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SHOULD SMES OUTSOURCE PROCUREMENT?

Smaller companies might want to consider alternatives

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By Andrew Miller | February 24, 2010

Is there a business case for small and medium-sized enterprises (SMEs) in Canada to outsource procurement operations?

Procurement outsourcing represents a market of almost \$1 billion globally, and companies like Genpact, Infosys, IBM, Accenture and ICG Commerce command the majority of the market share. These firms offer full-service procurement outsourcing solutions for their clients.

But SMEs aren't necessarily on board—yet. According to Gartner research, SMEs make up a mere eight percent of the business process outsourcing (BPO) market. This is expected to grow.

SMEs might consider outsourcing the procurement function because they don't feel they're doing it in a way that maximizes value or productivity.

Since the benefits of procurement outsourcing are typically things like cost reduction, improved return on investment, and increased productivity, it is certainly a strategy that would appear valuable.

Barriers to outsourcing

So what might be stopping SMEs from hopping on the outsourcing train?

The problem for SMEs in Canada is that there are not many low-cost options for procurement outsourcing. The majority of outsourcing providers focus on larger companies because procurement outsourcing usually requires a long-term and expensive relationship. This is exacerbated by the common—but time-consuming—practice of transferring procurement staff from the client to the outsourcing provider.

For SMEs with a staff of just one or two people (if that) responsible for procurement, it just does not make financial sense.

Different options

Although there are a few full-service procurement outsourcing solutions for SMEs in Canada, there aren't many. This means SMEs should investigate some alternatives.

A few providers have realized that SMEs need on-demand offerings. These solutions need to be easily accessible, with minimal start-up investment and run costs. They must create value for the organizations using them.

Some software suppliers have created web-based, hosted programs to handle the procurement process. Customers pay an annual maintenance fee for access to the system. The client gets access to a best-of-breed system and only pays for use of it—not hardware or upgrade costs. The software supplier handles all maintenance. Users can access the system from anywhere through secure websites. They are provided processes that are based on leading practices.

Collaboration and technology

Another option SMEs should consider is working with others—with help from technology—to take better advantage of economies of scale. Electronic marketplaces and collaborative purchasing are ways of expanding business and leveraging expertise.

Electronic marketplaces allow for the easy dissemination of information and provide technology to manage the essential steps of the procurement process, such as posting competitive documentation

and accessing bids. Electronic marketplaces also allow businesses to expand their network of potential suppliers by posting their specific procurement needs on a public website. The increased competition created in this process usually leads to improved return on investment for the company.

The downfall of electronic marketplaces is that SMEs do not usually gain access to expertise that might improve their operations. These marketplaces facilitate the purchasing process, but don't necessarily enhance it.

Collaborative purchasing is another way to increase value within procurement operations. By using technology, a group of SMEs can collaborate and make purchases together. This not only generates additional cost savings (thanks to economies of scale), but also allows the companies involved to share resources, thereby increasing productivity. This works very well among companies that purchase many of the same products and services, but do not individually represent enough buying power to negotiate optimal contracts with suppliers.

While companies involved in collaborative purchasing can share ideas and experiences with one another, they, too, generally lack exposure to outside procurement expertise.

Since I have yet to discover a provider that has a comprehensive solution for procurement outsourcing tailored to the needs of SMEs, for the time being, these companies may need to look at the solutions discussed above.

The bad news is that procurement outsourcing's growth trajectory is slower than that of other outsourcing areas, so innovation may lag. The good news is that as the overall outsourcing market grows, and the competition for larger clients becomes saturated, providers will begin to focus on the ever-growing SME market. This can only benefit smaller firms looking for ways to maximize the value of their procurement operations. **b2b**

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