

eBook

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Overcoming the Challenges of Green Procurement through eProcurement



Overcoming the Challenges of Green Procurement

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Overcoming the Challenges of Green Procurement

Green procurement has become a critical component in corporate and government sourcing strategy. Driven by changing client expectations, pressure from investors and shareholders, and increasing regulation, organisations across the globe are looking at ways to integrate environmental purchasing standards into their sourcing strategy. If you're a procurement executive or director, chances are you're either thinking about how to implement a Green procurement programme or already in the process of doing so, and are becoming well versed in the litany of challenges.

So, how does eProcurement come into play? The business benefits of eProcurement, such as spend under management, reduced requisition to order costs and cycle time, and a reduction in the percentage of maverick spend, are known, proven and understood. While we realise that supporting your Green procurement initiative may not be the primary benefit or driver for implementing eProcurement, by utilising eProcurement best practices you can reduce the challenges typically faced when deploying and administering a Green procurement initiative.

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This eBook will call out nine eProcurement best practices and demonstrate how they will help you reduce environmental waste and implement and manage your Green purchasing programme. Even if you don't already have an eProcurement system in place, we'll highlight steps you can take to leverage the same best practices to benefit your Green procurement initiative. Finally, we will review a list of factors to consider when selecting preferred suppliers to capitalise on the benefits of eProcurement, as they pertain to your Green procurement initiatives.

But first, let's start with a couple of definitions.

eProcurement is the business-to-business purchase and sale of supplies and services over the Internet¹. A properly implemented eProcurement system connects to a company's internal systems, such as accounts payable, as well as directly to their vendors and suppliers, allowing system-to-system integration and automation of much of the purchasing process.

Green procurement is the procurement of products and services that have less impact on the environment than their traditional counterparts². In addition to reducing a company's carbon footprint and environmental waste, Green procurement is seen as having multiple long-term business benefits. These include an improved public image, competitive advantage via innovation, and potential economic benefits through improved efficiencies, longer lasting materials, and less expense on waste disposal and clean-up.

¹ SearchCIO.com

² Wikipedia.com

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Key challenges to implementing a Green procurement programme include:

- **Cost** – although many studies now show the long-term cost savings of buying “Green,” there are often higher upfront costs for switching to these environmentally-friendly products
- **Availability** – local distributors may not stock sustainable products, or only stock in small quantities
- **Internal education and regulation** – mid-to-large-size organisations will face the challenge of training every employee that makes purchasing decisions and ensure the newly preferred, sustainable products are being purchased
- **Supplier information** – obtaining up-to-date product specifications, including environmental specifications, from suppliers can be difficult
- **Time to implementation** – large organisational changes do not happen overnight. It takes time to research, negotiate and implement a successful Green procurement programme

While implementation of a Green procurement programme can be challenging, there are many ways in which utilising eProcurement will help you overcome these challenges and offer immediate and tangible benefits.

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How does eProcurement help overcome the challenges of Green procurement?

green procurement programme enabler	eProcurement best practice
1. Knowledge transfer and training	1. Centralised procurement governance
2. Selection and control of suppliers (enforce Green suppliers)	2. Automated processes/workflow
3. Measurement and compliance	3. Integration with contract compliance and finance
4. Paperless workflow	4. Invoice integration
	5. Online credit card transactions (p-cards)
	6. Enabled supplier relationship
	7. Conducting spend data analysis
	8. Increasing visibility through reporting tools
	9. Custom vendor eCatalogues

The table above lists nine eProcurement best practices including: enabled supplier relationships; automated processes/workflow; centralised procurement governance; integration with contract compliance and finance; invoice integration; online credit card transactions; conducting spend analysis; increasing visibility through reporting tools; and custom vendor eCatalogues. The table also calls out four key Green procurement enablers: knowledge transfer and training; selection and control of suppliers (enforcing Green suppliers); measurement and compliance; and a paperless workflow. Each of the nine eProcurement best practices supports at least one of the Green procurement enablers.

In this next section we will go through each of the nine eProcurement best practices, the Green procurement enablers they support, and how they will help you overcome your Green procurement challenges.

Centralised procurement governance

Centralised procurement governance is critical to the success and deployment of your Green procurement initiative. eProcurement can help by providing a central hub for disseminating information, enforcing preferred supplier and product purchases, and maintaining visibility and control.

eProcurement has long been touted as the key lever for keeping spend under management and for all of the same reasons can also be a great resource for keeping Green purchasing under management. A centralised procurement operation should be able to utilise its eProcurement system to implement Green purchasing policy across the entire organisation. By incorporating negotiated price lists from preferred suppliers and/or approved sustainable products and utilising automated workflow approval your eProcurement system will help you educate and enforce Green procurement policy to all business units quickly and efficiently.

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Automated processes/workflow

As we highlighted in the beginning of this paper, one of the biggest challenges an organisation will face when implementing Green procurement is training every employee involved in the procurement process to ensure that the newly preferred, sustainable products are being purchased. There are typically two key groups involved in the procurement process, the internal consumers (department(s) requesting the purchase), and the procurement staff – together these two groups make up a large employee-base involved in the purchasing process.

By capitalising on automated workflow approval process capabilities available in most eProcurement systems, you are able to better manage and monitor Green procurement policy. You can set up parameters for management to be notified and/or approval to be required when “non-Green” or non-preferred products are being requisitioned. This will reduce incidences of rogue purchasing and ensure that when difficult buying decisions must be made, the Green procurement champions on staff are able to weigh-in.

Of course process automation also leads to a reduction in manual processes and paper consumption. This topic is covered in-depth in the next two sections.

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Integration with contract compliance and finance, invoice integration and online credit card transactions

By integrating your eProcurement system with back-office functions, such as compliance and finance, and the corresponding systems such as ERP and CRM systems, you can initiate a paperless internal workflow. This will not only reduce a lot of manual effort, but save greatly on the amount of paper forms and printed documents circulated in your office.

Another contributor to paper savings is invoice integration. If your supplier is able to integrate its invoice system with your eProcurement system, then invoices should automatically be generated from purchase orders, which in turn should be generated from the quote. This will ultimately result in less potential for error and less paperwork. Once you receive the invoice you are able to conduct a three-way match of the quote, purchase order and invoice electronically, via your eProcurement system.

A third contributor to paper savings is online credit card transactions, or the use of P-cards. The remittance of payment electronically via a credit card not only speeds up the purchasing process, but alleviates the need for invoices to be created or cheques to be cut.

If you have implemented even one of these three best practices and you are not tracking the paper and energy savings, then you are missing out on an easy and immediate way to demonstrate procurement’s contribution to your corporate sustainability efforts. Tracking the paper and energy savings is a very straightforward process, and one you can begin today.

Take inventory of the steps in the purchasing process that utilised printed or faxed paper prior to implementing your eProcurement system. Be sure to include the average number of pages each step included (e.g. do your invoices average 2-3 pages?), and then look at the total volume of purchases now performed by your eProcurement system.

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Armed with this information, you can do some simple calculations in a spreadsheet to determine the amount of paper you have saved in a given month or year. You can even take that a step further and equate the energy savings (and subsequent carbon emission reduction) that comes from reduced paper production, and reduced printer and fax machine usage.

Consider this the production of one ream of paper (500 sheets) equates to 6% of a tree, 27.8 kWh of energy, 6.4 kg (14 lbs.) of Green house gas, 180 litres (47.6 gallons) of water waste, and 2.6 kg (5.7 lbs.) of solid waste. To print or fax that same ream of paper would be an additional 10 kWh of electricity and 5 kg of carbon emissions. That may not seem like a lot, but once you multiply these figures with the amount of paper you are saving with eProcurement the impact could really add up over a year.

Once you've been able to calculate the environmental impact of reducing the paper trail, you need to share this information with your executive leadership. This is easy to track and measure, especially once you've got your base formula down, and should be done on at least a quarterly basis. What's more if you have been struggling to get full adoption and usage of your eProcurement system across all your business units, this will help make a strong case for getting these areas to move forward quickly. As more areas of your business migrate all their purchasing to a paperless method, you can watch your impact on environmental sustainability climb.

Enabled supplier relationship

According to the Aberdeen Group³ an enabled supplier relationship includes one or all of the following elements:

- Business documents and communications are exchanged in an automated fashion
- If a catalogue is available, the content is easily managed online
- Supplier information is actively managed through an automated or self-service process (including collection, verification, cleansing, and updating)

Exchanging documents and communications electronically and in an automated fashion confers a tangible paper and energy savings. Even with something as simple as electronic quotes and purchase orders you can see significant savings in your paper usage and energy consumption.

For example, if the average quote you receive is three pages long and the subsequent purchase order averages two pages and you do just 30 transactions a month, you have saved a minimum of 1,800 sheets of paper annually. Once you factor in the number of different quotes you receive before creating a purchase order and the number of times that quote and/or purchase order is printed out, and/or faxed back and forth for signatures and approval, you can actually estimate savings closer to 6,730 sheets of paper a year.

By working with vendors who offer online catalogues you are not only able to access more up-to-date pricing information, but you may also be able to access product specifications such as energy consumption, environmental agency certifications, chemical compounds, etc. By structuring your Green purchasing guidelines around these criteria you can make informed buying decisions that fall in line with your Green procurement policy.

Another part of your Green procurement policy should be vendor selection criteria. If you are able to actively manage supplier information via an automated or self-service process you have the means to review up-to-date credentials and information such as government and agency certifications, carbon disclosure, and corporate environmental policies.

³ Aberdeen Group: "eProcurement Trials and Triumphs," October 2007

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Conducting spend data analysis and increasing visibility through reporting tools

By implementing an electronic purchasing process in your organisation you have no doubt already gained greater insight into spend data, care of a variety of reports that can be run from the eProcurement (or even ERP) system. By utilising historical purchasing data you are better armed for productive vendor negotiations. This will help your Green procurement initiative in two ways.

The first is with price negotiations. One of the challenges of Green procurement is that environmentally-friendly products often cost more. Although there is a greater likelihood of realising long-term cost benefits, buying these products still results in a significant impact on the corporate wallet today – which is especially challenging in a period of economic decline. Effective price negotiations are more important than ever when it comes to “Green” products. Being able to show past purchasing patterns with a particular vendor and/or predict future purchasing patterns can really help your negotiation.

Biodegradable, recycled or other sustainable products are often new and haven't had the same level of adoption, so suppliers may **produce these products in smaller quantities to 'field test' the demand.**

Here's a very simple example. Let's say you're a manufacturer of construction and farming equipment. All your machines require a special coating material to help the paint resist wear and damage from the elements. You've just discovered a new vendor that produces specialty coating that has less toxic chemicals and is therefore better for the environment. By extracting the historical purchasing data on how much coating material your company purchases each month you are able to show the new vendor solid evidence of the amount of business you plan to do with them and therefore utilise this in negotiating better, bulk rates.

The second way in which historical purchasing data can help with vendor negotiations is through volume predictability. By telling the vendor up-front how much product you predict you will need to purchase you can make sure they are able to meet your needs. As stated at the beginning of this eBook, availability is a key challenge in Green procurement implementation. Biodegradable, recycled or other sustainable products are often new and haven't had the same level of adoption, so suppliers may produce these products in smaller quantities to “field test” the demand. Find out upfront if the vendor you're talking to can commit to being able to provide you with the volume you need.

These are things you're probably already doing if you have an eProcurement system in place, but now you can apply these practices to your Green procurement efforts.

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Custom vendor eCatalogues

Custom catalogues or pricelists are a standard best practice implemented with most eProcurement systems, and a fantastic tool for enabling Green purchasing policy. If you already have certain products or vendors that have been identified as meeting your sustainability criteria then you should be utilising your eProcurement system to create purchasing templates with these preferred products.

The challenge remains that not all suppliers may be able to support custom catalogues or price lists, even if your eProcurement system can. It's important when making decisions about preferred vendor partners that questions about their capabilities to integrate their catalogues with your purchasing system be raised and used as an evaluator. (See the last section of this article which discusses what you should look for when selecting vendors.)

Custom catalogues or pricelists are a standard best practice implemented with most eProcurement systems, and a **fantastic tool for enabling Green purchasing policy**.

By leveraging custom eCatalogues in conjunction with an automated workflow approval process (touched upon in more detail in section 2 you are able to put controls into place that will help ensure your organisation is indeed purchasing the preferred "Green" products.

My organisation doesn't have an eProcurement system in place; can I still tap into the benefits of eProcurement to roll out my Green procurement initiative?

The great news is that even if you don't have an eProcurement system in place, or you have one that is not fully implemented across your organisation, you can still leverage the best practices and subsequent benefits listed above. There are two ways this can be done:

- By working exclusively with vendors who offer their own client-facing purchasing portals; or
- By working with a third party service provider that utilises an automated procurement process with a network of vendors and suppliers.

If you typically buy from small manufacturers you may have to go with the latter option, as smaller organisations are not likely to offer clients an online purchasing portal.

However, an emerging group of large companies often third party suppliers or VARs offer the benefits of eProcurement via their own custom-built tools or web portals. These are typically known as "hosted procurement solutions" and allow you to take advantage of the same eProcurement system best practices discussed above, without building or installing your own.

There are a few challenges with going down this route. The first, and most obvious, is the availability of vendors that offer a hosted procurement solution. Even if a supplier touts their ability to provide this service, it may not be everything you need to help manage your Green purchasing initiative; for instance they may only offer online purchasing of select products, or only offer standard pricing instead of custom contracted price lists.

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The second challenge is internal education and implementation. If you have an eProcurement system in place, you are able to reach all areas of purchasing instantaneously (assuming they all use the same system) when putting a new policy into place. If you rely on a hosted procurement solution, you have to invest greater effort in educating your staff on the chosen vendors and how to use their procurement portal.

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How to choose the right vendors

Regardless of whether or not you already have an eProcurement system in place, if you are going to leverage the benefits of eProcurement best practices to help you manage and implement your Green purchasing initiative there are specific criteria you should use to evaluate vendors or suppliers.

First and foremost you should select vendors that can either integrate their electronic catalogues with your existing eProcurement system or offer a hosted procurement solution. If you are looking to integrate, check how many times the vendor has successfully integrated with a client eProcurement system and which systems. Some vendors partner with specific procurement and ERP software providers and only integrate with their tools.

Ask for case studies or client referrals to find out how seasoned they are with eProcurement. Find out what type of support they offer for order management. Will they simply offer you a catalogue in a spreadsheet and then leave the rest to you?

Second, be sure to ask your vendors if they support a custom price list or catalogue. This is one of the key benefits of eProcurement when it comes to managing your Green procurement initiative. If you already have an eProcurement system and wish to utilise punch-out, ask the vendor how custom catalogues are created. Do they create the catalogues for you? Are you required to enter all of the data? Is the pricing information updated in real-time to reflect price changes?

If you are looking to a vendor to provide a hosted procurement solution ask if their solution offers this functionality, and again, don't be afraid to ask for specific details. Any vendor looking for your business will readily provide a demo, but talking to clients that are already using the system will always give you a better picture of "can it really do that?"

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Third, if you are working with VARs or third party suppliers, be sure to ask if their pricing catalogues and/or hosted procurement solution are integrated with the original equipment manufacturer's (OEM) catalogues. This will let you know how up-to-date the pricing information and product availability are. If you work with a third party supplier or VAR that does not integrate with their OEMs then you will likely run into issues with having to redo quotes or purchase orders due to old or expired data.

Also, if you are looking for a hosted procurement solution, find out if the vendor's solution offers automated workflow approval. If you have an existing eProcurement system in place, this functionality likely came standard.

Last, but not least, ask about reporting and data transparency. If you already have an eProcurement system, you should be able to set up all the reports necessary to provide the right level of insight; however, it is important to make sure you have a detailed list of the types of data and information you are trying to capture and that the vendor can push that information to your procurement system or ERP.

Of course, if you are seeking a hosted procurement solution, you will be relying solely on the vendor's system for all reports and should find out what types of reports are available, how frequently they can be accessed (can you generate reports in a self-service manner or must you rely on your account manager to send to you?), and what flexibility there is for having custom reports created to meet your specific needs.

Dimension Data's eProcurement offer

Dimension Data Direct, our B2B eProcurement solution, allows clients to transact with us electronically via either punch-out from their existing eProcurement system or by utilising our hosted procurement solution.

Dimension Data Direct supports all the eProcurement best practice tools and offerings mentioned in this eBook, including preconfigured catalogues, custom price lists, automated workflow approval, and on-the-fly reporting. As a supplier of leading IT products and services from OEMs such as Cisco and Microsoft, our eProcurement solution provides real-time pricing and product configuration information.

For more information about our eProcurement system, Dimension Data Direct, please go to:
<http://www.dimensiondata.com/Services/ITSupplyChainServices/eProcurement/Pages/Home.aspx>

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