

7 Steps for Sourcing Information Products

By Helen Clegg and Susan Montgomery

Sourcing information products is a complex exercise involving many variables. In today's uncertain business climate, information budgets are sensitive to scrutiny and constantly under threat. In many cases, information professionals are faced with trying to get more value from suppliers with a flat or reduced budget or contending with a "now we have it, now we don't" scenario. What's more, there is a lot of rival content available from the Internet, making it more difficult to justify expenditure on pricey products.

As a category, information products pose a number of challenges to the information professional tasked with sourcing them. Information products constitute a complex category because they are difficult to compare on a feature-by-feature basis. Although there may be considerable overlap among the content offered and the products purchased, each one has certain unique features and a core group of users who consider these different products indispensable to their work. User needs can differ too, adding to the difficulty of comparing one product with another. In some segments of the market (real-time stock market data, for example) there is a virtual monopoly, which limits the relative power



of the buyer. In the case of online news services, the tool itself, as well as the content, must be evaluated. Furthermore, the rate of product enhancement and innovation in this category continues to increase as vendors seek to sustain their current customer base and capture more market share.

The pricing structure of information products is another challenge. There is little transparency when it comes to pricing policies and they are constantly changing. Every information provider has its own pricing structure and all are reluctant (indeed, may refuse) to discuss their cost structure. For example, what margin is an information provider making on a piece of information that they resell to you? How do you know how good a deal you are being offered? Without having an insight into questions like this, it is difficult to negotiate effectively.

Often contracts expire at different times of year, so information professionals find themselves negotiating with each provider separately and sometimes risk losing access to the service if they do not agree to a new contract before an existing contract expires. In large organizations, there may also be multiple relationships with the same supplier, leading to potential duplication of data purchases and missed opportunities to leverage the total spend. And to top things off, contract durations are often for only a year; no sooner do you conclude a negotiation than it seems like it's time to start the next round.

With so many things to take into consideration, it's a tough job for information professionals to secure the best deal for their organizations in terms of value and money. One information professional commented, "I've been dumped in at the deep end with no negotiations training, and it's sink or swim." It's not an equal contest when an amateur negotiator has to go face-to-face (or fact-to-fact) with a professional salesperson.

By thinking strategically about sourcing information products and using a proven process such as A. T. Kearney's Seven Steps for Strategic Sourcing, information professionals can successfully source or renegotiate contracts for information products and alleviate the contract negotiations quagmire. This method can be applied to sourcing all kinds of information products and services and has been successfully used to source information products for companies in sectors such as financial services and pharmaceuticals, where information has a strategic value. Following the process leads to optimal negotiations because the facts have been gathered and analyzed and the organization has a firm base from which to conduct negotiations with suppliers.

Seven Steps of Strategic Sourcing

The seven-step process has been tested and proven effective for sourcing information products ranging from online databases and real-time market data to subscription

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Figure 1. The 7-Step strategic sourcing process



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services, primary and secondary market research and other information services. The final result may be savings in hard cash (typical savings range between 4 percent and 20 percent), greater added value from the suppliers, and/or time and aggravation saved on a previously time-consuming and unwieldy exercise. (See Figure 1.)

Step 1: Profile the category

The purpose of Step 1 is to understand your organization's internal spend for information products and the external market. A clear understanding of both aspects is critical to determining the best sourcing strategy (Step 2) and to having a strong fact base when it comes to negotiations (Step 5). Step 1 is one of the most time-consuming steps of the whole process so it is important to start well in advance of your target for completing a contract.

Ordinarily, a category consists of a number of products from similar vendors that can be grouped together in a competitive sourcing exercise. For example, an automotive company might purchase different tires for different vehicles from different manufacturers. It may make sense to group the total spend on tires together into one category in order to identify savings potentials. While information products are often purchased on a one-by-one basis, consider whether, moving forward, it would be advantageous to group several products into one sourcing exercise. Carrying out a vendor segmenta-



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tion analysis is one way to position the product in relation to others purchased by your organization. (See Figure 2.)

Spending analysis. The task of identifying your organization's total spending with a vendor (or vendors) needs to begin well in advance of contract negotiations. Your accounts payable department should be able to supply this information; however, you may also need to request the vendor supply information on all existing contracts within your organization so that you have a complete picture of the spend in terms of dollar amounts, locations, number of users and volume of usage, pricing, terms and conditions and which sources are used most heavily. By doing this exercise, one company found that it had multiple contracts with a supplier of credit information, several contracts with an online news vendor, and two separate contracts with a news aggregator. (See Figure 3.)

Make sure you draft your request for data carefully so that you get back from the supplier the spend information that you require in the format you want it. Your aim at the end of the day is to have a clear picture of what your organization is currently spending with the supplier.

Needs analysis. You also want to interview key current users to develop a thorough understanding of their needs for

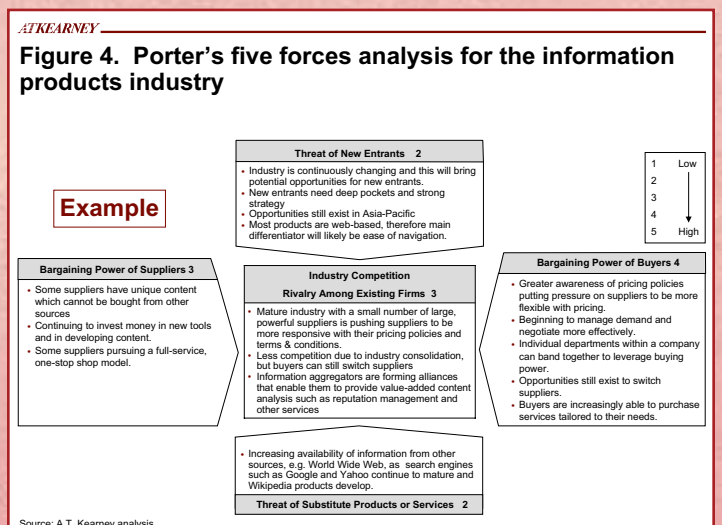
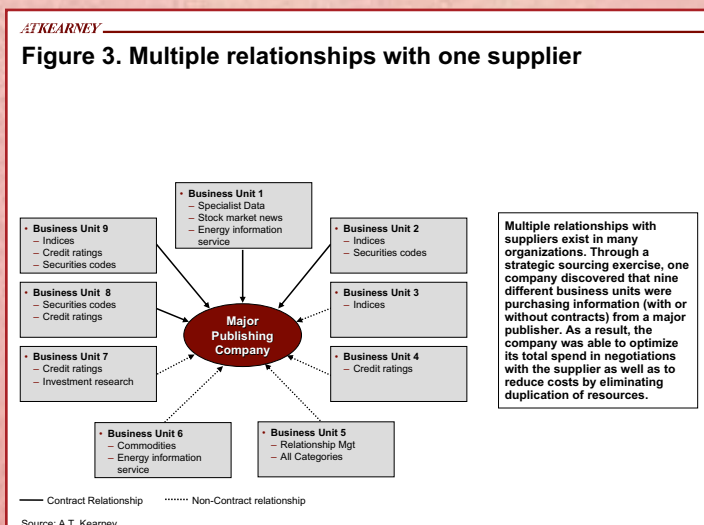
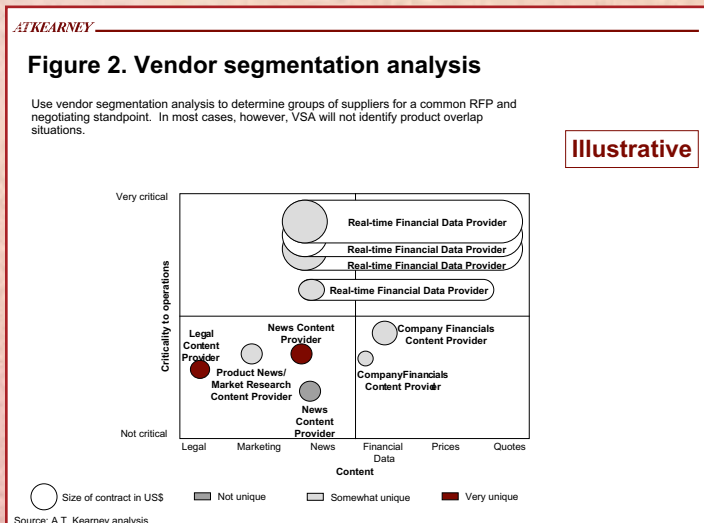
the product, their view of the supplier's performance, and any enhancements that they would like to see in the product (budget permitting, of course!). What content do you absolutely need to satisfy the present and future requirements of your users?

If you have identified other departments within your organization that have contracts with information providers, work with them to produce a thorough analysis of your needs. This could take longer than if you were doing it just for your own department, but it will likely pay off with more favorable contract terms and conditions.

Supply market analysis. The second facet of Step 1 is to understand the external supply market in which the supplier operates and the market pressures the supplier faces. What is the current competitive situation? Are providers under cost pressures, competitive pressures, technology pressures? What other suppliers could supply the same content and functionality (or nearly so)? What are the trends in the information industry? What insights can you get into the value chain, suppliers' cost structures, and pricing?

Although difficult to do, understanding your vendors' pricing structures should come early in the seven-step process. Any information you can glean on the vendor's pricing policy can turn into a powerful negotiations tool.¹ Listen carefully to all the information your vendor is prepared to give you. In one situation, a vendor revealed the amount it was paying in royalties. The company's negotiating team was able to use this information to make an informed estimate of the margin the vendor was making and leveraged this information to negotiate a more favorable price.

Often it is helpful to formally encapsulate your knowledge of the supply market with a short market overview as well as a Porter's five forces analysis,² which describes the forces driving industry competition. (See Figure 4.) Not only does this help to crystallize your own thinking, but it will inform others on your team who may not be so familiar with the information marketplace. If you are dealing with a single supplier,³ you want to learn as much as you can about the state of the supplier's business and draft a SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis of the supplier.



Step 2: Select the sourcing strategy

Armed with the insights you have gained in Step 1, you are now ready to consider your “go to market” approach. You need to consider how the product you are sourcing aligns with your company’s overall strategy. Where would you place the product you are sourcing within a category positioning matrix? Once you have decided this, you are in a position to decide on which strategies you wish to pursue, as Figures 5 and 6 show.

For information products or services that fall within the “Non-critical” or “Leverage” categories, the most appropriate sourcing strategies are “Volume Concentration” (combining your organization’s total spend to gain leverage with the supplier) and “Best Price Evaluation” (negotiating on price). Global Sourcing refers to opportunities to develop new vendors and extend the geographic vendor base, for example through low cost country sourcing or outsourcing opportunities.

For information products or services that fall within the “Bottleneck” or “Strategic” categories, the most appropriate sourcing strategies are “Product Specification Improvement” (can the supplier tailor the product more specifically to your organization’s needs?), “Joint Process Improvement” (can you and your supplier work together to provide better value and more usage?) and “Relationship Restructuring” (establish long-term partnerships with key suppliers in return for preferred pricing).

Another strategy to consider in your equation is demand management. Does your organization really need all the passwords or seats that you currently have? Do some users require access to only a certain part of the product, rather than the whole thing?

Now that you have done your groundwork and are clear about your strategy, you are ready to engage the suppliers.

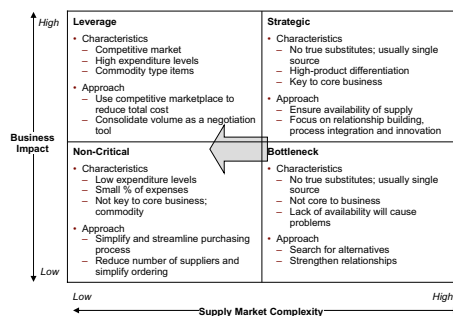
Step 3: Generate the supplier portfolio

Step 3 is about widening your supplier base and identifying all viable suppliers. With information products, the potential number of suppliers is likely to be limited. This is especially true when it comes to business information products, as there has been much consolidation among suppliers. Just a decade ago, there were independent commercial online databases such as Pergamon Online, IP Sharp, DataStar, Dialog, Dow Jones, and MAID. Today, the information provider industry looks very different, with the Thomson Corporation owning both DataStar and Dialog and Dow Jones having linked up with Reuters to develop the Factiva product.

Despite the industry trend toward consolidation, new suppliers are always emerging. In the 1990s, for example, Datadownload, also then known as “.XLS,” made an appearance. Today, the company is known as Alacra and has gained a strong foothold as a supplier of business information. Bloomberg and Hoovers Online are other examples. Similarly, information providers you might have dismissed at one time because their products were not up to the standard you once needed, are fighting back and winning market share by understanding and implementing the needs of their customers quicker than their competitors.

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Figure 5. Category positioning matrix



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Figure 6. Sourcing strategies



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Use the needs analysis you did in Step 1 to develop your criteria for supplier selection. The criteria will depend on a range of factors including the type of information you need to provide to your users, whether you are buying information products for end users or whether you are looking to negotiate an enterprise-wide agreement with a supplier. Table 1 lists some examples of criteria you might consider for selecting suppliers.

Do not discard any suppliers at this stage. Even if they are smaller or newer suppliers with whom you may not be familiar, they may offer more favorable contract terms than some of the larger information providers, particularly if you are a small information department and have a limited budget.

Step 4: Select the implementation path

The purpose of Step 4 is to decide the most appropriate execution strategy for choosing your short-listed suppliers.

Request for proposal. The traditional route taken by many procurement departments is to conduct a Request for Proposal. In the RFP the buyer states his requirements and asks suppliers to set forth the specifics of their proposed offer including pricing. Requiring the vendors to complete a standard pricing matrix will allow you to compare their offers on

Table 1: Examples of criteria for supplier selection

Criteria	Questions to ask the supplier
Geographic coverage	What geographies do you cover? What is your coverage of Central and Eastern Europe?
Industry and market coverage	What is your depth of coverage of industries and markets? (Ask for more detail about specific industries/specialist publications)
Full text vs. abstracts	How much of your content is full text?
Product content	Would we have access to all the material available to you or would content availability depend on the product/level of service chosen?
Indexing	How are documents indexed?
Search functionality	How advanced is the search functionality? Does the product have different levels of search functionality for end users and professional researchers? Does your product support Boolean logic?
Language	Does your product database cover foreign language publications?
Downloading	What formats are available for download? Are there any restrictions with regard to downloading and storing documents on PCs?
Housekeeping	Describe the housekeeping functions that are available for users to keep track of costs.
Help and Customer Support	What online help is available? Do you offer live customer support? What training do you offer?
Pricing	How does your pricing structure work? Is it per seat or per service/product? What charge do you make for redistributing articles?
Billing	How frequently do you bill customers? What format does normal billing take (per user ID, per charge back cost code, per location, per seat?)
Contract	What is the minimum length of contract? Do you do multi-year contracts?
Usage reports	What types of usage reports do you provide? Do you provide customized usage reports?

an equal basis. One way to do this is to ask for pricing on a seat or user basis. A set of criteria and weightings for evaluating the completed RFPs must then be developed. The use of an electronic RFP tool can be a real asset in making sure that all potential suppliers respond in a consistent manner, speeding up the entire process and simplifying the analysis of responses.

Internet negotiations. Suppliers that have successfully got through the RFP process will then be invited to number of negotiations rounds. Negotiations may be conducted either face-to-face or, depending on the situation, by Internet negotiations (sometimes called reverse auctions or e-auctions). The advantage of using an Internet negotiation is that it compresses the time to arrive at the suppliers' "best offer" from days or weeks to a matter of hours. Even with the use of an Internet negotiation, however, there will still be a final contract negotiations process with the successful bidder.

Internet negotiations work best when there are at least three or more suppliers whose products are broadly similar;

Table 2: When to use internet negotiations

Internet negotiations (should involve at least three suppliers)	Formal RFP and negotiations process
Subscription consolidators	Online content providers
Book distributors	Secondary market research providers
Primary market research services	Real time financial data providers
Credit information services	Unique content providers

for example, subscription consolidators or book distributors. Internet negotiations are not appropriate in situations where the vendor you are dealing with provides unique content or the best content for a specific industry. In addition, it must be possible to categorize the information products so that you can directly correlate the suppliers' bids. You need to be able to compare apples to apples; for example, base the negotiation on price per seat. If you are part of a large organization and have a relatively high spend on information products with a number of suppliers, Internet negotiations would be a technique worth considering.

In a situation where there is only one viable supplier to consider, you may feel that the best approach is to negotiate directly with them, without issuing an RFP. Effective negotiations become Step 5 of the strategic sourcing methodology.

Before moving on to the negotiations stage, you must also have done your homework very thoroughly with regard to what you are spending with each supplier. Ensure that you know exactly what is being spent on each information product and what you are prepared to spend with each supplier over the next year, if you are negotiating a 12-month contract—this becomes your baseline.

Step 5: Negotiate and select suppliers

Many people dislike negotiating, but this fifth step of the strategic sourcing process is important and needs careful preparation.

Start with putting together your negotiations team. Typical roles to include on a negotiations team are the spokesperson, a senior authority, a technical expert, a user, and an observer (note-taker). Certain team members may also play the "good guy" or the "bad guy." If you operate a one-person information department, ask for support from someone in the finance or legal departments. You may even want to consider hiring a professional negotiator, if you are negotiating an extremely large and important contract and have little negotiations experience.

Develop your negotiations strategy. Information is the key here and includes the information from your RFPs and your needs analysis, as well as knowledge of what is happening in the supplier marketplace and the suppliers' likely bargaining stance.

Understand your current bargaining position. What is your most desired outcome (MDO), your least acceptable agreement (LAA) and your best alternative to a negotiated agreement (BATNA)? What are your negotiating levers?

What concessions are you prepared to give? Remember, however, that you should never concede anything without getting something from the supplier in return. For example, if you are dealing with a rather inflexible supplier who won't move on price, your sales representative may agree to giving you unlimited free training, letting you become a beta test partner or providing you with specific technical support.

Think about the supplier's objectives and take these into consideration as well. What do you think the supplier's negotiating position will be? What is driving their cost structure? The more you understand the supplier's position, the stronger your negotiating stance. At the end of the day, you and the supplier will need to arrive at a mutually acceptable agreement.

Develop the negotiations team's objectives and roles. Prepare a worksheet with key points for each negotiating session and hold a formal briefing session with your team. As a group, you must be very clear of your objectives before you enter the negotiations meeting and each member of the team needs to understand his or her role.

Have a contingency plan. What is your best alternative to a negotiated agreement (BATNA)? Are you willing to walk away from a deal if it doesn't meet your LAA?

The negotiations process may require several meetings with each of your potential suppliers before you come to an agreement. It is valuable to have a team member whose role is to take notes of the discussions so that any agreements and sticking points are documented. The negotiations process does not end until you have everything in writing. Remember, too, that everything is negotiable and that you really do have more power than you may think!

Step 6: Integrate suppliers

If you have decided to work with a new supplier and/or to discontinue an old one, you will need to

- Identify any transition issues (providing user details to the new supplier, for example)
- Consider the organizational implications and any required changes
- Create new processes and procedures if necessary (for example, how will charge-backs be handled?)
- Create a transition/implementation plan
- Communicate the changes to your users

Step 7: Monitor the supply market and supplier performance

Once your new agreement is in place, it's time to start thinking about the next sourcing exercise. Plan ahead and stay abreast of your supply market conditions, so that next time your contract is up for renewal you've already done part of the groundwork.

In your new contract, state performance metrics that you have agreed upon with your supplier, for example joint process improvements, quarterly meetings and

monthly usage reports. What procedures will you put in place to monitor these on a regular basis, and how will you develop your relationship with the supplier so that you have a foundation to work from next time?

Lessons Learned

Each time you work through the strategic sourcing process you will improve your skills at sourcing this category. Some key lessons to bear in mind when sourcing information products are:

- Plan your sourcing exercise at least two months in advance of contract renewal.
- Aim to have the contract signed a full two weeks before your current contract expires.
- Work at getting all your contracts to expire around the same time. This puts pressure on the vendors as there is more competition for your limited spend.
- Involve your company's purchasing department, if your organization has one. The purchasing department may have already used strategic sourcing techniques on other spend categories so it will be able to guide you through the process; professional buyers are experienced negotiators. They may also have access to electronic sourcing tools, such as electronic requests for proposals (RFPs) and internet negotiations that can expedite the sourcing process.
- Find a colleague who is an experienced negotiator and involve him or her in the process, if you feel you do not have enough negotiating experience.
- Manage the demand for the information products to which you subscribe. Do you really need all those seats you currently pay for?
- Learn as much as possible about the products' pricing structures.
- Get legal advice if you are at all unsure about any aspect of the contract.

Information products are a complex, highly fragmented category to source. It's not all about negotiating skills. It is about a following a proven, structured process and doing the necessary groundwork to understand your organization's real needs and your supplier's business. Following the seven steps of strategic sourcing will give you real advantage in the sourcing process and demonstrable results for your organization.

¹ Outsell, Inc. (www.outsellinc.com) is one source that specializes in market analytics for the information industry.

² Porter, Michael E., *Competitive Strategy*, Free Press, 1980.

³ If you are negotiating a contract with a single supplier and there will be no competitive negotiations, your sourcing strategy and approach will be somewhat different. You should conduct a market scan to identify alternative suppliers if possible. You may want to negotiate a different end date for the contract to bring this supplier into competition with several others. You may also find that demand management is a critical key to savings in situations where there is only one viable supplier. 