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Do the Math: E-Procurement Saves Time and Money

New online purchasing systems simplify the buying and selling process.

Karen J. Bannan

Until recently, East Carolina University in Greenville, N.C., had a homegrown procurement system. It was adequate, explains Kevin Carraway, the university's associate director of materials management, but another upgrade — a new financial system — created the need for an integrated system.

"Using the old system, staff had to call a vendor, get the current price for an item, re-enter the system and order it," Carraway recalls. "Frequently, staff would assume that because the items had been ordered recently, the price was probably the same. It wasn't always, which could create problems in accounts payable. We needed a way to ensure that prices were current at the time the order was placed."

The university also needed a better way to track requisitions. In the past, a user might request supplies and wait a long time with no way to see where in the procurement chain the request was.

This past February, East Carolina University implemented a SciQuest e-procurement system and immediately loaded all its vendors into the system, giving the procurement office and users end-to-end visibility into the buying process. Everyone involved in the process is kept informed at all times.

Bang for the Buck

East Carolina University is part of a trend — e-procurement — that Sudy Bharadwaj, vice president and research director with Boston-based research firm Aberdeen Group, says provides big cost savings for universities, as well as for businesses. "There is great value in going to an e-procurement system," he says. "In most cases, we've seen tremendous return in organizations that have supplier and user adoption.

"Our studies show that returns include a decrease in requisition-to-order costs — $23 versus $56 for nonelectronic systems — and an increase in user contract compliance." An average organization can expect maverick, off-contract purchases to drop from 38 percent to 14.2 percent once an e-procurement system is in place, Bharadwaj adds. This can mean real savings from negotiated discounts.

Ralph Maier, director of purchasing services for the University of Pennsylvania, implemented his SciQuest system two years ago to make purchasing easier for the university's 12,000 employees, but he's seen significant cost savings as well. Initially, the university hoped it would see a full return on investment within 18 months, Maier says, but it realized a ROI within four months. A large portion of the savings came from renegotiated contracts.

"For every supplier we wanted to bring into our hosted marketplace, we had the opportunity to enhance our contracts and renegotiate for deeper discounts," he says. "For noncontract suppliers, it was a chance to get a first-time contract. We've seen the system driving volume to the suppliers who are online." In fact, 70 percent of orders go through the 146 suppliers who are online.

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— Vic Jabrassian, IT director at Southern California Institute of Architecture

"As sourcing managers, we can leverage our buying power to get maximum return," he says. "We've recently set a $50-million, four-year cost savings goal. It's one we think we can meet."

The university has seen substantial ROI since it switched to e-procurement a decade ago. "We have had cost savings of $88.7 million during that period, whereas our department operating budget for the same 10-year period was $9.8 million," Maier says. "We're averaging nine-to-one ROI. Show me another organization that can say that."

Indeed, universities' unique settings and organizational components make them good candidates for e-procurement, says Aberdeen's Bharadwaj. E-procurement systems work especially well at large universities, which might have multiple campuses, with each one wanting to handle its own purchasing.

"There's always a challenge when purchasing is done at the local level," he says. "When you have a lot of local spending, much of the negotiated savings on a contract usually don't happen unless you have a centralized e-procurement system in place."

Calculating ROI

Cost savings can also be gained from reducing paperwork and red tape. Bruce Cherrin, director of procurement services at the University of New Mexico in Albuquerque, wanted to reduce the number of paper-based requisitions and approvals necessary, which would save money on paper and streamline processes. It would also reduce the number of purchases made without approvals.

Since users initially see only the contracted items and can easily build a cart with those approved items, they are less likely to buy outside the contract, he says. The result: Users get what they need much more quickly, and administrative changes and mistakes are kept to a minimum.

"What used to take several weeks now can happen almost instantaneously," says Cherrin. "We're also paying much more quickly with fewer checks being cut."

East Carolina is only months into its implementation, but it is already seeing significant results. For example, it will save thousands of dollars on printing and postage costs each year, since requisitions are sent electronically instead of being printed and mailed.

"For purchase orders, we're saving about $6,500 per year," Carraway says. "It also saves printing costs because the documents are electronically faxed."

University officials can calculate their cost savings with ease since everything is tracked and available via the software's reporting feature, says Suzanne Miglucci, SciQuest's vice president of marketing and strategic alliances. "The built-in analytic tools can be used in real time," she says. "You've got a dashboard of reports, and you can assign rights to specific people."

Reporting also makes it easier to meet state contract guidelines. A procurement manager can make sure the university is buying enough from minority-owned or small businesses, and can change the online catalogs to correct the problem if it isn't.

The real benefit of both the savings and the advanced reporting, says University of Pennsylvania's Maier, is that the school gets more for its money, which translates into more value for its students.

"When [universities] get more value from suppliers, they can do more research," he says. "They can buy more equipment, which makes research more effective. This strategically impacts students on a daily basis."

Karen J. Bannan is a New York-based journalist.

Happy Vendors, Happy Users

To implement a successful e-procurement system, colleges and universities need to recruit vendors and win the support of users. Here are some helpful suggestions:

Play up the ease of use. Vendors might be reticent to sign up due to their own technology constraints. Let them know that e-procurement vendors can handle the technical aspects for them.

Provide crucial details. Do your users know who can sign up vendors to the e-procurement service? Do they know how long it takes to get a vendor up to speed? Hand out business cards and a detailed fact sheet that staff can give to vendors.

Promote it as a competitive advantage. If vendors make it easy for people to buy from them, users will go to their catalogs first, as University of Pennsylvania vendors found out on their own. "Salespeople realize that instead of going to our 162 buildings to find people, they can create visibility for the customers online," says Ralph Maier, director of purchasing services. "When other vendors hear this, it makes sense."

Make sure your users love their experience, too. Happy users will proselytize for you. "Make it easy for your users, and they will make it easy for you," Maier says.

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