



Digital Procurement for Small and Medium Enterprises (SMEs)

Introduction

Digitalization in business is the priority of every business in the world. Procurement is the main part of the business which can significantly impact the operational efficiency, production process, customer satisfaction, and financial results. Digital procurement is use of technology and digital platforms to purchase raw materials, finished goods, find new suppliers, and make electronic payments to suppliers against purchases and services rendered. By using digital procurements SMEs can take benefits of cost cutting, time savings, building strong relationship with suppliers, and reducing fraud risk and audit burden by digital quotations, purchase orders, digital invoices, and electronic payment. It also improves inventory management, communication with suppliers, and lower staff requirements. In digital procurement, there are some challenges for SMEs, which include unskilled staff, initial implementation cost, change resistance, limited internet access, and cyber security issues. Overall, the digital procurement is necessary for the economies like Pakistan. Here we will discuss the concept of digital procurement and its adoption by SMEs in Pakistan, the benefits of adoption, challenges faced by businesses, and recommendation to improve its adoption.

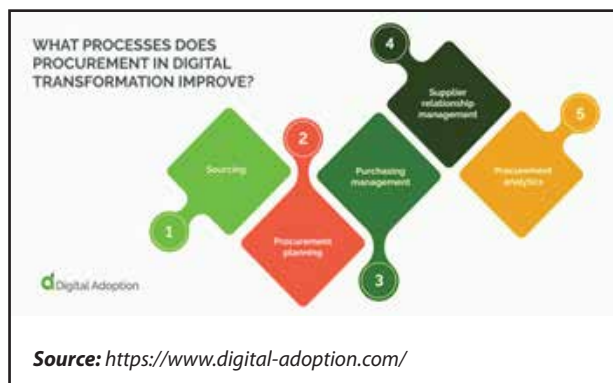
Procurement has two types; Manual Procurement, and Digital Procurement. Manual procurement involves traditional method of procurement activities like paper-based approval, telephonic or face-to-face communication and negotiation with suppliers. It is not compatible with modern world needs because today's world is fast moving and technology-based businesses. Manual system is under use for many years but it is slow processing based, fraud risk at high level. So, digital procurement is important requirement for businesses especially SMEs to run their business at fast pace to meet the needs and challenges.

Digital Procurement process is fast due to use of modern technology and artificial intelligence-based systems. It converts whole procurement system into automate procurement process, like quotations, evaluation of suppliers, comparison of prices, purchase order approval, digital invoicing, and e-payments. This will reduce audit working and procurement staff requirements. By replacing traditional paper-based procurement system with digital procurement systems, modern businesses are adopting digital platforms; e-procurement systems, Enterprise Resource

Planning Systems (ERPs), Cloud-based procurement systems, e-invoicing, digital payment methods, Supplier Relationship Management (SRM) system, Block Chain, Mobile Procurement Apps, Robotics Automation Process, Demand Forecasting Process, and Risk and Compliance Solutions. Digital Procurement systems allow real time data availability (real time reports), fast processing, accurate data, and control over procurement activities through online systems.



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Successful digital procurement system depends upon modern technology, qualified and trained staff, strong leadership, and support of external institutions. Digital procurement system is not only the online purchasing, but it is business strategy to transform the business through cloud-based software, enterprise resource planning (ERP), artificial intelligence (AI), block chain, robotics system, predictive data analytics, e-invoicing, and digital payments.

Role of Digital Procurement in SMEs

SMEs in Pakistan run with limited resources, so they face many challenges which include initial implementation costs, lack of awareness of technologies, technical skills to operate system, required infrastructure to manage digital procurement system.

Mostly business owners and managers hesitate to adopt and implement the digital procurement system due to initial acquiring costs and required training to operate the system. Digital procurement in Pakistan can help to reduce the limitations of traditional procurement system. The better arrangement of internet, cloud-based software, mobile technologies, and digital payment system can create modern procurement environment in SMEs. There are many tools available less costly to SMEs to convert their traditional procurement system into digital procurement system. Digital procurement system is necessary for businesses because of customer's expectation of fast processing, technology-oriented suppliers, and meet the needs of market competition. It may help to improve efficiency, market competition, transparency, reduced risk and fraud, future planning, inventory management, cost control, and cash flow management.

Major Digital Procurement Technologies

E-Procurement Platforms

SMEs in Pakistan can take benefits by using the E-procurement platforms to convert its paper based and time consuming work into digital form. Through E-procurement Platform, SMEs can purchase online, search new suppliers, comparison of prices, and negotiate with supplier online. It can also improve the efficiency by quick quotation requests, purchase approval, order tracking, e-invoicing, and digital payments.

Enterprise Resource Planning (ERP) Systems

Enterprise Resource Planning system is a combination of different systems including, procurement, production, inventory management, sales, human resource, and financial reports. Normally, ERPs are very expensive and mostly SMEs in Pakistan can't afford them. Currently, there are Cloud-based ERPs available in market which can improve the SMEs efficiency effectively as compare to traditional paper-based system.

Cloud-Based Procurement Solutions

Cloud-Based Procurement system work through internet and doesn't require heavy servers and installations. Cloud-Based Procurement Solutions are affordable to SMEs in Pakistan due to low subscription fee. SMEs can subscribe the Cloud-Based Procurement System as per their needs.

Artificial Intelligence and Data Analytics

The modern technologies like Artificial Intelligence and Data Analytics are essential to improve the decision making in procurement process. These technologies can help to identify suitable suppliers, better price comparison, demands prediction, cost saving opportunities, and suppliers' performance

evaluation. By using Artificial Intelligence and Data Analytics, the manager can negotiate with suppliers in best way and develop more effective procurement strategies.

Electronic Payments and Digital Invoicing

Digital invoicing helps to simplify the procurement system and improve accuracy in procurement process. Similarly, the electronic payments are an important part of digital procurement system, which can improve suppliers' payment process, cash flow management, accuracy in financial statements, and reduced risk of fraud.

Advantages of Digital Procurement

Improved Purchasing Efficiency

Digital procurement system can reduce time required to contact with supplier, negotiation, approval, invoicing and payments. So, the efficiency of staff can be improved and saved time can be used for other business activities.

Improved Cost Management

Digital procurement system can improve cost management by online search of suppliers, online price comparison, and lower staff requirements.

Improved Transparency

Digital procurement system can improve transparency by electronic transaction data storage, real-time data analysis, and minimize error in record transactions.

Supplier Management

By using digital procurement system, SMEs can analyze the suppliers in term of price, time of delivery, quality, and reliability. So, the business can select better supplier and develop strong suppliers' relationship.

Improved Market Share

With help of digital procurement system, SMEs can compete in market where larger companies with strong market share based on modern technologies exist. So, in Pakistan mostly businesses are SMEs, which can participate in improvement of economy by adopting modern technologies using in procurement process.

Challenges of Digital Procurement System

Financial Limitation

SMEs in Pakistan are generally working with limited resources and capital, so it is harder for them to use modern technology in business to meet the needs of market requirements and competition. It is difficult to upgrade the systems to run business due to limited financial budget.

As compare to large companies which can easily obtain the modern technology and systems, computers, software and other system requirements.

SMEs can enjoy the digital procurement system through Cloud Based procurement services which is comparatively cheaper than dedicated digital procurement system.

Lack of Technical Skills

Mostly SMEs in Pakistan have untrained or less trained staff of digital procurement system. It is necessary to have well trained and familiar with the digital procurement system in SMEs. Existing staff of traditional procurement system may face difficulties in digital procurements system because they do not have knowledge and skills of that technology. SMEs should arrange the training sessions for their staff to learn the software usage, online supplier searching, data management, and knowledge of cyber security.

Limited Technology Setup

The latest technology, like internet, software, computers, and online platforms is necessary to fully implement the digital procurement system in business. In Pakistan, the internet access to businesses is improving continuously but still most areas where SMEs are working without this infrastructure or less infrastructure. Due to these issues, SMEs are unable to communicate online with suppliers, electronic payments, and use of online platforms to run digital procurement system.

Risk of Cyber Security

Mostly SMEs do not have proper security system to protect the data of procurement, that's why they feel threat of loss of data. Digital procurement system has data includes contacts of suppliers, business transactions, contracts with suppliers, and price. This creates risk for privacy and security. So, SMEs must secure their data through staff training, security software, strong passwords, and limited authorization of approval, payments and other process in digital procurement system.

Change Resistance

SMEs in Pakistan mostly run by owners through traditional business approach to lower business running costs by hiring unskilled worker at lower salaries. So, unskilled workers resist to changing of traditional procurement system to digital procurement system because they have fear of digital skills or less job opportunities due to technology replace worker perception. Owners of business should explain the benefits of latest technology to their staff and arrange the awareness sessions in-house or through other training institutions. It can also encourage the revision of salary package for qualified staff to overcome the resistance to change.

Recommendations for Promoting Digital Procurement Adoption

Government Support and Policy Development

In digital procurement system adoption by SMEs, government can play a significant role to enhance the

digitalize economy. Government can support SMEs for digital procurement through digital training facility from government education institutions, low markup financing facility, and tax incentives.

Development of Affordable Digital Solutions

In Pakistan, mostly SMEs have limited financial background, so they can't afford dedicated ERPs for their businesses. Cloud-based procurement systems need to be developed and available to use at affordable price. Low price digital solutions can improve adoption rate in SMEs, so, they can implement digital procurement system to meet modern business need.

Training and Capacity Building

SMEs need to create a system or platform to provide continuous training and skills development programs for the staff of SMEs. This system can be developed with the help of education and training institutions, qualified trainers, software developers, programmers, and experienced professionals.

Encouraging Digital Supplier Networks

Digital networks of suppliers and buyers can enhance the adoption of digital procurement systems by SMEs in Pakistan. In a digital system, the buyer and the seller can communicate quickly and compare the suppliers' quotations and delivery time. Digital networks also create opportunities for SMEs to enter the larger market, which can increase their business.

Conclusion

Traditional procurement system is unable to meet the business need in current technological environment. It is essential to replace the traditional or paper-based procurement system with digital procurement system to run the business in modern world. By affordable and reliable digital procurement tools, the SMEs can play a significant role in economic development of Pakistan. To increase the adoption rate, we have discussed the available tools for SMEs and their advantages and limitations. These tools can help SMEs to improve better procurement system with efficiency, reliability, secure, low risk of fraud, cost reduction, low staff requirement, strong supplier relationship, and better strategic decision making. Digital procurement can enhance the long-term sustainability of business by technological enhancement and strategically transformation.

It can also help to improve the market position, supply chain management, inventory management, cash flow forecasting, and reduce audit working papers.

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