

Why partial e-procurement isn't right for mid-market businesses

Procurement is an elementary function for all sizes of businesses. Every organisation, whether small or large, needs office supplies or collaboration with vendors to perform its operations. To streamline all these activities, digitisation plays an important role. While large organisations mainly opt for complete automation, mid-market businesses are more prone to adopt digitisation in bits and pieces.

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This can be because such companies consider their operations are not large enough to require complete digitisation. The high investment costs needed for digital transformation may seem unnecessary to them. But to stay competitive in today's environment, they must adapt and maintain a point of differentiation in the market. Here's why.

6 Hazards of partial e-procurement

In this article, we will discuss why partial Procurement software is not suitable for mid-market businesses and how it can cost them more than the actual cost of complete digitisation.

1. Misalignment with organisation's long-term strategy. Whenever a company is formed, it has its own set of objectives, mission, and vision. While most companies focus on achieving their short-term objectives, they often lose sight of their long-term goals and strategies. For example, if a company's vision is to be a technology leader in X industry. They must adopt technology in their internal

processes to reflect this vision. But to keep the costs down initially, they might not heavily invest in technology. As a result, once they grow and require complete digitisation, they will face many obstacles. Their employees will be stuck to manual processes, and the company will deviate from their vision. Thus, failing to align with their long-term strategy properly.

2. Negatively disrupts overall operational efficiency. Partial e-Procurement only automates half of the procurement's processes while the efficiency of the other half still depends largely on manual intervention. When you are a mid-sized business, you cannot afford to employ more. This is why many mid-size businesses have a handful of employees who oversee most of the company's function. Their roles and responsibilities overlap, and they are expected to perform duties outside their job description. This means most of your procurement processes are still dependent on few of the already occupied employees. In many cases, such workload slows down the business processes, and eventually, employees leave your company because of burnout. While you are a growing company, you can not afford to lose business because of operational inefficiencies. These factors can cause mid-size companies to fail at delivering what they promise and poorly impact the business.
3. Partial transparency. In a growing stage of a company, partial transparency causes many problems. At this stage, your policies are not entirely defined and constantly being upgraded as you are on a learning curve. When your employees are unclear about the policies and procedures, mishaps and mistakes are bound to happen. They might buy out of the contract or go out of the way to deliver what is required. Complete transparency is needed in mid-market businesses, so decision-makers understand what they are doing right and what needs to be corrected. For example, if your procurement team buys multiple products from a vendor and forwards you a lump sum amount of the transaction, you might be unable to identify if the costs were

correct. If you ask them for a complete breakdown, it might get difficult for you to analyse them and compare them with other quotations manually. Digitisation helps you see a complete picture of all your transactions and supplier relationships so you can make long-term decisions more confidently.

4. Long due approvals. From purchase requisitions to purchase order applications to invoice approvals, each procurement step requires necessary approvals to ensure that every penny spent is legitimate. Mid-size businesses try to automate half of procurement processes such as generating invoices but often neglect automating approval systems as “approvals through emails” might not seem like a hectic task. Unfortunately, because of this, many approvals get stuck in the process due to many reasons. This could be simply because the individual is on leave, not in the office, or forgot to go through the request. Being a mid-size company, you need to be efficient to stay competitive. For example, you got an order to produce 10,000 shirts in 45 days. For that, you send a purchase requisition of coloured thread. After five days, you get the approval which means you already lost almost a week in the approvals that might compromise your promise to deliver in 45 days. With procurement digitisation, approvals are made faster which ultimately reduces the risk of losing out business. Complete procurement automation ensures that once any document is received for approval, regular reminders and emails are sent to authorised individuals to get approvals on time.
5. Prone to errors. As humans conduct manual processes, they are prone to errors. These errors can cause your business penalties in the form of late payments, duplication of payments, missing orders, or ineffective contracts. For example, you received a purchase requisition of 10,000 shirts. While converting it to purchase orders, an additional digit is added by mistake, making it an order of 100,000 shirts. When the supplier delivers your product in such a considerable amount, you will have to pay them and hold 90,000 extra shirts, which you can not

currently sell. Such errors are common in businesses and can cause mid-sized enterprises a huge amount of losses. With complete procurement automation, routine tasks like payables, invoice processing, and record-keeping, payments digitalisation can significantly reduce delays and minimise errors. It also speeds up complex computations that are typically tedious and time-consuming for human accountants, as well as drastically reduces the possibility of human error.

6. Maverick spending. Partial digitalisation does not ensure complete control over your organisation's spend. Due to partial visibility, mid-sized companies often cannot account for all the costs inside their organisation. As a result, there are high chances of maverick spending, cash leakages, or dark purchasing. Because there is no control over the entire procurement process, mid-sized companies cannot hold individuals accountable as they can't trace the losses to the sources.

Endnote

Mid-sized organisations relying on partial eProcurement should conduct a cost-benefit analysis of complete and partial digital transformation. They should estimate which is costlier - either invest in a robust e-procurement system or going out of business. To operate in today's ever-changing and dynamic marketplace, mid-sized companies need to take a complete leap toward procurement digitisation in their journey.

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