

The integration of payments into Electronic Procurement Platforms

A COMPETITIVE ADVANTAGE

Enterprise computing is undergoing another revolution as the integration of Web-based technologies dramatically changes and simplifies the computing architectures within and between companies. During difficult economic times, companies have been forced to lean on their suppliers and internal procurement processes for savings. Companies now have an opportunity to revolutionize procurement of goods and services, and to interact electronically with suppliers, customers, and distributors. A vision of completely integrated, end-to-end electronic commerce solution emerges, tying corporate intranets and extranets together.

A case in point is the change the Internet is bringing to the way companies handle their purchasing needs; at the touch of a button, purchasing officers now can procure goods and services from anywhere in the world. Where traditional corporate purchasing has been inefficient and costly, e-procurement has the potential to transform it into a clear competitive advantage for a company.

Today, the average cost associated with generating a purchase order is \$125, according to research by the National Association of Purchasing Managers. Using a comprehensive automated purchasing solution may reduce this to approximately \$30, with result that a company that generates 10,000 purchase orders a year can improve its bottom line by \$1.2 million.

Overall, e-procurement is driven by three trends: growth in automated procurement systems, availability of electronic catalogs and/or vendor web sites, and growth in private exchanges. E-procurement promises to reduce costs of goods, while also reducing purchase and fulfillment cycles, administrative costs, and inventory costs. Utilizing e-procurement, a company can reduce its costs by automating and expediting multiple processes, as well as manage its suppliers and corporate spending more closely.

Growth in automated procurement systems in the new era must move beyond simple operational procurement processes for catalog-based products, expanding into products and services that were once too complex to manage electronically. These e-procurement applications will need to include more sophisticated custom products, commodities, capital goods, services, MRO items and direct materials. Leveraging new negotiation and request for proposal applications online encourages supplier acceptance. It also enhances strategic supplier relationships by providing data rich information, which at one time could only be achieved off-line.

Catalogs are a component in e-procurement. Typically, catalogs have information about standard products. This is useful for office supplies and computer equipment. The advantage to the buyer is that instead of using a paper catalog, the buyer uses an electronic system. Electronic systems provide the routing for approvals, ensure strategic displaying of products a company wants to target to be purchased by its customers, and control the

prices set for contracts. Additionally, electronic catalogs can feed information to an accounts payable system, enabling management to analyze spend and supplier performance and tie shipping notifications for purchasing electronically. To the supplier, electronic catalogs reduce processing costs, enable automatic information feeds into order entry systems, and provide custom catalogs for each customer – allowing the supplier to target selling more strategically.

Many companies participated in consortia e-marketplaces in response to the threat of independent or public e-markets. For a variety of reasons, public markets failed to be adopted by enough companies to succeed. The consortia have not had it any easier; but they are better capitalized and have been able to evolve. Some are even successful. Giga Information Group, an independent industry research group, expects that about half of the top 25-30 consortia e-marketplaces will be successful, roughly one per industry. Giga's market study concluded that private trading exchanges (PTX), rather than consortia, would be more successful over the next several years as large companies build their own e-commerce infrastructure to unite their value chain. Industry consortia tend to emphasize collaboration rather than transactions, which will limit the number of required bank products. While some consortia may be able to go public, it's not likely that many will in the next year or two. In fact, a number of mergers are expected in the next year, which will increase the demand for more banking services needed by private trading exchanges. Using collaboration on the Internet to bring buyers and suppliers closer, companies will move away from face-to-face meetings, toward exchanging documents and information and purchasing on the Web.

E-procurement is, arguably, the first wave of B2B electronic commerce. At the moment, many observers say that its value proposition is second to none. As the Web transforms business, realizing the efficiencies of scale afforded by e-procurement may not just be a matter of staying competitive – many say that it will become a matter of staying alive.

COOP-ETITION

The trend in e-procurement solutions is to securely support and automate the full buying cycle from requisition to payment, cutting transaction costs, reducing cycle times, and leveraging supplier relationships for greater economies of scale.

A company's ideal e-procurement solution will also include comprehensive utilities for sourcing materials, integrating logistics, automating corporate business processes, and integrated financial settlement. Transactions may also need to be translated into multiple languages and currencies, across borders and divergent business practices and applications, automatically.

E-PROCUREMENT STRATEGY

A company's e-procurement solution should capture, automate, refine, control, and monitor its purchasing activities and other processes and procedures to maximize their return on investment. When creating an e-procurement solution, a company should also incorporate its best practices in procurement today, expediting the requisition process, purchase order transmission and its management, and supplier collaboration.

In general the world is looking at supply chain integration, of which e-procurement is only a component of, because it eliminates paper activities, ensures that buyers and suppliers can share information, reducing miscommunication, allows buyers and suppliers to integrate their internal systems, including ERP systems and MRP systems, reduces processing costs, reduces disputes and improves operating cycles by reducing the inventory period.



Corporate customers want more flexibility, simple and streamlined procurement workflow and, at the same time, achieve higher cost saving and economic value through reduced effort and resources compared with the traditional paper-based procurement process.

IMPLEMENTATION

For companies today to outmaneuver competitors, generate new revenue, reduce operating costs, and react more quickly to changes in the market, it must choose to connect their e-procuring platform into the company's existing Enterprise Resource Planning (ERP) or accounting system. Banks are finding that the best way to address their client's needs is to work with partners to provide integrated and flexible e-commerce solutions. Some technology leaders that offer this capability include i2, Ariba, and Commerce One/SAP. Because e-procurement is essentially a "point-solution" technology – rather than a strategic enterprise-wide architecture – it can connect to almost any ERP or accounting system.

Access to a network for commerce and collaboration is not the complete solution, however. As one industry expert put it, 'no payment, no commerce.' It has been stated that what's missing from this solution is the final, crucial step: seamless financial settlement.

VALUE-ADDED FINANCIAL SETTLEMENT

The key to a successful comprehensive automated procurement solution is a set of reliable financial settlement tools. Linking online financial services with an e-procurement platform allows companies to benefit from advanced functionality, including global merchant acceptance, expanded control features, line item reporting on transactions, seamless data consolidation of physical and virtual transactions.

Companies are transforming the way they procure goods and communicate with their suppliers. The creation of e-marketplaces facilitates electronic interaction between buyers and suppliers. While the benefits of this online environment are considerable, until now e-marketplaces have not been able to deliver financial services and settlement infrastructure for a complete business solution.

ELECTRONIC ACCOUNTS

One option for companies is an 'electronic account,' a virtual payment utility. Similar to a purchasing card, an electronic account operates on the MasterCard or Visa platform. With an electronic account number embedded into a company's e-procurement application, companies are guaranteed a proven and secure payment/reconciliation process. An electronic account provides a payment mechanism that seamlessly integrates into e-procurement platforms. An example is invoice presentment and payment, so that suppliers can post invoices electronically and have the buyer review and approve for payment. This reduces administrative expenses on both

buyer and seller, reduces errors, and disputes on invoice, thus getting cash to suppliers more quickly. The electronic account goes even further, since it integrates with the invoice presentment system, allowing supplier to get paid more quickly. Because the account number and expiration date are not visible to the user, the electronic account is more secure than traditional p-cards. With fully integrated suppliers, the financial data flowing back into the e-procurement application represents what has been shipped, as well as shipping costs and tax — not just what has been ordered.

Globally, corporate and government cardholders can manage their electronic account and programs on the Web, using these capabilities to handle the settlement from "e-procuring" all types of goods and services including:

- MRO services
- Commodities
- Travel and expense
- Fleet fuel and maintenance

An electronic account solution not only provides settlement, it enhances data capture to provide strategic information about purchasing activities.

Many types of procurement processes are being made electronic, for example, the provision of temporary staff: from the point of requesting an individual with a certain skill set, selecting candidates, negotiating wages, and tracking and processing time cards and expenses. Many software companies offer these capabilities, including CHIMES, White Amber, IQ Navigator and Fieldglass. Integrating an electronic account into an e-commerce infrastructure makes timecard expense processing more efficient by eliminating invoices and the invoice cycle time.

Many experts point out that the quickest route to reducing the cost of corporate purchasing while making Internet commerce a real strategic asset is likely to be an electronic account solution. These provide an inexpensive, secure method to interact with a company's chosen front-end electronic purchasing system.

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