E-Procurement - Benefits and Risks from the Business Risk Model

WHAT IS THIS TOOL?

Internet-based Procurement (IBP), often referred to as eProcurement, is associated with the improvement of purchasing operations that have to do with indirect procurement. Indirect procurement includes those items that do not go into a product such as maintenance and repair items, office supplies and other operational supplies. eProcurement also can cover other major procurement areas such as contract labor services, travel services, capital equipment acquisition, and advertising services.

eProcurement radically streamlines the procurement process through the use of on-line catalogs that allows users to select items or services that are needed with an approval process using internal e-mail systems. eProcurement solutions fall into one of three categories: solutions hosted by the buying organization, solutions hosted by the selling organizations, or a third-party service that brings together buyers and sellers.

Benefits

Eliminate "maverick" purchasing. the National Association of Purchasing Managers (NAPM) estimates at 1/3 of indirect purchasing and can save the 15% to 27% premium charged on maverick purchases

Increase purchasing power. AMR Research estimates that an additional 5% to 10% savings can be generated through the aggregation of indirect buys.

Reduced administrative costs. The cost of processing an indirect purchase order can be as high as $75 to $175 according to AMR Research but they estimate an IBP process can reduce this to $10 to $15.

Risks

Web-based catalog procurement systems presents risks that should be identified and addressed. Among them are:

Process Risk - Operations

Human resources risk if the personnel do not possess the requisite knowledge, skills or experience to manage the new process;

Sourcing risk because there will be fewer alternative sources, thus increasing the risk of shortages; and

Business interruption risk due to the dependence on a smaller number of suppliers who may be exposed to significant risks of their own.

Process Risk - Empowerment

Leadership risk if purchasing managers do not have the vision and management to properly oversee the new business process;

Authority/limit risk if management has not clearly defined the spending levels of end users previously managed by the purchasing department; and
Change readiness risk if the organization does not assimilate large-scale change easily.

Process Risk - Information Technology

Relevance risk because the integration required may not deliver the "right data/information to the right person/process/system at the right time to allow the right action to be taken";
Integrity risk in the areas of user interface, processing, error processing, and interfaces;
Access risk because of the dramatic increase in end users not normally accessing purchasing information;
Availability risk because of the dependence on the Internet for supplier linkage and processing risk at the supplier site; and
Infrastructure risk related to application system deployment, logical security, database management, and business/data center recovery.

Process Risk - Integrity

Management fraud risk associated with a smaller set of suppliers who have "exclusive" relationship;
Employee fraud risk as purchasing oversight is minimized regarding the transactions; and
Unauthorized use risk if the internal and external controls are not sufficient.

Process Risk - Financial

Price risk if there is not sufficient oversight to the prices contained in the catalogs;
Liquidity risk if there are insufficient controls related to cash flow risk and concentration risk;
Settlement risk if there are quality or delivery issues with a reduced number of suppliers; and
Market risk if the suppliers are also supplying similar products to the competition.

Information for Decision Making Risk

Performance measurement risk if the new metrics are not informative, understandable, believable, actionable, or cannot initiate change;
Accounting information risk if the procurement system is not adequately integrated with financial processes and systems; and
Organization structure risk if the purchasing department is not utilized to provide more value-added services.