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e-Procurement: an emerging tool for the hotel supply chain management

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Abstract

In the hotel business, the flow of goods, services, and information should be designed to efficiently transform raw materials into finished products/services with values. Lodging services regularly purchase a large quantity of supplies for which procurement systems play a crucial role in maintaining daily operations and quality. Today, a major goal of a hotel's supply chain management is to efficiently apply information technology to its procurement systems. This research examined Philadelphia area hotel purchasing managers' views about e-Procurement. Perceived costs and benefits of e-Procurement are identified and the strategic role of IT in procurement is described.

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1. Introduction

It is generally understood that the use of technology has rapidly changed the lodging industry from a low-tech-high-touch mindset to today's high-tech-high-touch

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perspective. However, the degree to which the lodging industry has embraced technological innovations appears equivocal. On one hand, [Siguaw et al. \(2000, p. 22\)](#) suggest that the lodging industry lags behind other industries in the implementation of new information technology. Another study conducted by [Arthur Anderson \(2000\)](#) found that fewer than half of the hotels in the United States had widely integrated IT systems in place. On the other hand, some researchers maintain that the adoption of technology within the hospitality industry is extensive. For example, [Cho and Olsen \(1998, p. 376\)](#) reported that it was evident the acceptability and widespread use of IT (information technology) was visible in many aspects of the service industry in general and in the lodging industry in particular. Industry experts argue that the technological applications of the lodging business are innovative and pioneering as compared to other industries ([Watkins, 2001](#)). e-Procurement is a good example of the innovative use of technology in the lodging industry. e-Procurement is purchasing goods and services over the Internet. Its further goal is to move the entire procurement process online, bringing operators together with their chosen distributors and enabling a streamlined and automated flow of the purchasing cycle ([Hearn & Gibbons, 2001, p. 3, 5](#)).

Although this particular technology is still in its infancy in the lodging business, it has drawn much attention from lodging industry practitioners in recent years ([Black, 2001](#); [Cline, 2001](#); [Frabotta, 2001](#); [Higley, 2000a, b](#); [Hotel & Hotel Management, 2002](#); [Marsan, 2001](#); [Scavone, 2002](#); [Tan and Dajalos, 2001](#); [Watkins, 2001](#); [Young, 2001](#)).

In 2000, the Aberdeen Group reported that the hospitality sector was estimated to spend \$50 billion to \$60 billion annually for e-Procurement solutions ([Aberdeen Group Inc., 2000, p. 1](#)). It is clear that procurement is an important expense for a lodging operation. In reality, the product price is neither the only nor the major component of the total cost to an organization when estimating procurement spending. [Neef \(2001, p. 16\)](#) reported that the Group Trade in its recent study concluded that although leveraging a company's buying power through online markets and auctions might reduce the price paid for materials by 10–20%, the real value to the company could be realized through reducing transaction costs (associated with manual business process) of up to 70% of total savings. The leaner management of the 21st century requires better management of these costs. e-Procurement offers a great opportunity to reduce costs and contributes to the success of the lodging business.

Although for decades the reengineering of procurement has been attempted through various information technologies (e.g., telecommunications), the real opportunity for achieving this reengineering goal may lie in the use of e-Procurement. This is particularly true in a stagnant economy. High revenue growth is often the major concern of corporate executives but such growth may not be always possible in a slow economic environment. Therefore, the cost component, substantially impacted by an e-Procurement strategy, may be the key to continue creating value in difficult circumstances. The classical value of e-Procurement lies in reducing costs that goes directly to the bottom line which has a greater impact than increasing revenue.

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