

# 'SMEs Turn to e-Sourcing Thanks to Owners'



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Indian small and medium enterprises (SMEs) are known for their reluctance to embrace technology. As recent as May this year, a survey conducted by Ficci among 150 Indian SMEs found that one-fifth of the respondents do not use any kind of information and communication technology tools. But the Indian offshoot of US-based Ariba, a maker of web-based software that hooks up suppliers and buyers online, has a different story to tell. The company is a leading player in cloud-based collaborative commerce applications and counts large companies such as Axis Bank, Benetton India, L&T and Medanta

among its customers in India.

Amit Bhatia, group director and head of sales for the Indian subcontinent at Ariba, says companies as small as ₹100 crore in annual turnover are looking to do electronic transactions and negotiations with suppliers. e-Sourcing initiatives in India, he says, have been prevalent for the last two decades. "The difference is that it was earlier restricted to large companies in select sectors. Such companies typically turned to technology during a slowdown to save on costs. As a result, the market penetration in India was really low." But in the last four years, the penetration has sharply increased. The biggest users of these technologies are companies with higher spend base in indirect spending and are generally present in banking and financial services, pharma, FMCG, retail, etc.

"It was a revelation for us," says Bhatia about the acceptance among SMEs. He says that in the last two years, Ariba was not in the space for SMEs as the company was working with big clients. The change in the mindset of small companies came about since Ariba started talking to the owners di-

rectly, eliminating CXOs or the middle management. In Ariba's experience, Bhatia says the company found that because of their size and low brand quotient (read: small paying capacity and scarce talent), SMEs find it difficult to hire people. For an SME that looks to grow from a ₹150-crore company to a ₹300-crore one, this is a big impediment. But thanks to technology, small enterprises can scale up operations without adding people. There are other benefits too. When owners value transparency and compliance in their organisations, it helps them attract suppliers, says Bhatia. It is also critical for these companies to look for supplier bases in terms of willing partners and unique positioning in the market.

According to Bhatia, SMEs also prefer cloud technology as they don't want to buy hardware. This is true of most companies globally. Ariba's acceptance among SMEs comes as more and more businesses across the globe turn to the cloud to cater to their software needs. Many companies now use software hosted on remote servers and accessed via the internet because they don't have to install and maintain

software in-house. "We get buyers and suppliers across geographies, separated by languages and currency, interacting as if they are sitting next to each other in all aspects of commerce including identifying suppliers, negotiating, sending purchase orders, receiving invoices and acknowledgement," says Bhatia.

Ariba, bought by German business software company SAP earlier this year for \$4.3 billion (the deal is awaiting regulatory approval), has developed 46 types of negotiations to address the entire gamut of spending. For example, if a company is about to buy a printing machine and five suppliers appear on the scene, each would have different specifications and hundreds of parameters would come into play. Thanks to technology, a supplier is chosen within weeks, eliminating a manual task that would have taken months to complete. "Primarily, companies can use e-sourcing for all kinds of transactions they have with their suppliers across all items, services and commodities. However, as companies start to use the technology, the preference is to use it for items that are not

market-linked, indexed and have a large supply base. These kinds of items are typically ones like packaging, IT, plant maintenance, marketing expenses, print and stationery," says Bhatia.

On the cost differential between e-sourcing and e-procurement compared to traditional sourcing and procurement, Bhatia says it varies across companies, industries and items/services being procured using technology vis-a-vis manual transactions. "The cost differential is not only due to reduction in absolute prices but also the way companies do buying. For example, companies move from per-unit price to looking at total cost of ownership." Besides savings in manpower costs, what also gets impacted is compliance and reduced risk, according to him. "The benefits range from as low as 1% to as high as 40%."

Today, Indian companies across the board, right from energy, utilities, pharma, FMCG, BFSI, heavy engineering and infrastructure, are reaping rich benefits from e-sourcing. "We have created a community of customers and suppliers who are, in turn, sub-suppliers," Bhatia says.