting often enables a company to get up and running more quickly. GlaxoSmithKline, which adopted Emptoris' technology late last year, was able to initiate purchasing negotiations nine days after the start of the project via the hosted model, he said. Likewise, Motorola used Emptoris software for three months on a hosted basis before opting for a license.

The price tag for an e-sourcing solution depends on the modules being deployed and can start at $300,000 to $400,000 for several modules or close to $1 million for an entire suite.

Emptoris, Frictionless and other vendors look to integrators and solution providers for deployment, training and to offer managed services. Industry observers also expect to see these companies strike deals with industry-specific exchanges as e-sourcing grabs hold in a bigger way over the next three years.

E-Sourcing: Much More Than A Helping Hand

BENEFITS TO MIDMARKET CUSTOMERS

- Procurement and e-sourcing software lets mid-market companies analyze purchasing needs, develop contracts, gauge potential suppliers and the performance of existing ones-and manage the whole process.

- Many firms using the technology saw savings of 10 percent to 15 percent on direct goods costs and 20 percent to 25 percent for some contractual services, an AMR Research study finds.

- Customers can adopt a procurement solution on a hosted basis so they can test the idea before spending money on a license.

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