UNIVERSITY OF DELAWARE

HOTEL, RESTAURANT & INSTITUTIONAL MANAGEMENT

E-PROCUREMENT IN THE HOSPITALITY INDUSTRY

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Introduction

E-Procurement is the electronic management of all procurement activities: it is the use of web communications to facilitate purchasing processes and strategy, and is part of the broad e-commerce revolution (Hewitt, et. al., 4). While electronic forms of doing business within hospitality may be somewhat slow to be adopted, tradition-bound attitudes are changing in this sector as rapidly as the technological enhancements that mold them. Electronic procurement is destined to play an increasingly significant role in the way hospitality business is conducted in the future. E-procurement has become the key to valuable data for better, more intelligent hospitality management. This system provides a mechanism to quickly and effectively link hospitality operations and suppliers and also provides data analysis functionality that allows operators to monitor costs, consumption rates, inventory tracking, pricing and menu planning to increase profitability (Paul, 1). In the past, the purchasing methods used by even the largest of hospitality companies were slow, cumbersome, and inefficient. "Even those companies that have announced dramatic procurement efforts still have a long way to go to make purchasing a true e-commerce endeavor (Chipkin, 1). Better communication and greater control is the result of the benefits that e-Procurement brings. Ultimately, it is prudent for hospitality companies to focus on this technology deployment to maintain competitive advantage, even in this uncertain economic climate.   Nevertheless, there are major obstacles to the industry seizing the advantages of e-Procurement and realizing improvements in the supply chain. The uniquely fragmented structure of the hotel industry can lead to redundant IT investment across companies and a corresponding lack of industry standards (Norman, et. al.,34). The logic behind e-Procurement has been strong enough that new ventures are being brought online despite many failures of past attempts. Ultimately, it is clearly good business sense to take advantage of utilizing the efficiencies of the Web to better gain control of purchasing and obtain tighter management of the purchasing process.

THE POTENTIAL OF E-PROCUREMENT

E-procurement is a direct outgrowth of the Internet's capabilities, enabling businesses to share information from many sources, including their customers, financial institutions and suppliers. It simplifies the mechanics of the order process and reduces infrastructure and transaction costs. Tremendous opportunities will be realized through e-Procurement. The opportunity to improve the supply chain will define the relationship between the buyers, sellers, and competitors. Ngonzi (2000) explains that the implications for various segments of the hospitality industry can be summarized in the following points:

- Established brands can leverage and reengineer their purchasing for improved efficiency, and reduce "maverick" spending

- These companies can develop customized sites for their own purchasing from approved vendors.

- Employees would adhere to quality standards. (6)

This would result in the fact that the buying power would be increased, there would be labor cost savings, and there would be access to other vendor networks and products.

For a growing number of companies in the hospitality industry, e-Procurement has become the key to valuable data for better more intelligent management, particularly for the future. This includes big chains and small 'mom and pop' businesses alike. According to Ngonzi, "It is one of the most important of B2B (business-to-business) functions." (3) The on-line procurement sites not only provide the mechanics to quickly and effectively link businesses and suppliers, but they also present data analysis. This is the future potential of e-procurement and to obtain the benefits of this technology, hospitality companies need to make this part of their strategic planning. E-Procurement is an automated solution that does away with the long chain of manual processes which has traditionally characterized repeat purchasing. "E-Procurement will have a positive impact on business functions and processes for those that fully take advantage of these

capabilities. Buyers, for example, have a growing amount of information available to identify the

suppliers with whom they want to do business." (Ngonzi, 2) "With a clear desire of hotel

companies to maximize savings and efficiency online, third-party companies are springing up to

serve them. By using the Web, the whole process can be made much simpler, with fewer errors

(Chipkin, 3).

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The Potential of EProcurement

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Cost Reduction
Procure more effectively and efficiently
- **Streamline processes**
- **Improve volume and price**
- **Increase predictability**

New revenue streams
Invert focus from cost savings to:
- **Leverage income**

Offer a service to the business community to resell:
- **The process**
- **The service and software**
- **The volume discounts**

Improved audit control
Ensure proper authority of purchasing:
- **Profiles**
  Purchasing levels
  Approval via work flow through next levels
  Being properly applied to area of responsibility
- **Better connectivity**
  General ledger/ERP feeds

Source: E. Ngonzi, Arthur Anderson, New York (2000)

A prime example of this Internet based technology strategy is The Hilton Hotels Corporation, as

discussed by Wagner. They have sought to improve their supply chain management through an

aggressive online strategy. They obtain approximately 30% of their $1 billion annual procurement

over the Web. They are building and managing online business-to-business communities and

trading exchanges. This purchasing exchange is to be opened up to other hotel chains. This is a

comprehensive effort in the use of the Internet technology in order to expand its customer

services and integrated with the use of the Internet to increase sales, link to customers and cut

procurement costs. This aggressive online strategy is a company priority and "hospitality

analysts have given Hilton high marks in their e-business endeavors" (Wagner, 2).

This approach is practical especially in tough economic times—Hilton will need to cut costs to

keep its industry leading profit margins on the rise.

It is discussed in an article by Omnicell, that in addition to reducing administrative costs, e-

Procurement can empower purchasing professionals. By saving administrative time and

providing more data enables these individual to negotiate better terms with suppliers.

Furthermore, the shift from repetitive to more strategic tasks clearly improves the morale of

purchasing staff, thereby reducing employee turnover and the respective recruitment and training

costs.

TRAVEL & HOSPITALITY
By The Numbers

CUSTOMER ISSUES

Expansion of customer base because of Internet capabilities **15%**

Percentage of Internet sales orders that are perfect orders **89%***

Percentage of visits to Web site that are converted into orders **8%**

SUPPLIER ISSUES

16% Percentage of purchase orders done over the Internet

16% Percentage of strategic suppliers sourced over the Internet

16% Percentage of strategic sourcing dollars spent over the Internet

ELECTRONIC MARKETS

Percentage of sales orders conducted via an e-marketplace **16%**

Percentage of purchase orders conducted via an e-marketplace **8%**

E-BUSINESS REVENUE

8% Percentage of revenue achieved via the Internet

9% Percentage of orders received online

9% Percentage of revenue growth in last fiscal year resulting from the Internet

39% How much Internet revenue is expected to grow in the current fiscal year

COST CUTTING

Cost reductions from indirect materials procurement on the Internet **7%**

Cost reduction in customer management via the Internet **8%**

Cost reduction in fulfillment and delivery via the Internet **9%**

Figures are averages for InternetWeek 100 companies in this industry
*Orders that are fulfilled accurately, on time and in the right quantity
Sources: *InternetWeek*, Benchmarking Partners

Electronic marketplaces can break down trade barriers and offer access to hospitality companies, regardless of size. Warner indicates the variety of views on what kinds of products and services might be bought online (7). A diversity of products and services are offered, ranging from furniture, fixtures and equipment, renovation and construction, service contracts, operating supplies and food and beverage. While primary grocery companies have the systems and sophistication to integrate into online purchasing, many local purveyors of meat, dairy, poultry and other foods do not—yet. Chipkin believes that this should change very rapidly (3).

<u>Buying Online --Standard Products</u>

Source: Hospitality Design, 2001. Internet Usage Study Results (7)
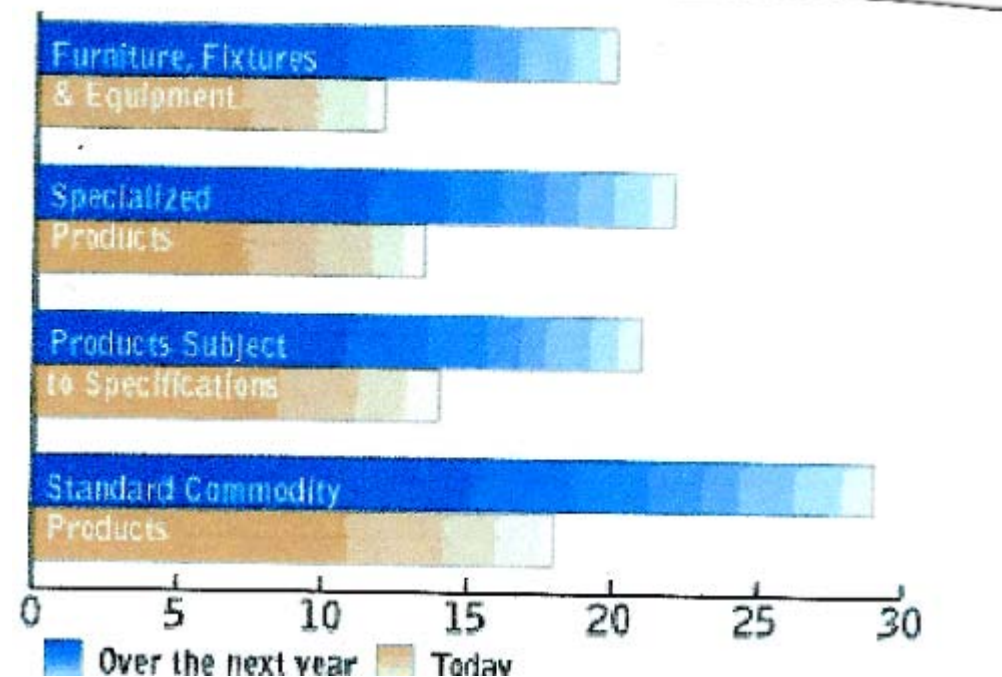
Source: HITEC 2001 "Hospitality E-Business—The Future" (7)

In this survey by Warner & Cline, it indicated that the respondents were generally enthusiastic about the benefits associated with e-Procurement. They see strong benefits in the opportunity for improved pricing, better sourcing and process improvement (7).

However, Antone Gonsalves found that integration with other systems is a major concern among companies considering online purchasing from suppliers. Interestingly, Rae & Gibbons observe that "some of the benefits and cost saving opportunities eProcurement vendors are offering don't involve making online purchases. Instead, they entail an electronic consolidation of their purchasing data to give the operators a good way to look at their organization's purchasing practices "(3). This takes into account the purchasing history to enable it to see the 'big picture' and keep track of what they are buying, from whom and at what price. Chipman adds that the operation will know if there is a spike in business on a specific date and will be automatically assured that it has replacement items (3). Reid Paul points out, "We wanted to improve our

collaboration within the supply chain and we want to drive out inefficiencies and leverage our size for better cost savings" (3). According to Hearn & Gibbons, some of the other benefits that e-Procurement can provide are:

- Reduced order cycles and time to market by purchasing online and reducing the interruptions of constant calls on the telephone.

- Communications are instantaneous and exact; thus would improve business processes to reduce the time that purchasing agents spend processing orders.

- Improving access to spending data to analyze overall purchases—to look for consolidating purchases into one online application.

- Control through supply chain automation. Corporate headquarters can control what a unit can buy and choose appropriate substitutes when something is out of stock. This would also translate into simplifying the training of new managers –to have all of the information at their fingertips to help them make better decisions and frees them up to do other things. (2)

IMPLEMENTATION

For successful implementation of e-Procurement, a company must determine its e-purchasing needs prior to seeking out a solution. A total e-procurement solution helps operators to be proactive in the purchasing process. If the technology is not suited to meet these objectives, this could result in overpayment for such a solution and extended implementation times. Hewitt et. al. in the E-Procurement Guidelines recommends this process for implementation:

1. **Set objectives--it is extremely important to align business objectives, processes and goals to the right solution provider.**
2. **Investigation--Understand your current position by analyzing spending and assessing opportunities. Research the market.**
3. **Set targets—Establish realistic Key Performance Indicators and external benchmarks against which to judge outcomes. Set improvement and minimum savings targets.**
4. **Plan—Identify constraints and develop a realistic plan to include**

employees skills variances and taking into account the people and cultural dimension, current user satisfaction and supplier relationships
- Finance considerations
- New processes
- Technology--take account of your legacy systems, work within your IT competencies, consider systems integration, security, audit, standards, etc.
- Legal issues
- Tax efficiency
- Managing the phasing of the project
- Taking advantage of wider opportunities
- Degree to which selected suppliers are ready and willing to participate

5. **Present case—to Board**

6. **Issue specification of requirements—for evaluation of potential suppliers of e-Procurement solutions. (16-17)**

SOLUTION

By doing research into a vendor's history and clientele, this can help companies to find the right match of selection. A system that is built from scratch should be discouraged, as this situation can often go on for years and cost more money than expected, as stated by Hearn and Gibbons. Operators should look for providers that are established and have a strong network of satisfied customers. Harler believes that e-Procurement has a high risk reputation and by looking at other operator experiences, it pays to do the research to have a procurement solution that will not disrupt normal operations and incur huge problems. An "end-to-end" solution provider will provide software; institute the training, implementation services and upgrades to the software, as well as online catalog management. Solution providers will also have to protect against vulnerability to hackers and competitors. The ideal procurement solution is to develop a solid business plan with aggressive online procurement strategy and this will deliver value to the company. For growth, operators will need to respond to this market to remain competitive. The following diagram describes how e-Procurement would have an influence on the type of organization:
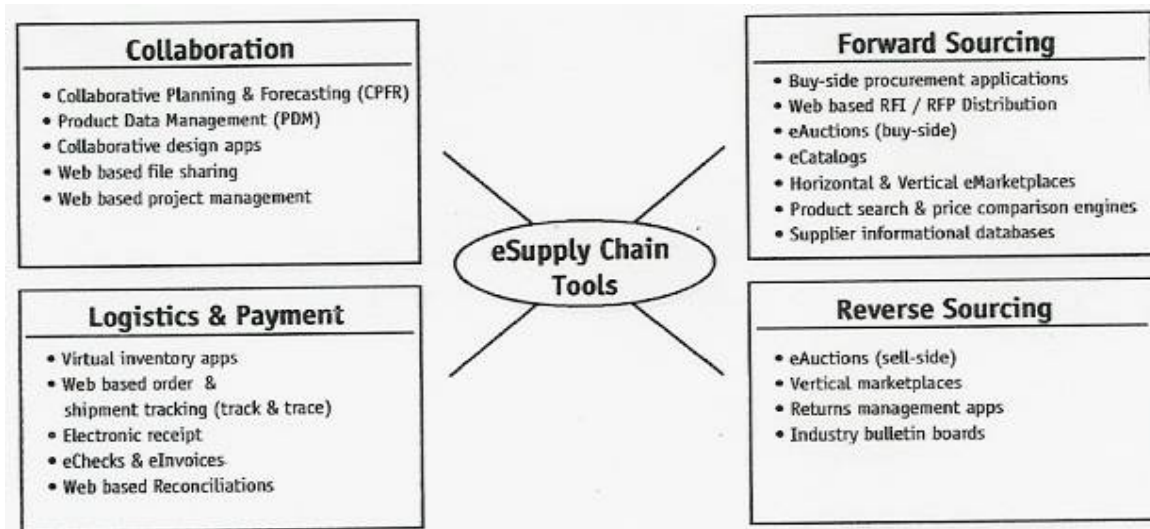
Type of organisation	Small	Small or medium	Large or medium	Large global
How does e-procurement affect me?				
	Integration/fulfilment > > > > > >			
Procurement profile	• small aggregate spend • few purchases and one user site • few indirect suppliers • high cost to purchase	• medium aggregate spend • more purchases and user sites • more indirect suppliers • high cost to purchase	• medium aggregate spend • greater purchases and user sites • greater indirect suppliers • high cost to purchase	• large aggregate spend • many purchases and user sites • many indirect suppliers • high cost to purchase
e-Procurement & e-sales opportunities	• buy via web & on-line communities • sell (or deliver service) into horizontal markets • hosted services (portals, auctions)	• buy and sell (or deliver service) via on-line communities • vertical or horizontal markets • hosted services and catalogues	• buy and sell (or deliver service) via vertical market • own or hosted services and catalogues	• buy and sell (or deliver service) via vertical & horizontal markets • e-hub hosted systems and catalogues
	< < < < < Information sharing > > > > >			

Source: Hewitt, Fulton & Holden, E-Procurement Guidelines (5).

Hewitt et.al. further suggest that the introduction of " web-based purchasing will instill gaining confidence in working electronically: an e-procurement project will interface with customers, suppliers/partners, employees and support services- all the relationships where organizations need to change culture and learn new ways of working" (6)

Electronic marketplaces today create Internet portals to serve numerous buyers and sellers in the exchange of goods, which gives companies around the world complete access. It is noted in the e-Procurement Guidelines, that the main ways of doing e-Procurement are through catalogues, vertical and horizontal marketplaces and associated services (Hewitt, 6). These providers, such as VerticalNet, and hospitalitynet.org, bundle together other options along with the procurement services. Other examples of providers in the B2B e-Procurement technology industry are GoCoop, Inc. or Ariba, Inc., which are industry specific, and considered 'vertical' exchanges, sort of a 'one stop shop.' This marketplace is currently receiving the greater amount of attention, according to IBM. Roberti indicates, "Vertical Web marketplaces deliver big savings by electronically connecting a company with dozens of suppliers willing to compete for its business."

‘Horizontal’ marketplaces offer goods and services needed by all companies across all

industries. They provide an avenue for many types of buyers and sellers to advertise, bid on

products, share content, participate in auctions, manage their supply chains and are fueled by

demand. In B2B markets, match up buyers and sellers over the Internet by sharing information

and procurement needs. As noted by Denali Consulting, it is important for companies to

understand each of the

tools available in the market to take full advantage of e-Procurement, as no one company offers

the full suite of e-Procurement tools. The following chart describes tools in the e-Supply chain:

Collaboration
- Collaborative Planning & Forecasting (CPFR)
- Product Data Management (PDM)
- Collaborative design apps
- Web based file sharing
- Web based project management

Forward Sourcing
- Buy-side procurement applications
- Web based RFI / RFP Distribution
- eAuctions (buy-side)
- eCatalogs
- Horizontal & Vertical eMarketplaces
- Product search & price comparison engines
- Supplier informational databases

eSupply Chain Tools

Logistics & Payment
- Virtual inventory apps
- Web based order & shipment tracking (track & trace)
- Electronic receipt
- eChecks & eInvoices
- Web based Reconciliations

Reverse Sourcing
- eAuctions (sell-side)
- Vertical marketplaces
- Returns management apps
- Industry bulletin boards

Source: Denali Consulting 2002

This model shows that the industry has the opportunity to take significant cost and inefficiency out

of the supply chain cycle. This inevitably will create a competitive advantage and by

understanding all of the e-Tools available, even beyond e-Procurement, these can be selectively

implemented to add value.

E-Procurement vs. E-Purchasing

Elektr. Beschaffung vs. Elektr. Einkauf

Electronic Markets: Types
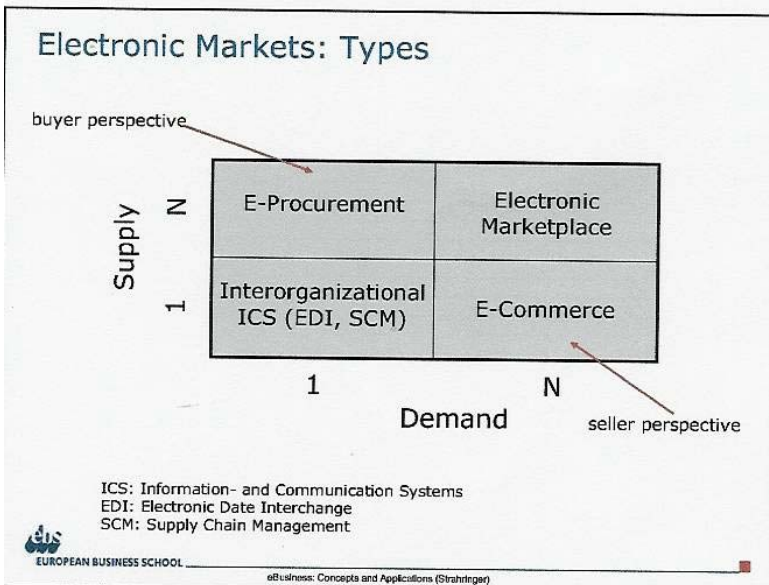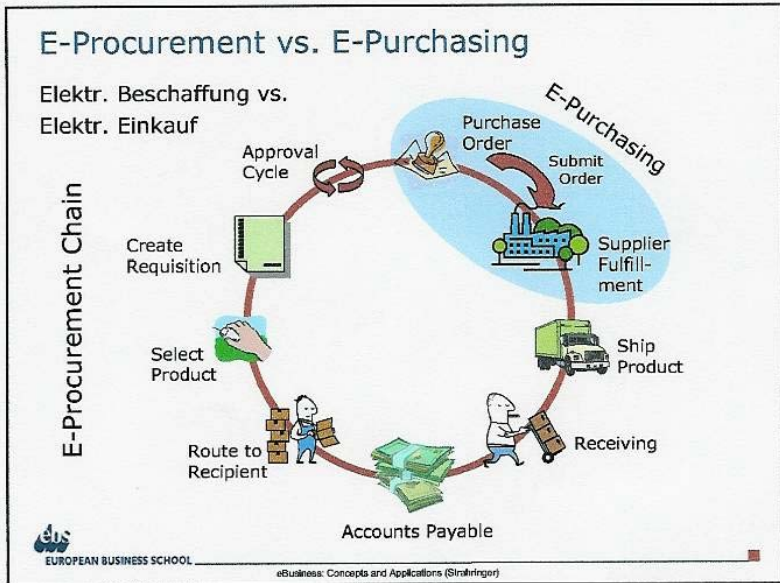
Source: Strahringer, 2002 "E-business: Concepts and Applications" (11)

CONCLUSION

In conclusion, while e-business opportunities may be somewhat slow to be adopted, the Internet is certainly having a significant impact on the industry purchasing habits. Gonsalves found that a recent survey showed that purchasing executives within companies increased their use of the Internet in the fourth quarter in 2002, with bigger businesses reporting the largest boost. In this study, it was found that online collaboration with suppliers increased from 53.5% to 58.2% and it was reported that the use of Internet tools increased from 35.9% to 42.6%. Another survey reported by Chabrow states that more than 80% of U.S. companies have experimented with some form of online procurement, although most are channeling less than 10% of their total procurement online. E-Procurement systems are leaping onto the Web, where proponents believe much of the routine buying of goods and services will happen in the future. Ellis Booker remarks that "business users seem more guarded about e-procurement, pointing to holes in current approaches," (1). He adds that the software is still immature and the benefits of e-Procurement can be weighted down because of integration with legacy systems. The various technologies available today can indeed reduce the number of steps in the purchasing process and this inevitably saves time, which is labor and money. The increasing interest in E-Procurement is being driven by many factors. Forward thinking organizations are realizing that this technology saves money and enables the purchasing department to focus on strategic supplier relations. In this way the purchasing functions becomes value-adding contributor to a hospitality company's bottom line.