

Mining Gold in the Supply Chain

By George Gordon

Executive focus on the impact supply chain operations can have on corporate earnings has reached the boardroom. Former procurement executives are currently running two of the world's largest companies — Toyota and Wal-Mart. More than 60 percent of companies will have chief purchasing officers (CPOs) by 2015, according to a recently published survey.

What about utilities?

Many in the utility industry early on concluded Internet-based marketplaces and supply chain tools were expensive, difficult and offered too little savings. Those views were reinforced by the dot.com bust in the early part of this decade and skepticism in the wake of Enron's collapse.

Perceptions have radically changed. One of the newest and most important enablers of supply chain improvements is the introduction of on demand supplier relationship management (SRM) tools. Electronic procurement and associated support/decision tools are growing up – and supply chain organizations are rapidly reaping the benefits of smoother and more efficient processes. In spite of inflationary pressures, these structural benefits have resulted in significant savings that are flowing directly to the bottom line.

In two recent research reports, including *The E-Procurement Benchmark Report and Spend Compliance Management*, Chicago-based Aberdeen Group reveals that leading users of e-procurement are experiencing the following results:

- Reduced off-contract spending by 64 percent.
- Reduced prices by 7.3 percent for spending brought back onto contract.
- Reduced requisition-to-order cycles by 66 percent.
- In fact, users of reverse auctions and other tools report that these e-sourcing technologies have cut sourcing cycles in half, realizing 13 percent to 16 percent reductions in negotiated cost savings, on average.

Many leaders in the gas and electric utility industry have embraced on demand SRM and are experiencing the same results. Enporion customers, for example, confirm significant productivity improvements, hard-dollar purchasing savings, and added value helping their organizations achieve Sarbanes-Oxley compliance. Still, some utilities have been deterred by certain obstacles that have slowed their adoption of e-procurement, including:

- Procurement systems and services have tended to be expensive in the last few years.
- Installing new software systems has been delayed because of an existing backlog of projects in IT resources.
- Integration into in-house ERP and/or financial systems is perceived to be difficult.

- Employee adoption has suffered, often from resistance to change.
- Enablement of suppliers suffered from lack of tools and processes to deliver efficiencies rapidly.

Despite these obstacles, significant changes are starting to improve the situation. First, utilities are focused more than ever on their traditional businesses, and driving significant improvements to income, cash flow and earnings-per share from these businesses is critically important. The utility sector is once again a top performing financial sector — the Dow Utilities index is up nearly 20 percent year to date while the S&P 500 is essentially flat. Second, Enporion and a few other supply chain management companies are delivering high-function e-procurement tools and management functions in an “on demand,” hosted environment. Customers are not faced with having to install and maintain complex software behind their firewall. They use only the components they need — and only pay for what they use. Third, prices for e-procurement tools and services have been dropping. Fourth, integration issues now are addressed by providers. Indeed, Enporion has successfully integrated its tools to 18 different customers’ systems. Getting started has never been easier for customers. Requisition and purchase tools can be accessed with a Web browser. New users can utilize e-procurement tools in either a trial mode or full deployment.

New customers are taking exactly this approach: what are the most important issues being faced by the supply chain organization? Where can on demand e-procurement tools help? How can these tools be quickly implemented and evaluated to verify the payback and benefits?

Customers now can expect to be using e-procurement tools in weeks and see payback in the first year of operation. C-level executives are realizing that this payback can yield profits often much faster than increases in top-line revenue. Internet-based marketplaces will continue to provide the tools and services that enable these results.

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