



Technological University Dublin  
ARROW@TU Dublin

Articles

National Institute for Transport and Logistics

2004-01-01

## Purchasing Consortia and Electronic Markets: a Procurement Direction in Integrated Supply Chain Management

Bernd Huber

*Technological University Dublin*

Edward Sweeney

*Technological University Dublin, [edward.sweeney@tudublin.ie](mailto:edward.sweeney@tudublin.ie)*

Austin Smyth

*Technological University Dublin*

Follow this and additional works at: <https://arrow.tudublin.ie/nitlart>

 Part of the [Civil and Environmental Engineering Commons](#)

### Recommended Citation

Huber, B., Sweeney, E. & Smyth, A. (2004) Purchasing Consortia and Electronic Markets: a Procurement Direction in Integrated Supply Chain Management. *Electronic Markets*, Vol. 14, No. 4, pp. 284-294. DOI:10.1080/10196780412331311739

This Article is brought to you for free and open access by the National Institute for Transport and Logistics at ARROW@TU Dublin. It has been accepted for inclusion in Articles by an authorized administrator of ARROW@TU Dublin. For more information, please contact [yvonne.desmond@tudublin.ie](mailto:yvonne.desmond@tudublin.ie), [arrow.admin@tudublin.ie](mailto:arrow.admin@tudublin.ie), [brian.widdis@tudublin.ie](mailto:brian.widdis@tudublin.ie).



This work is licensed under a [Creative Commons Attribution-NonCommercial-Share Alike 3.0 License](#)





## ***EM – Electronic Markets***

***the International Journal of Electronic Commerce & Business Media***

### **Purchasing Consortia and Electronic Markets – A Procurement**

#### **Direction in Integrated Supply Chain Management**

Bernd Huber, Edward Sweeney and Austin Smyth

Article Identification Number:	14418
Full Title of Article:	Purchasing Consortia and Electronic Markets – A Procurement Direction in Integrated Supply Chain Management
Subtitle (optional):	
Preferred Abbreviated Title for Running Head:	Purchasing Consortia and Electronic Markets
Key Words (for indexing and abstract services – up to 6 words):	E-Procurement, Electronic Purchasing Consortia, Demand Aggregation, Supply Chain Management
Word Count	6435
Word Processing Program Name and Version Number:	MS Word 97

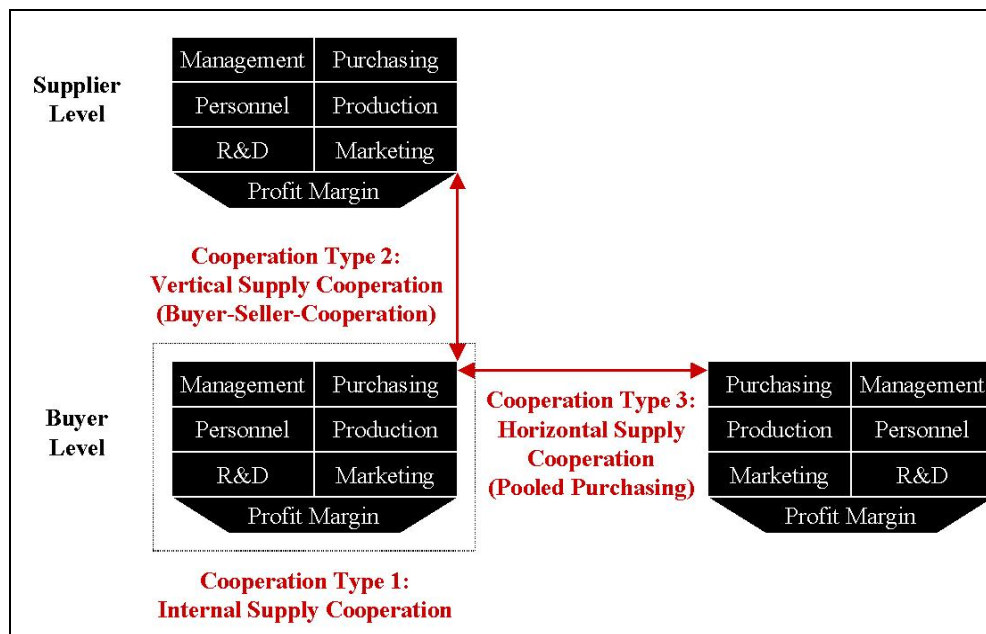
**Abstract (structured along the lines of: background, aim, method, results, conclusion – 150 – 200 words):**

In supply chain management literature, there has been little empirical research investigation on purchasing consortium issues focusing on a detailed analysis of information and communication (ICT) based procurement strategies. Based on the exploration of academic literature and two surveys among purchasing organisations as well as e-Marketplaces / procurement service providers (PSPs) in the automotive and electronics industry sectors, the research methodology follows a positivistic approach in order to assess the overall statement: 'Effective participation in electronic purchasing consortia (EPC) can have the potential to enhance competitive advantage. Implementation therefore requires a clear and detailed understanding of the major process structures and drivers, based upon the technology-organisation-environment framework.' Key factors and structures that affect the adoption and diffusion of EPC and the performance impact of adoption are investigated. The empirically derived model for EPC can be a valuable starting point to EPC research.

# Introduction to Electronic Purchasing Consortia

Strategic management of global procurement operations has become an increasingly important research issue in supply chain management. One of the main reasons is the concentration on core competencies at the company level, which led to a significant increase of sourcing activities. Therefore, procurement savings can hold significant business value and impact on profit. However, organisations can have negotiated to the lowest procurement price available according to volume. It then becomes necessary to look at other possibilities, such as forming purchasing consortia. According to Hendrick (1997), a purchasing consortium is ‘a formal or informal arrangement, where two or more organisations, who are separate legal entities, collaborate among themselves, or through a third party, to combine their individual needs for products from suppliers and to gain the increased pricing, quality, and service advantages associated with volume buying’. Essig (1999) notes that a purchasing consortium may be just one element of a supply strategy and may be combined with other effective sourcing strategies such as global sourcing, single sourcing, system sourcing, among others. Within the policies and strategies, Arnold (1996) states that three types of co-operation can be differentiated in supply management. The third type of co-operation is a purchasing consortium – a horizontal supply co-operation (see Figure 1).

**Figure 1. Types of Co-operation in Supply Management**



Source: Derived from Arnold (1996), p. 1359.

In the literature however, there has been little empirical research investigation on purchasing consortium issues focusing on a detailed analysis of information and communication technologies (ICT) based procurement strategies. Electronic purchasing consortia (EPC) facilitate purchasing organisations, to a varying degree, to electronically conduct tasks that are necessary for the management of demand aggregation of two or more legal entities, provide efficient ICT-based communication infrastructures and rely more on electronic communication than face-to-face contact. While some researchers (e.g. Arnold, 1996; Essig, 1999; Hendrick, 1997; Quayle, 1999; Vigoroso, 1998) have explored purchasing consortia in more detail, limited attempts have been made to focus on the electronic procurement aspect in this field. Most approaches in literature concentrate on e-Marketplaces and e-Procurement in general, but do not refer to purchasing consortia. Only Corsten and Zagler (1999) have proceeded with an action research project to electronic purchasing consortia and describe various tasks required for EPC management. However, their study did not include important research issues such as the empirical level of EPC adoption with regard to industry sectors' structures and anti-trust limitations, a categorisation of EPC management structures and scope, revenue models, etc., that are explained and elaborated on in this paper. Following this introduction, the theory background to EPC is explained in more detail. Based on this theory, hypotheses are developed and the methodology for their assessment is explained. Finally, the results of the tests are discussed and the conclusions presented.

## **Theory Background**

Pooled sourcing strategies are not a new concept. Co-operative purchasing has been practised in non-profit institutions in the public sector for more than a century. Due to the concentration on core competencies, the trend of industrial enterprises concerning the formation of strategic demand aggregation alliances started mainly in the last two decades and is described as consortium purchasing (Essig, 1999). However, the theoretical foundation for EPC is more complex, going well beyond the field of purchasing. As stated by Amit and Zott (2001), no single strategic management theory can fully explain the value creation potential of e-Business. They note that rather, an integration of the received theoretical perspectives on value creation and a multi-perspective approach is needed, as *'(...) virtual markets broaden the notion of innovation as they foster new forms of collaboration among firms (rather than merely new products or production*

*processes) and involve new exchange mechanisms and unique transaction methods'. An integration of strategic management theories is required to situate EPC in literature.*

The resource-based theory (e.g. Barney, 1991) and the positioning stream (e.g. Porter, 1985) to competitive advantage have not addressed issues where industrial organisations have not developed critical resources and capabilities individually, but have done so in co-operation with other firms. This theoretical perspective suggests that competitive advantage can also be achieved through inter-firm co-operation and links. That is why the theory of strategic networks and alliances (e.g. Gulati, 1998; Jarillo, 1988), which are based on a continuum between market and hierarchy, is very relevant to EPC as a further paradigm to competitive advantage. Corsten and Zagler (1999) state that electronic purchasing consortia may exploit synergetic potentials of economies of scale and scope (e.g. Montgomery and Wernerfelt, 1988) without the diseconomies of increased transaction and communication costs (e.g. Williamson, 1975). EPC as hybrid co-operation form can effect economies of scale and scope and are based on the model of transaction and production cost theory. Symbiosis is the driver and a prerequisite for successful consortia (Essig, 1999). However, the effects are diminishing with increased asset specificity. The literature review on the network and synergy concept can provide a theoretical foundation why electronic purchasing consortia are formed. Rozemeijer (2000) argues that synergy is all the new value that can be added through organisation and the structure of interrelationships between independent units. However, EPC theory requires to integrate virtual structures in strategic alliance networks and virtual organisation (e.g. Bakos and Treacy, 1986; Malone et al, 1987), dis- and reintermediation (e.g. Wigand and Benjamin, 1996) as well as e-Procurement strategies (e.g. Gebauer and Zagler, 2000) to fully explain EPC.

Traditionally, lack of integration and communication infrastructures were regarded as one of the biggest barriers preventing the adoption and success of purchasing consortia. Electronic purchasing consortia, as a network enabler, can potentially offer a more efficient communication infrastructure with lower transaction costs (Corsten and Zagler, 1999). Electronic support can eliminate some inefficiency related to purchasing consortia and metamediaries such as e-Marketplaces and procurement service providers (PSPs) can facilitate firms to adopt EPC. Replacing expensive EDI solutions governed by only one buyer in a closed system, low entry costs, fast return on investment and protection of existing EDI investment, recent developments in XML-programming, are all reasons for the transformation of the supply chain into a network by Internet technologies (Richmond et al, 1998). However, Knudsen (2002) points out that there are still some uncertainties

as to how the purchasing departments' overall performance can be improved by e-Procurement. E-Procurement solutions and concepts are very diverse and have many different meanings. De Boer et al. (2002) note in that respect that the potential merit of those various e-Procurement concepts, such as electronic catalogue and software systems, electronic auctions, intelligent agent applications, electronic marketplaces, etc., seems largely undisputed (e.g. Croom, 2000; Smelzer and Ruzicka, 2000). However, with regard to the wide range of solutions available, many firms still struggle with assessing the suitability of e-Procurement for their purchasing processes and mainly adopt a 'wait and see' approach.

Moreover, there is no one best way to organise for purchasing synergy and to improve inter-organisational demand aggregation and purchasing co-ordination practices. Approaches can range from voluntary informal EPC co-operation among purchasing firms to more formally managed co-operation structures (e.g. the laissez-faire model, in which a procurement service provider or e-Marketplace can act as a lead source for purchasing organisations and suppliers and provides e.g. product information or specifications) as well as to outsourced solutions (i.e. the mediated operating model, in which a third-party negotiates or aggregates demand on behalf of buyers or suppliers). The level of anonymity between the EPC partners is a varying parameter that is closely related to the co-operation type. When asset specificity, the benefits from long-term relationships and search costs are rather low, buyers and sellers are more likely to interact with virtual anonymity (e.g. in highly liquid commodities markets). Another classification involves the type of EPC market mechanism and negotiation process. It was found that several EPC trading and aggregation models exist that can range from:

- EPC with electronic requests for quotation (e-RFQ) or reverse auctions (e.g. Covisint)
- Pre-production demand aggregation price curves, i.e. multiple buyers can electronically aggregate their orders around a supplier's pre-set and pre-production shipping date at the expense of additional inventory costs for purchasing organisations (e.g. eWinWin).
- Time limited buy-cycles, i.e. prices continually amend in pre-set increments and time-frames as new group orders are electronically placed (e.g. formerly MobShop).
- Buy-cycles with rebate schemes, i.e. a rebate is granted once the total number of purchasers has been electronically finalised (e.g. eZoka).
- Pre-negotiated infomediation, i.e. EPC providers pre-negotiate purchasing prices based on aggregated demand and electronically link buyers and suppliers, but do not take ownership of products (e.g. Grouptrade).

Full-service third-party intermediaries do not clearly fall into the EPC continuum between market and hierarchy by definition per se. At the same time, the EPC market mechanisms and adoption factors are linked to parameters, which include, but are not limited to, the level of company size, purchasing maturity, product customisation, breadth of value adding services, level of co-opetition, that require to be researched more closely in the following.

## **Research Methodology**

### **Hypotheses Development**

The research methodology follows a positivistic approach, which attempts to increase the predictive understanding of phenomena, based upon the evidence of formal propositions, quantifiable measures of variables and testing of hypotheses. An overall statement is assessed: 'Effective participation in electronic purchasing consortia can have the potential to enhance competitive advantage. Implementation therefore requires a clear and detailed understanding of the major process structures and drivers, based upon the technology-organisation-environment framework.' This framework (developed by Tornatzky and Fleischer, 1990) identified three aspects of a firm's context that influence the process by which it adopts and implements technological innovation. The framework has a solid theoretical basis and consistent empirical support (e.g. Kuan and Chau, 2001) for explaining ICT adoption and diffusion (by variables such as organisational culture, trust, etc.) The authors modified the framework to specific process structures and drivers (e.g. anti-trust limitations) for the dependent variable 'EPC adoption' and developed hypotheses for assessment by two survey instruments for both e-Marketplaces / PSPs as well as purchasing organisations. The following sections define the constructs and explain the proposed hypotheses in the context of the literature review. In addition, the mechanism used to test these hypotheses, based on the surveys, is outlined.

#### **Construct 1: Industry sectors and take-up of electronic purchasing consortia**

A number of environmental characteristics have been studied in the academic literature including external influence, government regulations, market uncertainty, trust and critical mass (e.g. Grover and Goslar, 1993; Tornatzky and Fleischer, 1990). While most empirical studies recognised competitive pressure from the business context as an ICT adoption driver (e.g. Grover, 1993; Iacovou et al., 1995), it has found mixed support in academic literature. The line of thought



derived from the literature review was that pressures from the business context could have a direct effect on EPC adoption and purchasing strategy of companies in different industry sectors (or external environments).

H1a: Higher perceived pressures from the business context have a positive impact on EPC importance to purchasing strategy.

⇒ Assessed using a four-item scale with a Cronbach's alpha of 0.63.

According to the trade commissions, legal limitations are amenable to traditional anti-trust analysis whether or not competition is affected by monopsonistic or oligopsonistic buyer power. Therefore, the degree of industry concentration / fragmentation and external view of competition was required to be integrated into the analysis of environmental context.

H1b: EPC implementation is positively associated with industry sectors' level of fragmentation.

⇒ Assessed using a single-item scale.

### **Construct 2: Relationship between firm size and adoption of electronic purchasing consortia**

Firm size has been consistently recognised as an ICT adoption facilitator in academic literature (e.g. Poon and Swatman, 1997).

H2a: Current take-up of electronic purchasing consortia is related to the size of purchasing organisation.

⇒ Assessed using a numeric variable 'number of employees'.

H2b: Current offering of electronic purchasing consortia is related to the size of e-Marketplace / PSP.

⇒ Assessed using a numeric variable 'gross sales volume'.

### **Construct 3: The level of awareness and importance of electronic purchasing consortia and further customised services**

In literature, technology resource has been consistently demonstrated as an important factor for successful ICT adoption (e.g. Crook and Kumar, 1998; Grover, 1993; Kuan and Chau, 2001). However, Tornatzky and Fleischer (1990) do not specify any particular attributes of the technological context, which facilitate or inhibit the adoption of technological innovations. The surveys focused on the overall adoption intensity of customised ICT-supported services (such as tracking / tracing, accounts payables and receivables processing, collaborative design, etc.) in order to represent technological context.

H3a: EPC providers offer more customised services than non-providers.

H3b: EPC users implement more customised services than non-users.

⇒ Assessed using a 11-item construct. Cronbach's alpha not applicable for this formative scale.

Perry and Danziger (1980) showed that one of the most important factors in the adoption of ICT by local government was staff competence. They claim that when employees were not very well trained in using information technologies, this inadequate training resulted in resistance to change, resistance to use, and the inability to utilise information technologies to their capacity. Purchasing maturity, i.e. the level of professionalism in purchasing, was further identified as a potential EPC adoption driver.

H3c: The more mature the purchasing function, the more important are 1) EPC and 2) further customised services to purchasing strategy.

⇒ Assessed using a five-item scale with a Cronbach's alpha of 0.78.

#### **Construct 4: Management structures, trading mechanisms and scope of EPC**

Infomediaries can perform a variety of innovative services such as reverse auctions, consulting or moderation services, which are often complex, inconvenient or costly for EPC members to undertake. As a result, adaptation of metamediary roles, or EPC reinfomediation is expected to be more common than disinfomediation.

H4: EPC are positively associated with formal third-party reinfomediation.

⇒ Assessed using a 3-item multiple choice construct.

#### **Construct 5: Revenue models for electronic purchasing consortia**

Barratt and Rosdahl (2001) explain that the transaction fee seems to be the most predominant source of revenue for e-Marketplaces.

H5: The importance of transaction costs is positively related to EPC adoption.

⇒ Assessed using a seven-item construct. Cronbach's alpha not applicable for this formative scale.

**Construct 6: Relationship between purchasing spend, sourcing strategies and product feasibility to EPC.**

It was further expected that an important driver for EPC adoption would be the degree of purchasing spend, the level of multi sourcing strategies and the product homogeneity and pooling potential.

H6a: There is a positive relation between purchasing spend and EPC adoption.

H6b: EPC users integrate multi sourcing strategies on a larger scale than non-users.

H6c: EPC adopters report a higher average pooling potential of their entire product spectrum than non-adopters.

⇒ Assessed using numeric variables.

**Construct 7: Level of benefits and drawbacks of electronic purchasing consortia to purchasing organisations**

Performance indicators were further assessed.

H7a: Users of EPC judge their procurement activities as more effective and more efficient than non-users.

⇒ Assessed using a four-item scale with a Cronbach's alpha of 0.71.

H7b: EPC users have a significant amount of lower maverick purchases than non-users.

⇒ Assessed using a numeric variable.

**Construct 8: Relationship between ROI and electronic purchasing consortia**

Corsten and Zagler (1999) indicate that the transaction costs of forming and managing a purchasing consortium proved to be very high and a barrier to future activities.

H8: The average economies of scale and scope within EPC exceed the average diseconomies of increased transaction costs.

⇒ Assessed using numeric variables.

**Construct 9: Level of benefits and drawbacks for suppliers that participate in electronic purchasing consortia and reverse auctions**

Clemons et al. (1993) discussed in their “move to the middle” argument that firms would move toward long-term relationships with a smaller set of suppliers, but develop more collaborative relationships with them.

H9a: EPC are positively correlated with the arm's length (exit) buyer-supplier relationship.

⇒ Assessed using a 2-item multiple choice construct.

H9b: EPC users have a stronger tendency to reducing their suppliers than non-users.

⇒ Assessed using a single-item scale.

### **Construct 10: Critical factors in creating and managing electronic purchasing consortia in future**

A critical factor for EPC can be a significant mass of electronic purchasing consortia purchases.

H10: Non-providers of EPC underestimate the minimum needs of products purchased in EPC.

⇒ Assessed using a single-item scale.

Potential respondents were provided with a formal definition of EPC (as previously outlined) so that they were able to distinguish EPC from other e-Procurement initiatives.

## **Survey Response Rates**

The online survey instrument for e-Marketplaces and procurement service providers was pre-tested among academics and practitioners. Questionnaires were electronically sent to the population of 102 international active e-Marketplaces and procurement service providers in the automotive, electronics and closely related industries (e.g. metals, plastics). Reasons for the choice of the sectors derive from the background that both industries are pioneers and advanced in supply chain management and e-Procurement. The authors expected that the selection would favour a higher EPC diffusion rate than among other industry sectors. A final response rate of 42% resulted from the survey on e-Marketplaces / PSPs. Most questionnaires were completed by managing directors (35%) as well as marketing managers (30%).

The second survey was pre-tested and conducted among 400 purchasing organisations in the automotive and electronics industry in Ireland and Germany, both multinationals as well as small and medium sized enterprises (SMEs) selected by random sampling from established industrial databases. 128 organisations responded to the survey (i.e. a response rate of 32%), which were predominantly manufacturers and processing companies. The participants have mainly been purchasing managers (40%), followed by managing directors (16%), operational managers (15%) and IT managers (13%). Both response rates can be considered as very satisfactory in comparison to other survey research. The surveys were tested for statistically significant differences in the responses of early and late returned surveys. No significant differences were found, suggesting that the sample is representative of the population. Based on the survey data, the hypotheses were statistically tested (Figure 2) and illustrated within the technology-organisation-environment framework (Figure 3). When a significance level of  $p \leq 0.05$  was obtained, a hypothesis was confirmed based on the confidence interval of 95%.

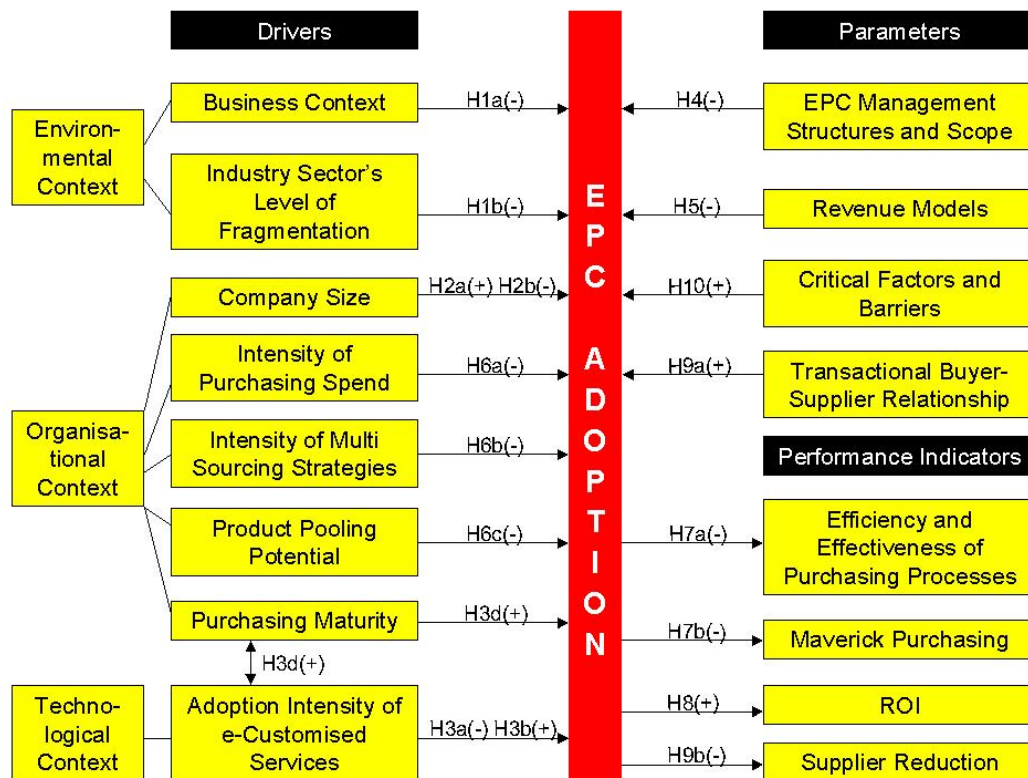
## Results

The results from the surveys are summarised in Figure 2.

<b>Figure 2. Testing Of Hypotheses</b>	
H1a: Higher perceived pressures from the business context have a positive impact on EPC importance to purchasing strategy.	Not confirmed R = 0.18, p = 0.38
H1b: EPC implementation is positively associated with industry sectors' level of fragmentation.	Not confirmed F = 0.01, p = 0.87
H2a: Current take-up of electronic purchasing consortia is related to the size of purchasing organisation.	Confirmed F = 6.31, p = 0.01
H2b: Current offering of electronic purchasing consortia is related to the size of e-Marketplace / PSPs.	Not confirmed F = 0.00, p = 0.93
H3a: EPC providers offer more customised services than non-providers.	Not confirmed F = 0.10, p = 0.75
H3b: EPC users implement more customised services than non-users.	Confirmed F = 9.49, p <= 0.01
H3c: The more mature the purchasing function, the more important are 1) EPC and 2) further customised services to purchasing strategy.	Confirmed 1) R = 0.69, p <= 0.01 2) R = 0.56, p <= 0.01
H4: EPC are positively associated with formal third-party reinfomediation.	Not confirmed Chi2 = 1.66, df = 1, p = 0.20
H5: Transaction fees are the most widely accepted and dominant revenue model in EPC.	Not confirmed F = 0.55, p = 0.47
H6a: There is a positive relation between purchasing spend and EPC adoption.	Not confirmed F = 2.41, p = 0.12
H6b: EPC users integrate multi sourcing strategies on a larger scale than non-users.	Not confirmed F = 1.32, p = 0.25
H6c: EPC adopters report a higher average pooling potential of their entire product spectrum than non-adopters.	Not confirmed F = 0.60, p = 0.45
H7a: Users of EPC judge their procurement activities as more effective and more efficient than non-users.	Not confirmed F = 0.44, p = 0.52
H7b: EPC users have a significant amount of lower maverick purchases than non-users.	Not confirmed F = 0.13, p = 0.72
H8: The average economies of scale and scope within EPC exceed the average diseconomies of increased transaction costs.	Confirmed Average Net Benefit: 5.4% ( in % of Purchasing Costs)
H9a: EPC are positively correlated with the arm's length (exit) buyer-supplier relationship.	Confirmed Chi2 = 33.35, df = 1, p <= 0.01
H9b: EPC users have a stronger tendency to reducing their suppliers than non-users.	Not confirmed F = 0.31, p = 0.59
H10: Non-providers of EPC underestimate the minimum needs of products purchased in EPC.	Confirmed F = 7.75, p <= 0.01

These results are discussed in detail in the next section in line with Figure 3, which shows the hypotheses modelling in accordance with the technology-organisation-environment framework.

**Figure 3. Hypotheses Modelling in Accordance to Technology-Organisation-Environment Framework**



## Discussion of Findings

### Environmental Context

The surveys focused on the following characteristics of environmental context for EPC: Industry fragmentation and pressures from business context. Surprisingly, pressures from the business context have not a significant impact on EPC importance to purchasing strategy ( $R = 0.18$ ,  $p = 0.38$ ). The finding here confirms Thong (1999) that competition does not provide a direct “push” for purchasing organisations to enhance their ICT systems. While business context pressures could not be identified to significantly affect EPC adoption, Rozemeijer (2000) claims that they can still trigger changes in corporate strategy and structure, which in turn then may stimulate companies to take measures to create competitive advantage in purchasing. For example, large purchasing organisations were well aware of EPC due to reasons such as their size, high level of investment

budget and market share, but EPC adoption among large firms can be limited due to anti-trust issues.

The further EPC extend beyond the 'safe harbour', which under EU anti-trust guidelines is fixed at 15%, the greater the risk of a negative competitive effect. In the US, if less than 20 percent of a market is affected by an exclusive arrangement, it will likely avoid regulatory scrutiny because it falls within the antitrust safety zone. Purchasing consortia can focus on both horizontal and vertical integration. Strategic alliances are horizontal co-operation forms, whereas networks can describe both vertical and horizontal co-operation forms between companies of different tiers within the supply chain. A vertical integration of EPC network structures in terms of supply chain management (e.g. between manufacturers and first tier suppliers) could be identified in some cases in the surveys, while horizontal cross-industry EPC strategic alliances were found to be more relevant in practice. This can be considered as the main reason why it could not be statistically demonstrated that the level of industry concentration significantly affects EPC adoption ( $F = 0.01$ ,  $p = 0.87$ ). Theoretically, the positioning stream would indicate a strong bond between the level of industry concentration, anti-trust legislation and EPC implementation. However, this direct link was not supported by the survey data in the automotive and electronics industry. The survey data revealed that EPC are often designed of cross-industry collaboration structures or for products (e.g. commodities) where potential anti-trust issues are not likely to arise. Therefore, anti-trust limitations still have an impact on EPC structure in dependence of factors such as size of co-operating members and buyer power in EPC, type and level of EPC network structure and number of competitors, EPC product spectrum and market share. For example, the survey results demonstrated that none of the consortia-led e-Marketplaces / PSPs offer any electronic purchasing consortia to date. Although they would already have finished decisive EPC collaborative phases such as finding partners, building up trust and commitment among the members, getting standardisation agreements in place, demand aggregation is mainly not pursued due to anti-trust limitations (as a result of their high level of market share and buyer power). For example, the automotive consortia-led e-Marketplace Covisint specifies on its website:

*"First, Covisint will not aggregate the purchases of one OEM with those of another OEM. Second, Covisint will not offer aggregated purchasing services for any automotive-specific parts or materials. Third, Covisint's future aggregated purchases of non-automotive specific parts (such as office supplies, cleaning supplies, etc.) will always*

*be within the applicable competitive law guidelines in the market in which the purchases are made.”*

By forming EPC within Covisint, several OEMs would dominate the automotive purchasing market share world-wide. Due to regulatory issues consortia of automotive manufacturers will not be allowed to pool their demand for production parts. Nonetheless, Covisint has taken a very conservative approach: Vertical demand aggregation between OEMs and tier 1 suppliers (for e.g. raw materials) which is common practice in the automotive industry was also not integrated. Therefore, EPC are mostly built of horizontal cross-industry collaboration structures with a relatively low level of co-opetition. EPC providers among e-Marketplaces / PSPs specified that the average number of competitors against non-competitors in EPC is 24%, while purchasing organisations identified that only 15% of EPC are made up of direct competitors. Co-opetition seems to occur in some context in EPC; however, a majority of EPC supply networks is established among non-competitors in order to avoid anti-trust issues, among other important reasons such as the potential loss of company-specific proprietary data to competitors. Overall, a direct link between the environmental context (based upon pressures from business context and level of industry fragmentation) and EPC adoption could not be statistically supported from the surveys. However, it can be acknowledged that the environmental context and the positioning stream have an effect on the type and level of EPC co-operation and structure. An inward focus on EPC resources and capabilities was further analysed in terms of technological and organisational context.

## **Technological Context**

In terms of technological context, it was learnt from the surveys that many e-Marketplaces and PSPs still lack provision of customised services to date. Gebauer and Zagler (2000) confirm that the lack of support for flexible strategic sourcing applications such as collaboration tools, complex bidding systems, multi-stage decision support or context-sensitive project-specific information systems, is a reason for frequent complaints by supply managers. The survey results revealed that e-Marketplaces / PSPs in general plan to significantly increase the offering of customised services in future in order to further complement their service infrastructure. EPC adopters among purchasing organisations implement a significant wider breadth of customised services and enabling technology than non-adopters ( $F = 9.49, p \leq 0.01$ ). The findings coincide with the view



of Barratt and Rosdahl (2001) and Woods (2001), who regard customised services such as order fulfilment and financial settlement as key areas to technology competence. The importance of having financial services is made even clearer by Keenan (2000), who suggests that in fragmented markets, e-Marketplaces and PSPs must offer a “frictionless” environment, because the parties do not necessarily have previous relationships and have therefore not built up any trust between them. E-Marketplaces / PSPs seem to have realised this potential and try to increase the offering of customised services in future. However, it could not be established that EPC providers offer more customised services than non-providers ( $F = 0.10$ ,  $p = 0.75$ ).

Although strategic e-Procurement and electronic purchasing consortia are still in its infancy in Ireland and Germany and only 7% of purchasing organisations have adopted EPC to date, some groundwork appears to be in place with e-Marketplaces / PSPs (i.e. 44% EPC adoption rate). Only 27% of e-Marketplaces provide EPC in comparison to 82% of PSPs. The findings suggest that e-Marketplaces generally still have potential to develop and integrate EPC. The surveys also indicated that most companies (especially SMEs) are still in the early stages of developing and implementing a strategy to e-Procurement and are still trying to understand their many options (such as EPC), weighting up the pros and cons, or holding back until more is known about this fast-changing area. For the future, both purchasing organisations as well as e-Marketplaces / PSPs specified an increase in EPC integration. Nonetheless, only 18% of purchasing organisations plan to adopt EPC in future and therefore, EPC will not achieve a major breakthrough within the next five years. EPC are in many cases regarded by both purchasing organisations and e-Marketplaces / PSPs as an ‘add-on’ to other customised services. However, it could be statistically proven from the purchasing organisations’ survey data that EPC adopters implement significantly more customised services than non-adopters and are ahead of them technology-wise ( $F = 24.14$ ,  $p \leq 0.01$ ). The technological context in terms of the overall adoption level of customised services could therefore be positively related to EPC adoption among purchasing organisations.

## **Organisational Context**

It was also very relevant to analyse the organisational context and its impact and effect on EPC adoption. Organisational context was comprised of following specific measures within the surveys:

purchasing maturity, company size, intensity of purchasing spend, intensity of multi sourcing strategies and product pooling potential. The survey data statistically confirmed that purchasing maturity, i.e. the level of professionalism in purchasing, could be identified as an important process enabler and driver to EPC. Overall, a multiple regression test based on the survey data from purchasing organisations proved that the more mature the purchasing function, the more important are 1) EPC to procurement strategy ( $R = 0.69$ ,  $p \leq 0.01$ ) and 2) further customised services to procurement strategy ( $R = 0.56$ ,  $p \leq 0.01$ ). However, based on the results from the surveys, there is overall still much room for improvement in purchasing maturity among purchasing organisations, especially in the areas of EPC and e-Procurement training, development, implementation and co-ordination.

Another variable analysed within the organisational context was intensity of purchasing spend and its impact on EPC adoption. The survey data revealed that, while the percentage of purchasing spend is relatively high (approx. 60% of turnover, which is a result of changing business context such as concentration on core competencies, globalisation, developments in ICT) and quite even within the automotive and electronics industry sector, there is no statistical evidence for a positive correlation between purchasing spend and EPC implementation ( $F = 2.41$ ,  $p = 0.12$ ). It was statistically proven that it is the size of purchasing organisations, which is positively associated with EPC adoption to date ( $F = 6.31$ ,  $p = 0.01$ ). Large purchasing firms, since they operate closer to the technological frontier, are more often engaging in EPC, but also have to design, due to their buyer power, EPC structures that do not raise anti-trust issues. From the surveys it was confirmed that the size of purchasing organisations is a process driver for EPC adoption, while EPC offering is not subject to the size of e-Marketplaces / PSPs ( $F = 0.00$ ,  $p = 0.93$ ). The surveys indicated that other factors such as for example the business and service strategy of e-Marketplaces / PSPs can be more relevant for the decision of EPC offering.

Within the organisational context, it was also expected that an important driver for EPC adoption would be the degree of product homogeneity and pooling potential. While no significance could be established that EPC users report a higher average pooling potential of their entire product spectrum than non-users ( $F = 0.60$ ,  $p = 0.45$ ), the surveys' findings revealed that there is a significant amount of products that can be potentially pooled within almost all e-Marketplaces/ PSPs and purchasing organisations. EPC providers and users still have a good potential to increase their average present pooling of products. Statistically, the authors concluded from the data that EPC initiatives are not directly linked to the homogeneity of the underlying product specifications,

but to company size and purchasing maturity of purchasing organisations. However, products that are characterised by a high degree of standardisation and homogeneity as well as a low level of asset specificity could be identified from the survey data to be more feasible for EPC. As custom products are traditionally very firm specific, not standardised and often very decisive for the overall success of purchasing organisations, EPC for custom products with high asset specificity may not have a high level of synergy potential and therefore may not result in a high level of co-operation among purchasing organisations. Complex modules with high asset specificity can be more difficult to proceed by EPC because these parts are typically rarely sourced entirely on the basis of price, but on concept competition, supplier capabilities and in most cases single sourcing (e.g. Lapidus, 2000).

The survey data suggested that EPC co-operation predominantly takes place for the following spend categories: indirect materials, commoditised products in production and services. Literature traditionally uses specialised goods as an indirect measure of high level of asset specificity of components, whereas indirect materials or commoditised products in production stand for a lower level of asset specificity (e.g. Masten, 1984). Due to the very nature of product sourcing processes with low asset specificity, it is statistically significant that EPC are perceived to be more feasible for arm's length relationships than collaborative relationships with suppliers ( $\text{Chi}^2 = 33.35$ ,  $\text{df} = 1$ ,  $p \leq 0.01$ ). Historically, the vast majority of buyer-supplier relationships have been conducted in an arm's-length mode. However, Clemons et al. (1993) emphasised in their "move to the middle" argument that firms would move toward collaborative and long-term relationships with a smaller set of suppliers. It was explored that 95% of surveyed e-Marketplaces / PSPs acknowledged that collaboration between buyers and suppliers is becoming more important in future. However, there was no evidence that EPC adopters to date had a stronger tendency towards reducing their suppliers ( $F = 0.31$ ,  $p = 0.59$ ). The findings suggest that a combination of co-ordination mechanisms is involved, in accordance with the mixed mode hypothesis (Holland and Lockett, 1993). According to them, firms operate on a continuum between markets and hierarchies and use combinations of market and hierarchy-type relations, which they maintain simultaneously. EPC adopters among purchasing organisations mainly take advantage of demand aggregation for a small proportion of overall purchases and for products with a lower level of asset specificity, that are predominantly sourced by arm's length relationships, while collaborative hierarchical sourced products are mostly left untouched. This conclusion is supported by the statistical analysis that EPC users do not integrate multi sourcing strategies on a larger scale than non-users ( $F = 1.32$ ,  $p =$

0.25). This finding confirms the mixed-mode hypothesis and Sambamurthy et al. (2000) that many buyer-supplier transactions, conducted by the Internet, conform more closely to the arm's length nature of web-based relationships.

## **EPC Structures and Performance Indicators**

Several variables on EPC structures were also added to the conceptual framework. 44% of purchasing organisations would opt for informal EPC management, whereas 25% would require a formal third-party management by members and 31% a neutral EPC management by specialised agent. It could not be supported that EPC are significantly associated with formal third-party reinfomediatio (Chi2 = 1.66, df = 1, p = 0.20). EPC disinfomediatio seems to occur in some context. However, it was explored by the surveys that an electronic purchasing consortium can also well be associated with a third party organisation or infomediary that serves as a mediator between the firms in a network.

The surveys' analysis revealed that EPC providers are predominantly buyer-driven infomediaries. Whereas only few EPC providers were independent and neutral to buyers and suppliers, seller-centric providers were very rare. Procurement service providers in particular have a buy-side focus and use semi-automatic or non-electronic communications tools as well for EPC that may be necessary to gain customers' system trust to participate in electronic purchasing consortia. Virtualisation of purchasing consortia is therefore better viewed as a continuum. The majority of e-Marketplaces on the other hand, according to the survey research, focus more on automating operational purchasing instead of strategic sourcing services. PSPs, the main group of EPC providers, direct their activities more closely towards strategic sourcing and are predominantly concentrating on the buy-side. The buy-side focus of EPC providers can also be observed in the fact that they charge mainly buyers (42%) or both buyers and suppliers (53%). There is a shift from the traditional total cost accumulation and equal division among members in purchasing consortia (Hendrick, 1997) to a greater variety and mixture of EPC finance models including fixed monthly/annual fees, transaction costs or fees for value adding services. It could not be confirmed that the importance of transaction costs is positively related to EPC adoption ( $F = 0.55$ ,  $p = 0.47$ ). Therefore, it is a significant challenge to leverage buying power while tailoring individual member's requirements, e.g. specific EPC revenue models.

The knowledge of critical factors and barriers to EPC in particular play an important role. Consortium partners have to take care to install a symbiotic system instead of commensalism or a parasite relationship. Therefore, variables to measure the EPC impacts on business performance were examined as well. Both tangible and intangible benefits and drawbacks to EPC have been identified in the surveys. The respondents indicated that the gross savings in most cases outweighed the costs related to EPC synergy initiatives. It could be confirmed that average economies of scale and scope within electronic purchasing consortia could exceed the average diseconomies of increased transaction costs. While a negative ROI occurred in some EPC context, an average positive ROI of 77% could be identified with an average net saving of 5.4% in purchasing costs. Apart from the positive ROI however, EPC users did not perceive their procurement processes as more efficient or more effective than non-users ( $F = 0.44$ ,  $p = 0.52$ ). It could also not be established that EPC users have a significant amount of lower maverick purchases than non-users ( $F = 0.13$ ,  $p = 0.72$ ).

The survey data revealed that the sharing of intangible benefits such as purchasing knowledge across businesses seems to be still rather rare. Purchasing organisations cite barriers to knowledge sharing and demand aggregation such as a not adequate training and education in EPC, a low degree of information on change management and a lack of maturity in service offerings from e-Marketplaces / PSPs. Main drivers for non-adoption of EPC further include a 'wait and see'-approach to the selection of e-Marketplaces / PSPs, security concerns and opposition to data sharing with other companies, the non-feasibility of custom-made products for pooling initiatives, a lack of standardisation, confidentiality, trust and commitment among potential members. The overwhelming concern was also a perceived loss of control with EPC and exposure to anti-trust regulations. The surveys' results confirmed that barriers were predominantly organisational or human based rather than technical. EPC providers cited critical factors for EPC such as a strong management support, a high level of trust among the members and a critical mass of EPC purchases. EPC non-providers underestimate in particular the minimum needs or critical mass of EPC purchases required ( $F = 7.75$ ,  $p \leq 0.01$ ).

When having put EPC in practice, the majority of adopters are quite satisfied and positive about electronic purchasing consortia and its contribution to competitive advantage and acknowledge that benefits can outweigh the drawbacks. Although there was also some scepticism from purchasing organisations and e-Marketplaces / PSPs, the overall consensus is positive that there is a wide array

and potential for EPC applications in future. There is a growing realisation that over the longer term EPC can play a substantially more important role.

## Conclusions

As firms are increasingly adopting ICT in their supply chain operations, the need to empirically research the adoption and diffusion level of EPC was identified. This research includes the measurement of key factors and structures affecting the adoption and diffusion as well as the performance impact of adoption in industry. However, sophisticated employment and diffusion of electronic purchasing consortia is still very much at a developmental stage in industry, although EPC can result in competitive advantage and in an average positive return on investment. However, large company size and a high level of purchasing maturity and technology competence among purchasing organisations are important drivers for EPC adoption to date. It is therefore important for firms, SMEs in particular, to build up their technology competence, including both physical infrastructure and intangible properties (e.g. EPC know-how, purchasing maturity).

From the research, it is apparent that EPC, despite limitations, can be a valuable strategic tool worth consideration inside an integrated supply chain model. The model of electronic purchasing consortia can represent a strategic procurement direction for the future in supply chain management and is developing, due to its long history, in an evolutionary rather than in a revolutionary manner. New electronic metamediaries such as e-Marketplaces and procurement service providers have the potential to interpose themselves between suppliers and buyers by taking advantage of new types of economies of scale, scope and knowledge, enabled by ICT. However, while co-operative purchasing and its electronic implementation are increasingly practised in non-profit institutions such as municipalities, libraries or universities, much more academic and practical work still needs to be carried out if the use of this type of electronic network is to be more widely adopted in industry. To find a potential high rate of EPC adoption, future research should focus on industry sectors that are very advanced in strategic alliances and in streamlining the infrastructure around the supply chain with ICT, e.g. the airline industry. The findings and the developed framework represent a good starting point for further EPC theory development and indicate that EPC is a rich, multi-faceted domain.

## References List

- Amit, R., Zott, C. (2001) 'Value Creation in E-Business', *Strategic Management Journal* 22: 493--520.
- Arnold, U. (1996) 'Cooperative Purchasing as a Challenge for Business-to-Business-Marketing: Results from an Action Research Project', *Proceedings of the 25th EMAC Conference: Marketing for an Expanding Europe, Vol. I, Budapest*: 1367--1384.
- Bakos, J.Y., Treacy, M.E. (1986) 'Information Technology and Corporate Strategy: A Research Perspective', *MIS Quarterly* 10(2): 107--119.
- Barney, J.B (1991) 'Firm Resources and Sustained Competitive Advantage', *Journal of Management* 17: 99--120.
- Barratt, M., Rosdahl, K. (2001) 'Exploring business-to-business marketsites', *European Journal of Purchasing & Supply Management* 8: 111--122.
- Boer, L. de, Harink, J. Heijboer, G. (2002) 'A model for assessing the impact of electronic procurement forms', *European Journal of Purchasing & Supply Management* 8: 25--33.
- Clemons, E.K., Reddi, S.P., Row, M. (1993) 'The impact of information technology on the organization of economic activity: The 'move to the middle' hypothesis', *Journal of Management Information Systems* 10(2): 9--35.
- Corsten, D., Zagler, M. (1999) 'Purchasing Consortia and Internet Technology', *Perspectives on Purchasing and Supply for the Millennium, Proceedings of the 8th International Annual IPSERA Conference, 28-31 March*: 139--147.
- Crook, C. W., Kumar, R. L. (1998) 'Electronic Data Interchange: A Multi-Industry Investigation Using Grounded Theory', *Information & Management* 34, 75--89.
- Croom, S.R. (2001) *Supply Chain Management in the E-Business Era*, Coventry: University of Warwick.
- Essig, M. (1999) 'Cooperative Sourcing as a New Strategic Supply Concept: Theoretical Framework and Empirical Findings', *Perspectives on Purchasing and Supply for the Millennium, Proceedings of the 8th International Annual IPSERA Conference, 28-31 March*: 245--256.

- Gebauer, J., Zagler, M. (2000) 'Assessing the Status Quo and Future of B2B E-Commerce', Fisher Center for IT & Marketplace Transformation:
- [<http://www.wmrc.com/businessbriefing/pdf/leuroifpmm2001/reference153.pdf>].
- Grover, V. (1993) 'An Empirically Derived Model for the Adoption of Customer-Based Interorganizational Systems', *Decision Science* 24 (3): 603--640.
- Grover, V., Goslar, M.D. (1993) 'The initiation, adoption, and implementation of Telecommunications Technologies in U.S. organizations', *Journal of Management Information Systems* 10(1): 141--163.
- Gulati, R. (1998) 'Alliances and networks', *Strategic Management Journal* 19(4): 293--317.
- Hendrick, T.E. (1997) *Purchasing Consortiums: Horizontal Alliances Among Firms Buying Common Goods and Services. What? Who? Why? How?*, Center for Advanced Purchasing Studies / National Association of Purchasing Management, Tempe, AZ.
- Holland C.P., Lockett G. (1993) 'Mixed mode operation of electronic markets and hierarchies', *Proceedings of the ESF Conference: Forms of Inter-organisational Networks: Structures and Processes*, Berlin, 6-7 September.
- Iacovou, C. L., Benbasat, I., Dexter, A. S. (1995) 'Electronic Data Interchange and Small Organizations: Adoption and Impact of Technology', *MIS Quarterly* 19(4): 465--485.
- Jarillo, J. C. (1988) 'On Strategic Networks', *Strategic Management Journal* 9(1): 31--41.
- Keenan, V. (2000) *Internet Exchange 2000 – B2X emerges as new industry to service exchange transactions*, Keenan Visison Inc., April 24 (Available through Accenture).
- Knudsen, D. (2002) 'Uncovering the strategic domain of e-procurement', [[http://www.tlog.lth.se/documents/publications/Knudsen\\_2002\\_IPSERA.pdf](http://www.tlog.lth.se/documents/publications/Knudsen_2002_IPSERA.pdf)].
- Kuan, K. K. Y., Chau, P. Y. K. (2001) 'A Perception-Based Model for EDI Adoption in Small Business Using a Technology-Organization-Environment Framework', *Information and Management* 38: 507--512.
- Lapidus, G. (2000) *eAutomotive*, Goldman Sachs Investment Research.
- Malone, T.W., Yates, J., Benjamin, R.I. (1987) 'Electronic market and electronic hierarchies', *Communications of the ACM* 30(6): 484--497.



- Masten, S.E. (1984) 'The Organization of Production: Evidence from the Aerospace Industry', *Journal of Law, Economics and Organization* 27(2): 1--25.
- Montgomery, C.A., Wernerfelt, B. (1988) 'Diversification, Ricardian rents, and Tobin's  $q$ ', *RAND Journal of Economics* 19(4): 623--632.
- Poon, S., Swatman, P.M.C. (1997) 'Small Business Use of the Internet: Findings from Australian Case Studies', *International Marketing Review* 14(5): 385--402.
- Porter, M. E. (1985) *Competitive Advantage*, New York: The Free Press.
- Perry, J., Danziger, J.N. (1980) 'The Adoptability of Innovations: An Empirical Assessment of Computer Applications in Local Governments', *Administration and Society*, February 11: 461--492.
- Quayle, M. (1999) 'Purchasing in Small Firms', *Perspectives on Purchasing and Supply for the Millennium*, 8th International Annual IPSERA Conference, 28-31 March: 641--652.
- Richmond, C., Power, T., O'Sullivan, D. (1998) *E-Business in the Supply Chain: Creating Value in a Networked Market Place*, London: Financial Times Retail & Consumer.
- Rozemeijer, F. (2000) *Creating Corporate Advantage in Purchasing*, Technische Universitaet Eindhoven.
- Sambamurthy, V. (2000) 'Business Strategy in hypercompetitive environment: rethinking the logic of IT differentiation': Zmud, R.W. (2000) *Framing the Domains of IT Management: Projecting the Future Through the Past*, Pinnaflex, Cincinnati: 245--261.
- Smeltzer, L, Ruzicka, M. (2000) 'Electronic Reverse Auctions: Integrating the Tool with the Strategic-Sourcing Process', *Practix*, June: 1--6.
- Thong, J. Y. L. (1999) 'An Integrated Model of Information Systems Adoption in Small Business', *Journal of Management Information Systems* 15(4): 187--214.
- Tornatzky, L. G., Fleischer, M. (1990) *The Process of Technology Innovation*, Lexington, MA: Lexington Books.
- Vigoroso, M. (1998) 'Buying Consortiums suit Some, not All', *Journal of Purchasing* 125(2): 18--19.

Wigand, R.T., Benjamin, R.I. (1996) 'Electronic commerce: effects on electronic markets', *Journal of Computer-Mediated Communication* 1(3):

[<http://www.usc.edu/dept/annenberg/journal.html>]

Williamson, O.E. (1975) *Markets and Hierarchies: Analysis and Antitrust Implications*, New York: The Free Press.

Woods, W. (2001), *Evolving e-Markets: Building High Value B2B Exchanges with Staying Power*, ISI Publications: 1<sup>st</sup> edition.