

supply chain solutions

Software's future breaks

Cloud computing will solve procurement's IT infrastructure woes, and social media will improve collaboration, bidding, training and negotiations.
By Paul E. Teague

In an interesting irony, the dark clouds of the recent economic recession have shone a bright light on the strategic value that purchasing brings to organizations.

But clouds of a different sort will extend purchasing's day in the sun far into the future.

Cloud computing is one of two killer apps gaining popularity that will allow purchasing professionals to cut costs and engage in new forms of collaboration throughout the supply chain.

The other killer app for purchasing: social media, such as LinkedIn, Twitter, Facebook and others.

That's the conclusion of several analysts *Purchasing* contacted to find the next big breakthrough in procurement software.

And, in another interesting irony, neither app is really new. Cloud computing has been around in various forms since the 1960s. Social media sites emerged earlier this decade.

Certainly, the development labs of existing software companies and those not yet incorporated will roll out major enhancements to their features automating spend analysis, contract management, risk management, sustainability e-procurement and other vital purchasing functions. Some of those new features hopefully will match the wish lists that purchasing professionals continue to compile (see My Turn, page 12 of this issue).

But the cloud and online



through the “clouds”

communities will have the most far reaching effect, at least in the sense of improving access to and sharing of technology.

Among the experts espousing that view is Sabeer Bhatia. If you've never heard of him, that's understandable because he has never worked in a purchasing role. But millions of buyers, suppliers and others have benefitted from his foresight in matters of software. Bhatia co-founded the web-based e-mail service Hotmail, one of the first such services to be developed. He is now working on a new version of Microsoft Office that will run on a browser.

Bhatia is a big believer in cloud computing and social media. “Cloud computing can lower costs for software users and allow them to have better control of applications,” he tells *Purchasing*. “And social media can help companies increase collaboration internally and with suppliers.”

Goodbye IT infrastructure

“Cloud” computing refers to the concept where someone outside your company has the IT infrastructure—the servers, the software and your data—and you access it through a browser when you need it. You avoid the capital expense of the equipment, and, theoretically, you have less need of an IT department. All the maintenance and management of the IT resources takes place outside your business, and you only pay for the resources you use.

A form of cloud computing entered the purchasing arena some time ago. Software developers Ariba, Coupa, Emptoris, Epicor, E2open, Global eProcure, Iasta, Ketera and others have been offering software on a subscription basis through a software-as-a-service (SaaS) model. SaaS is a subset of cloud computing.

WHAT THE CLOUD MEANS TO BUYERS

- Lower IT costs
- Elimination or minimization of IT infrastructure
- Quicker access to software updates

“Cloud computing will help purchasing professionals untangle from their IT departments and get customized configurations of the software they need,” says Gregg Brandyberry, co-founder of the Philadelphia-based consulting firm Wildfire Commerce and former head of purchasing at pharmaceutical giant GSK.

“Among big metatrends, cloud computing is the hardest one to argue with in the long term,” writes Eric Knorr, editor in chief of the magazine *InfoWorld*.

Be my friend

As for social media, the other big breakthrough, it's already captured the imagination of consumers and is working its way into business. For example, Bhatia says about 70% of

businesses find new employees through LinkedIn. *Purchasing* has had an online community site for the past year called www.purchasingbizconnect.com, where procurement pros share best practices.

Research firm Tech-Clarity (Media, Pa.) says social computing techniques allow manufacturers to capture and reuse product information and can turn collaboration into knowledge. Management consulting firm A.T. Kearney (Chicago) is already using the concept to help some of its clients collaborate internally. “It's like a virtual forum, like Facebook, where users can connect and follow discussion threads on new opportunities,” says Joe Raudabaugh, president of the firm's procurement and analytic solutions business unit.

Taking advantage of another social media site, IBM, Dell and Sun Microsystems have experimented with Second Life (www.seconddlife.com), a 3D virtual social community. IBM recently ran a roundtable discussion on the site. Purchasing was not the focus, but analysts believe it's possible the platform could be used for training of supply chain professionals and others.

Paul Martyn, vice president of marketing for software developer BravoSolution (Malvern, Pa.), believes the future will include more use of social networking in sourcing applications. The company has successfully used private social networks for training since 2008.

“There will be a whole genre of business-related virtual worlds” that will facilitate collaboration, negotiations and training, says Hugo Evans, vice president and chief information officer at A.T. Kearney. The real challenge, he adds, will be connecting people outside the organization and building a procurement community.

Vertical solutions and more

Beyond the “cloud” and social media, there are other potential software breakthroughs on the horizon. Bikash Mohanty, senior product marketing manager at Zycus (Princeton, N.J.), says the movement from fragmented applications like spend analysis and e-sourcing to a

common platform will continue and enable purchasing to slice and dice savings opportunities across various business units to help CFOs in their budgeting processes. Kevin Potts, vice president of product management and marketing at Emptoris (Burlington, Mass.), says features will help maximize trading-partner relationships.

Andrew Bartels, vice president and principal analyst at Forrester Research (Cambridge, Mass.), believes there will be more tailoring of software for specific vertical industries. “Different industries have different spend profiles and different ways of viewing spend,” he says. “Companies will ask for software solutions that link to their own most important value-generating activities.”

Mickey North Rizza, vice president and an analyst with AMR Research (Boston, Mass.), says supplier risk management is already becoming more important than ever in purchasing and software will enable purchasing professionals to get to vital information faster.

Both Bartels and Rizza see a greater tie in of purchasing software with product lifecycle management (PLM) software. In fact, the integration is already taking place in some quarters, as described later in this report.

And Evans of A. T. Kearney sees a future where there will be integration of data for advanced analytics, including visibility into PLM and other data. The technology exists today, he says.

A. T. Kearney is also working with several purchasing organizations to develop advanced analytics and processes for “expressive bidding,” where suppliers can offer suggestions for alternative materials, processes or even design specifications that could save money in product development.

Wildfire Commerce’s Brandyberry worked with A.T. Kearney while at GSK on analytic scenario building and an expressive-bidding process. “We chopped 18% from a \$200 million temporary-labor spend,” he says.

Clouds, continued

But let’s go back to the “cloud,” and SaaS, for a bit and see what purchasing pros and software developers have to say about their potential.

Ariba has delivered its spend-management software on demand as a SaaS model for more than 10 years. Some analysts say that the first-year cost of ownership for SaaS software is as much as 10 times less than for installed software.

“Cloud-based solutions are the most

NEW IPHONE APP COULD BE A GLIMPSE INTO THE FUTURE OF PROCUREMENT

One of the areas of software development that many business functions—including procurement—are monitoring is the iPhone app. Sure, there are many that are amusing, entertaining and even useful. But are there any that can help a procurement pro do their job?

Well electronics distributor Digi-Key has one. When Digi-Key decided more than two years ago it wanted to develop an iPhone app, it had two choices: It could do what a lot of companies have done and put together a light, fun app that would let users get some information about the company, but not actually perform a function or transaction. Or, Digi-Key could spend some real time and develop a fully functional app that would let users order parts seamlessly from their iPhone.

Digi-Key chose the second option and last month unveiled the fruits of its labor, the Digi-Key iPhone app. “We knew from the beginning it had to be able to process transactions not just allow users to browse products,” explains Tony Harris. “Because our customers are buyer and engineers, we knew it had to meet their high expectations,” he said.

To that end, Digi-Key’s customer insight team put the app through a series of beta and user testing to make sure it would be a tool to help electronics buyers and engineers do their job. But it’s not just transactional capability that buyers want from an app, says Harris. It’s being able to get that transactional capability and load carts without using a web browser—all within the app itself.

As quickly as the business app is gaining traction in North America, it’s still seen more as a “tentacle utility” in Harris’ words—one of several ways to connect and conduct business. But Harris points out that mobile software is more frequently used in Asian markets such as China and India that simply don’t have the network infrastructure for widespread web use. “And in Japan, many people have three mobile devices each,” he says. “Mobile is a way of life in that market. They conduct business on the fly.”

The app also plays well into the growing trend of “collective engineering” wherein engineers in various units or locations collaborate on a single project. In short, you can’t collaborate if you’re not connected and mobile devices will be the key to driving even more frequent collaboration.

—Dave Hannon

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—ANDREW BARTELS, VICE PRESIDENT AND PRINCIPAL ANALYST, FORRESTER RESEARCH

efficient and effective way to drive processes and deliver greater productivity and efficiency,” says Tim Minahan, chief marketing officer for Ariba (Sunnyvale, Calif.). He’s referring to alternative operating software architectures that can help purchasers avoid the risk of fixed costs and other investments, such as having their own technology infrastructure. Companies want to “balance their internal competencies with external technology, expertise and infrastructure delivered as a service,” he says, “so they can operate leaner, with more agility.”

Mike Flanagan, CEO and co-founder of LessSoftware (Los Angeles), is a fan of cloud computing’s cousin, SaaS. There’s no maintenance or service contracts, he says, because SaaS providers (of which LessSoftware is one) upgrade and support users. And implementation is faster, he says. He quotes a report by Panorama Consulting Group that companies surveyed who implemented an ERP solution in the past four years took almost seven months longer for the implementation than companies with SaaS-hosted programs.

Lance Mercereau, director of marketing at London-based Rosslyn Analytics, says cloud computing will give purchasing and finance one collaborative portal for 24/7 access to spend intelligence so they’ll have a “deeper understanding” of risks and opportunities.

Coupa Software’s Jason Hekl, vice president of marketing, says the San Mateo, Calif. company’s cloud spend management release has a user interface that replicates Google and is so easy that it will eliminate off-contract or maverick spend.

David Howard, director of central purchasing for Reebok-Canada (Montreal), and a Coupa user, provides a user’s point of view. He likes the ease of use. “The screen looks like a web page and you only see what’s in your cue, which adds focus,” he says. Because the cloud-hosted software is subscription-based, he says, it doesn’t take a lot of his internal resources. Hekl says Coupa’s cloud-based spend management software “could finally align procurement with finance and accounting.”

One evidence of that alignment is in that Coupa cloud spend management release: The software integrates procurement and expense management for such items as business travel, which traditionally is not procurement-centric.

Deep dives into product

Another part of the future of purchasing software will be product lifecycle management, the suite of integrated software packages that track products from conception through design, manufacture, shipment to customers, warranty work and development of the next generation of the product.

Bill Boswell, vice president at Siemens PLM (Plano, Texas), says the company is working to make it easier for purchasing to get involved in all aspects of the product lifecycle through its Teamcenter PLM software. “In every vertical, companies are outsourcing more and relying increasingly on their suppliers,” he says, “so we are developing tools to enable purchasing and engineering to work with suppliers early.”

Already, he says, purchasing can access CAD (computer-aided design) models and bills of materials and send them to suppliers. “Purchasing can keep suppliers well-managed with good costing models, and can publicize a digital library of parts where they can do searches for nuts, bolts and other approved materials from approved suppliers,” he says.

Analyst Roy Wildeman at Forrester Research has written that the cost of PLM applications has turned developers’ attention to the SaaS model, although adoption of SaaS for PLM is so far modest. Boswell says Siemens’ customers have not yet focused on SaaS as a platform for PLM.

But, he adds, PLM is part of the social media trend, particularly to facilitate collaboration among internal stakeholders and suppliers. Teamcenter does that through Microsoft’s Sharepoint.

“All the technology exists,” he says.

And given that, the real challenge for the future may be with people rather than processes. As Carrie Ericson, vice president at A.T. Kearney, says, the building of communities linking purchasing with others outside their organizations will require something beyond technology. “Behaviors will have to change,” she says. □

Please feel free to send in your ideas on what you would like to see as the next breakthrough in purchasing software to pteague@reedbusiness.com. We’ll add them to the version of this article on www.purchasing.com.