

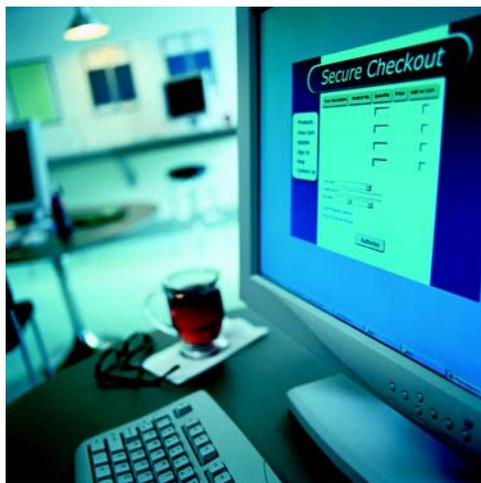
E-PROCUREMENT: STRATEGIC SOURCING FOR RESTAURANTS



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For the restaurant industry the purchase process has traditionally been a labor-intensive, paper and pencil, time consuming, monotonous routine requiring knowledgeable buyers, capable sellers and a detailed set of inventory and audit procedures. Simply stated, restaurants need to control purchasing practices in order to contain costs while improving productivity. An inefficient purchasing process can lead to inflated costs of goods that in turn negatively impact the firm's bottom line. The Web is global, scalable and built on an open technology platform that enables e-restaurants to gain a competitive advantage through online functionality. For

some eateries, competitive advantage can be acquired through increased revenues, expenditure reductions or more innovative approaches. The shift to conduct purchase processes on the Web isn't merely to render transactions faster and cheaper; it is also to develop new efficiencies and interactivities. Online economies can be found in more effective product search processes, better needs matching, rapid data interchange, simplicity of access and electronic funds transfer. It is for these reasons that restaurants are moving to the Web to conduct online purchasing (i.e., e-procurement).



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sellers, products, services and the like represent important purchase considerations. Aligning buyer needs more closely with detailed product and service information, technical specifications, support and training materials and related issues can prove quite important. Similarly, the ability to transfer data enabling current pricing, product availability, new product announcements, accurate inventory status and other information is critical to an effective set of purchasing procedures. Easy access removes a potential barrier to e-procurement and is one of its principal strengths.

Basically, e-procurement involves automated purchasing using Internet-based application software. For example, a Web browser can be used to log into an e-procurement site to view vendor offerings and product catalogs, and to place orders. An e-procurement network typically relies on secure marketplace technology to provide a reliable sales platform and transaction tracking mechanism that far exceeds the capabilities of shopping cart metaphors typically found at virtual storefronts and online malls. By having the ability to electronically issue and route purchase orders, track and record receipt of order, authorize payment and compile purchasing reports, man-

agement is often able to tightly control purchase reconciliation.

Specialized Web sites, referred to as electronic marketplaces (e-marketplaces) or electronic hubs (e-hubs), have been created so that restaurants with similar product and service needs can effectively conduct business-to-business (B2B) transactions 24/7. Numerous hospitality and hospitality-related brand parents have established procurement networks through partnerships with Web-based purveyors (such as foodbuy.com, instill.com, tibersoft.com and thesauce.com). Although several of these e-procurement exchanges precede commercial restaurant involvement, restaurants are becoming more actively engaged in B2B dealings.

The goal of an online purchasing process is to supply products and services in an efficient and cost-effective manner. Restaurant product distributors strive to match product and service availability to purchase specifications. Many industry suppliers offer online sourcing Web sites featuring product catalogs, select client services and auction formats. E-procurement enables the re-engineering of the purchasing process to a more streamlined, cost-effective and efficient business model. While a single purveyor or distributor may sponsor an industry-specific purchasing Web site, most industry offerings are available through portal sites linking a variety of suppliers. Given that such sites are oriented toward the foodservice industry, a vertical market, and are designed as portal sites, such online resources have become known as vortal sites (i.e., vertical portal sites). Successful e-procurement often relies upon purchasing filters and a set of buying rules to streamline the purchasing process and simplify transaction settlement.

To participate in e-procurement, a restaurant may need to first establish an online corporate account at an online supplier Web site. Creation of an account provides a basis for authorizing the restaurant's purchasing agent(s) to place purchase orders, review account status, monitor shipping schedules and consolidate billing records. Establishment of long-term vendor relationships can lead to customized online catalogs, and the generation of reports to assist restaurant managers in tracking spending, and assistance in negotiating volume discounts. A history of purchase decisions may lead to special catalog offerings, discounts and quantity advantages.

E-procurement

More effective and less expensive searching to identify manufacturers, distributors, buyers,

The basic online process consists of:

- generating a purchase order based on forecasted sales or par stock
- electronic distribution or posting of purchase order to suppliers
- supplier responsive aggregated or food group-specific bidding
- operator selection of successful bidder(s)
- reconciliation of electronic supplier invoicing
- purchase item tracking through to POS

Online Advantages

There are numerous advantages to online purchase transactions beyond the obvious convenience of point and click. Prior to online procedures, time consuming and cumbersome manual systems evolved into software-driven applications with limited connectivity to restaurant accounting system applications. The shift from a “place and chase” purchase order mentality to a “buy and bye” online approach has refocused the purchase process. Online transactions can be integrated with back-office accounting and inventory modules to create a comprehensive purchase process.

Moving away from traditional offline purchase processing to online sequencing presents significant savings, improved productivity and enhanced operational efficiencies. Vendors claim online purchasing can represent a savings of 15 percent to 25 percent and more in product and administrative expenses while eliminating off-contract purchases. E-procurement advantages include:

- **Lower Transaction Costs** – Restaurants can enjoy a lower cost of goods due to comparative, competitive shopping and aggregated purchases. For the restaurant: shopping, order creation, order entry, transaction settlement, customer

Foodservice-related Procurement Sites

- agribuys.com
- bevaccess.com
- eatec.com
- fishmonger.com
- foodbuy.com
- foodgalaxy.com
- instill.com
- networkexchange.com
- restaurantmarket.com
- thesauce.com
- tibersoft.com
- tradingproduce.com

service and related expenses are minimized. For the supplier: catalog distribution and order taking costs are minimal.

- **Improved Pricing** – Since online sites anticipate large aggregate purchases, most feature massive buying power through dynamic negotiated prices, preferred vendor programs and rebate programs.
- **Enhanced Productivity** – Streamlined operations eliminate much of the tedious, time consuming processes of traditional offline purchasing.
- **Vendor Relations** – Restaurants gain the ability to participate in preferred vendor pricing and legitimate rebate programs as a result of purchase history, site membership or other affiliation.
- **Leveraged Purchasing** – Aggregate or affiliate procurement between multiple buyers (and sellers) helps minimize

buyer risk while producing lower unit costs for larger quantity purchases. In addition, bundled purchases may also arise through group auctions, related item promotion and accessory marketing.

- **Better Product Information** – Detailed product descriptions, technical specifications, support services, order status pinpointing, forecasting and related information are available.
- **Reduced Inventory** – Enhanced inventory matching to restaurant business volumes, stocking levels and forecasts can result in lower on-premises stocking levels (fewer resources tied up in inventory).
- **More Strategic Sourcing** – Restaurants can gain improved product and vendor search and selection capabilities to provide a basis for better purveyor sourcing.
- **Product Identification** – Effective, rapid access product search and location tools given online catalogs have no length or capacity constraint and products can be organized and cross-referenced in a variety of ways to facilitate a highly efficient search process.
- **Customization** – Specialty products can be built to order or presentations to a restaurant via profiling can enhance appeal and customer relationship management (CRM). Supplier sites can be individually configured and profiled based on the restaurant’s specific product needs and interests (avoiding product clutter).
- **Comparison Shopping** – The ability to compare equivalent products and product prices across multiple vendors (which can be conducted simultaneously at the same site) can lead to product and service savings.
- **Customer Relationship Management (CRM)** – Better supplier-to-restaurant commu-

EARLY E-PROCUREMENT



“... Sorry, Grok. It looks like I’m already stocked up on bear until two weeks from next Tuesday. Do you have any hummingbird eggs? I could use some nice hummingbird eggs.”

nications and support services (e-mail confirmations, pinpoint order status, data mining, product tracking, etc.) may provide more favorable pricing, offerings and related activities.

- **Availability** – Online purchasing sources are available 24/7.
- **No Infrastructure Costs** – Since online purchasing sites are Web-based, there is no infrastructure investment required; to participate a restaurant only needs to have Internet access.
- **Future Negotiations** — Data audit capabilities allow operators to drill into purchase data from total dollars and total cases, down to individual invoices. The thought being it is easier to drive a sound purchase arrangement with relevant data in hand.

Online Purchasing Concerns

Given that online purchasing precludes participating restaurants from handling or sampling products, taking immediate delivery or receiving live expert advice; there are at least four major areas of concern:

- 1 | Training** – Aside from a possible online video, audio or text message or an instruction manual accompanying purchased items, there are few training opportunities available for items purchased online.
- 2 | Customer Service** – It is often difficult to obtain service on products purchased in person so it logically follows that there may be even more concern over the servicing of products purchased online.
- 3 | Data Sharing** – The integration of online product purchase data with an installed restaurant (or corporate) back-office system is as significant a concern for online purchases as it is for offline purchases.
- 4 | Security** – Whenever online transactions occur there is concern over the privacy and propriety of encrypted and non-encrypted data.

Strategic Sourcing

Traditionally restaurant product purchasing has involved a telephone, fax machine and paper and pencil system. Bidding was competitive only so long as staffers were inclined to spend the time shopping an existing purchase order. Historical purchasing data may have been compiled and maintained by the purveyor, not by an in-house restaurant purchasing department. In addition, it was very difficult, if not impossible, to chart orders from placement through to delivery.

As restaurant purchasing processes were recently transformed into software-driven standalone applications, there was a workflow simplification but a lack of strategic sourcing. Since online purchasing consolidates the supply chain and streamlines business processes, strategic sourcing is

becoming readily available to the restaurant industry. Online systems enable centralization of the purchase process, of tracking orders from the purchase order stage through delivery, receipt and storage. Independent restaurants, which historically lacked mass buying power, can now realize significant efficiencies with the development of innovative e-procurement Web site formats.

Web Site Formats

There are two popular e-procurement Web site formats available to the restaurant industry: e-marketplaces and e-hubs.

E-marketplace is transaction-oriented and the most prevalent e-procurement site format. A host site is developed to facilitate buyer and seller transactions. Sellers offer goods and services for sale and buyers negotiate price, propose exchanges or adhere to bid procedures. Buyers do not have an established relationship with the host site and once a transaction is completed may or may not return for future purchases. This is an efficient purchase proposition.

E-hub is service-oriented and an emerging trend for hospitality industry procurement. E-hub is a portal site that offers a full range of products and services plus an array of value-added functionality such as maintenance of purchase history, preferred vendor pricing, training materials, product support, financing options and accounting. In addition to food products, e-hubs feature such items as: office supplies, operating supplies, food and non-food products, furniture and fixtures, equipment, flatware, silverware, glassware, insurance, professional services, job postings, purchase histories, news and press releases, educational materials, training materials, product support and other relevant documents and links.

Group Auction

Although not yet as popular, an alternative to e-marketplaces and e-hubs is a group auction (also referred to as a co-op or bulk auction) site. In an attempt to improve purchasing power, for example, several restaurants might agree to form a coalition to qualify a larger aggregated purchase at lower prices. Group buying sites pool the bargaining power of scattered buyers, creating a virtual purchasing department with the leverage to command lower prices from suppliers. Bulk lot purchases are also desirable from the supplier perspective. Some sites currently cater to independent operators and small businesses. The seller usually dictates the minimum number of units (quota) to be purchased for a transaction to be considered. Since a single restaurant may indicate a need and have to wait for other restaurants to join in order to meet a seller's quota, group auctions normally take longer than other forms of purchasing, and hence, have not attracted much industry attention. Unlike traditional auctions, a group auction provides more control over item pricing, similar to the control options available to sellers in a reverse auction.

A major concern in restaurant procurement is who controls the purchase decision. An e-procurement system provides rapid shopping distribution, streamlined order tracking, efficient order processing and effective payment monitoring. E-procurement software tends to assist in three areas of functionality: contract management, supply chain decision support and procurement data management. Restaurant management is encouraged to investigate online purchase processing and potential benefits.

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E-procurement Concepts

- 1 | Bidding** – comparative bids are easily garnered as some sites host product postings and invite purveyor bids
- 2 | Catalogs** – online, searchable catalogs complete with product description, specifications and pricing
- 3 | Reordering** – automatic inventory tracking based on purchase history and usage level can lead to auto-notification of reorder quantities and the most effective purchase cycle
- 4 | Terms** – purchase prices and terms for an individual buyer are limited to vendor-specific negotiated deals
- 5 | Settlement** – electronic funds transactions streamline completion of the purchase process