

EMINENCE OF DIGITAL PROCUREMENT IN THE NEW NORMAL.

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Abstract: The term Digital Procurement is gaining momentum in this “New Normal” resulted out of disruptions caused by Covid-19. The Pandemic has created extraordinary challenges across all wakes of life including supply chain management. Extraordinary situation demands extraordinary measures and organizations are now keenly working on the digital transformation of their procurement process. Studies showed that Organizations which are already into digital procurement platforms were able to withstand the impact of the current crisis in a better way when compared to others who are not fully equipped with digitization. Moreover Digital procurement helps organizations to transform Procurement from a transaction level activity to a strategic business planning level through the application of Artificial Intelligence (AI), Machine Learning, Data Analytics and Internet of Things (IOT) This paper highlight the eminence of Digital Procurement in the “New Normal” and it’s potential to transform Procurement process.

Index Terms – Covid-19, Digital Procurement, New Normal, E procurement, Strategic Procurement.

Introduction

Today the word “New Normal” has become a very common term in our daily formal and informal communications. The word New Normal was first used by *Peter M. Sandman et.al (2005)* while describing the methods of management of attitudes of the public towards avian influenza. The New Normal is a condition to which an economy, society or a system adapt to the changes ensuing a crisis, which is totally different from the situation that was prevailed prior to the start of the crisis. For the last couple of months the global conditions have been extraordinary because of the pandemic Covid-19. Indubitably, in the history of mankind there has never been an economic contraction as rapid as the one we are seeing currently. The Pandemic has made extraordinary encounters across all wakes of life including health, social welfare, economies, and overall supporting supply chains. Why we have to move forward with a “New Normal” concept even after this pandemic is under control is because, the world as it was is not going to return. Consumer’s buying aptitude and behavior will be different, decision making approaches in businesses and corporate world will be transformed, and risk appetites will see a major shift and this all will constitute “New Normal”. For any economy the role of supply chain is very crucial. Procurement being positioned at the very start of the economic value chain, plays an influential role in up keeping the businesses efficiency, ensuring external disruptions are kept to minimum, and facilitating a smooth supply chain. This paper examines how the digital procurement technologies can positively contribute in bringing up the procurement process to an elevated level which is currently demanded by the “New normal” situations.

Digital Procurement

As we all know Procurement is the end to end processes performed for buying goods or services. Process starts with need identification and journeys through Vendor selection, Purchase Order placement, Delivery of goods and Payment processing. The term Digital Procurement has become the buzz word today. Digital procurement automates repeatable procurement tasks to enhance efficiency and reduce overall costs. Digital procurement platforms enables the stakeholders across the business with real-time data and analytics through the application of Artificial intelligence (AI) and easy-to-use online tools. Digital Procurement is not merely a computer assisted procurement activity, instead it utilizes the combined features of Artificial Intelligence (AI), Machine Learning, Internet of Things (IOT), Big Data Analytics and Digital Supply Chain by which positioning procurement into a strategic sourcing activity.

Key features of Digital Procurement technologies include the usage of disruptive technologies to make Strategic sourcing more predictive about market demands, also results in automation of procurement transactions and most importantly making Supplier risk management more proactive by adopting preemptive risk mitigation strategies.

For a sourcing manager, who usually worries about sourcing of right product, from right source, on right time and in right price, Digital procurement tools brings lot of cheers. Generally, profiles of procurement professionals are categorized as, professionals handling Strategic Sourcing or Source to contract (S2C). Their main activities are sourcing of goods and services, selecting suppliers and securing best value and prices. Second category is professionals handling Transactional Procurement or Procure to Pay (P2P), main activities of this group include, processing procurement transactions and expediting the delivery of goods or rendering of services and passing necessary entries. Third category is professionals who handles Supplier Relationship Management (SRM) and they mainly focus on developing strategies to increase value to suppliers and in formulating risk mitigation policies.

Impact of Digital Procurement

Digital Procurement technologies are equipped with features that can impact all the above categories of profiles.

Digital Procurement makes Source to contract process more predictive and can achieve ultimate visibility on spend to the micro level thus equipping organisations to have more transparent agreements with suppliers. The main impacts of Digital procurement on Source to Contract sector are:

- Enables categorisation and management of spend in real time, through the application of Machine Learning
- Demand Prediction through the application of Artificial Intelligence (AI).
- Cost analysis and What if analysis to know landed cost for any commodity for all alternate countries of origin
- Predicting and mapping future sources of supply based on the capacity and demand.
- Through smart contract management features availing timely alerts on all negotiated agreements, regarding renewals, pricing, penalties etc.

Digital Procurement makes Procure to Pay processes fully automated requiring only minimal human interventions thus saves time and cost.

- Enables automatic sensing of material demand and triggers generation of requisition and Purchase Orders and subsequent deliveries from suppliers
- Eliminates repetitive activities through robotic process automation
- Enables automatic payment processing utilizing real-time pointers of material delivery.
- Execute automated secure payments based on threshold limits configured.

Through Digital Procurement, Supplier Relationship Management (SRM) becomes more proactive, as risk mitigation strategies becomes pre-emptive thus reducing damage control measures and allowing professionals to focus continuously on process optimizations.

- Third party data feeds enables real time monitoring of potential supplier risks enabling activation of mitigation plans well ahead.
- Enabling Supplier visits and virtual meetings from their own office utilizing augmented reality
- Enhance supplier audits through crowdsourcing by engaging paid or unpaid stakeholders from the open market

Better performances from the Source to Contract, Procure to Pay, and Supplier Relationship Management processes, advanced analytics, increased computing power, and improved visualization technologies, digital procurement eventually delivers better evidence-based options for decision making and improve the accuracy of strategic decisions.

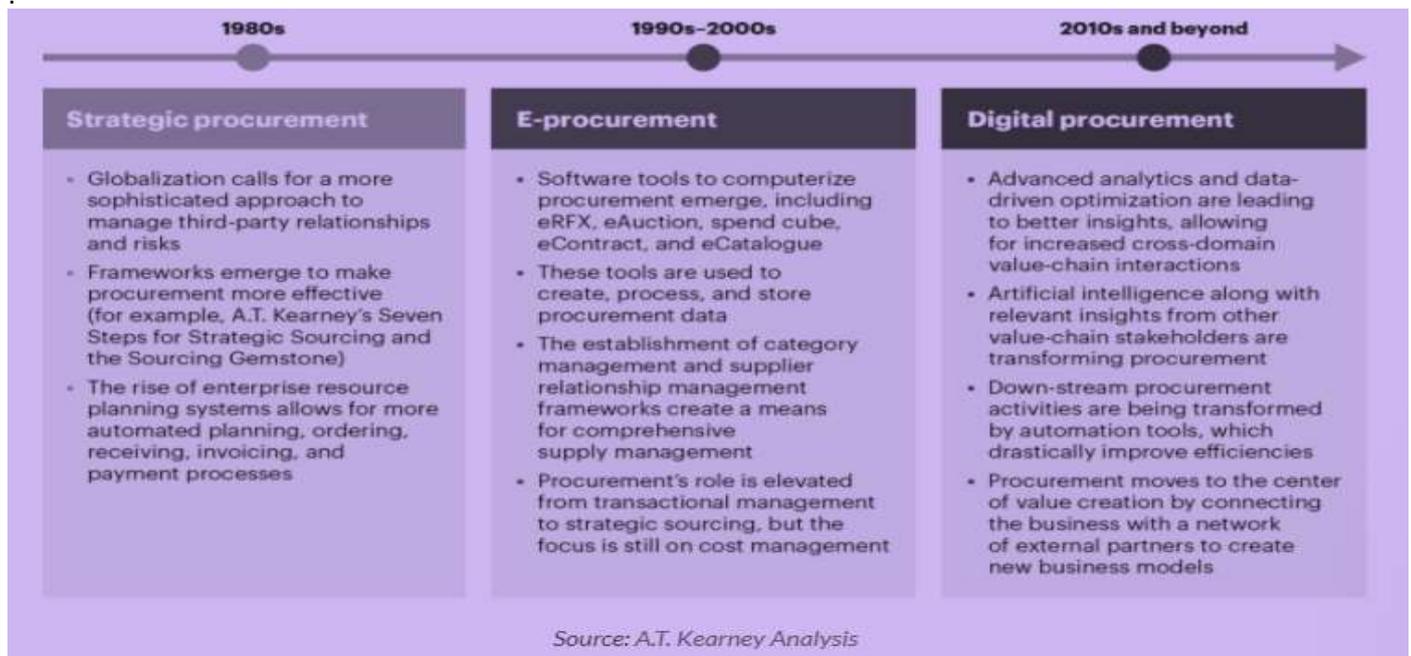
Evolution of Digital Procurement

History of Procurement functionality dates back to centuries. However 1970's steered in a new era for procurement, whereas early 1980's saw a momentous shift in how procurement and its role in business strategy was viewed. During initial days, procurement was just considered as a clerical job for purchasing an item with a simple objective for, ensuring material quality and availability requirements were satisfied. In the 1980s, procurement has transformed into strategic procurement and began to be integrated into the business policy planning process, Strategic procurement started to influence decision making processes in the business and develop effective supplier relationships. During these years many organisations had implemented Enterprise Resource Planning (ERP) modules for streamlining and optimising their resource utilisation. Features available through ERP solutions especially Material Requirement Planning (MRP) abilities automated planning and scheduling based on demand management along with automated ordering, receiving, invoicing and payment processing brought in revolutionary changes in Procurement management.

Towards the end of 90's and during 2000's advancements made in the field of Enterprise resource planning (ERP) together with features of Electronic Data Interchange (EDI) allowed business to transmit simple standardised data from computer to computer. Early adopters of these solutions were able to conduct business more efficiently than those who had not adopted the same. As described by *Pani.A.K.et al. (2007)*, Internet is an enabler to many online applications that renders organizational processes more effective and more efficient. Advancements in the field of Information and Communication technology along with features of Internet significantly contributed for the development of E-procurement concepts. E-Procurement refers to the electronic acquisition of goods and services in a firm. As stated above Internet and web applications are the most essential components of any e-procurement tool and basically what it does is integration of internal Enterprise Resource Planning (ERP) procurement features with external Supplier management features. The establishment of catalogue management and Supplier relationship management frameworks created a means of comprehensive supply management. In short e-Procurement platforms integrates internal stakeholders procurement activities to external stakeholders procurement activities by way of e-RFx, e-Auctioning, Spend Cube, e-catalogue etc.

Mostly organisations were focused on using technology to automate processes and record "what has happened" a transaction executed, an invoice paid, an item purchased, a contract signed etc. The outlook has changed towards 2010 and beyond that period and witnessed the digital transformation of procurement, where in, features of Machine learning algorithms, Internet of Things (IOT), Artificial intelligence (AI) were deployed to advance data analysis and data driven optimization leading to better business insights bringing in enhanced cross domain value chain interactions. Downstream Procurement activities are being transformed by automation tools. A digital procurement solution automates repeatable tasks to enhance efficiency and possibly drive down overall costs. It equips the business stakeholders with real-time access to insights and data analytics through artificial intelligence (AI) and data mining. It arrays new and innovative ways to instil data models to augment day-to-day operations and decision making. Digital procurement technologies dig deeper to get much more contextual investigation to know about "what happened" and "why". Such information is critical. These are all the basic building blocks for AI-enabled predictive models that help improve future decision making.

Below figure depict the evolution of Procurement process over years



Significance of Digital Procurement in the New Normal

Current Covid-19 pandemic has adversely affected all industrial sectors across the globe. Acute cash crunch has put many organisations under the verge of total collapse. For most of the organisations 50-70% of revenue heads out the door to vendors and third party partners across the supply chain. And at this difficult time, where in vast majority of revenue and earnings are washed out from the hands, enabling the procurement process to save cost is very much critical to stay afloat.

The disruption caused by COVID-19 pandemic on supply chain is entirely unprecedented. Those organisations which had apprehensions in migrating to digital procurement technologies and are still dependent on paper-based processes or outdated systems are the front runners who have burned their fingers a lot in the current crisis. The good point is that current crisis has made digital transformation vital, as those organisations that are more digitally mature are able to quickly adapt to this "New normal."

The biggest challenges organisations faced during this crisis period were overdependence on a limited set of suppliers, difficulty in identifying alternate suppliers, lack of understanding of suppliers' risk exposure, sudden surge in prices due to unprecedented gap between supply and demand. Procurement digitalisation can significantly improve these conditions through increased focus on supplier visibility and also digitalisation will improve organisations ability to collaborate with suppliers and find alternative supply during the crisis period. Digitally transforming procurement will allow organisations to create round the globe view of what is happening in the supply chain in near real-time, enabling them to make informed decisions about how to mitigate the impact of crisis.

Digital procurement is better placed to offer what is expected out of procurement in the current "New Normal" From an organization perspective remote working is expected to be increased nearly threefold which is an indicator of major shift in work culture. In the risk management perspective organizations can leverage the digital procurement features to increase the visibility across the supply chain and spot supply shortages or logistics constraints before they happen. In the "New Normal", supply chain organizations are forced to make major changes at a rapid pace to respond to extreme demand shocks and assure supplies. Digital procurement technologies can help organizations to be reshaped to increase agility, ensuring availability of surge capacity and ability to change network designs and suppliers quickly.

Conclusion

In short having access to open, complete and high-quality data can help organisations to predict and manage supply chains in a better way. In the “New Normal” Procurement specialists have to think strategically about the whole supply chain and long-term production capacity, rather than concentrating exclusively on transactions.

Organisations that are able to adopt digital procurement solutions have the opportunity to accomplish on their main missions with fundamentally greater insight and efficiency. Irrespective of hurdles come across these organisations got the potential to further advance the strategic agendas of their organizations, positioning procurement to better enable new product design, environmental sustainability, and new market entry.

In this new normal, the thrust area for all procurement and supply chain professionals need to be to equip businesses not only to survive this challenging disruption, but also drive commercial adaptability and agility to revive the organization and ensure they survive, revive and thrive in the new business world.

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