

Jump-Starting Your eSourcing Program

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Much has changed since the late 1990s when a handful of companies—Glaxo SmithKline, Hewlett-Packard, Dell, and Sun Microsystems—began using sourcing technologies. These industry pioneers automated their sourcing processes by using electronic tools and technologies to request and evaluate quotes or proposals (RFXs), to negotiate with suppliers (reverse auctions) and to manage sourcing workflows and information.

Today, these eSourcing technologies are easier to use and more adaptable to numerous sourcing and business strategies. Indeed, as delivery tools such as Software as a Service (SaaS) have become more popular so has eSourcing. And there is ample evidence to suggest that these tools have keen advantages—from accelerating sourcing cycle times and expanding sourcing to more suppliers, to increasing incremental savings, especially when compared to standard, paper-based approaches.

Best Practices in eSourcing

Our more than 30 years of experience working with procurement organizations and performing formal benchmarking studies across different industries has enabled us to identify practices that differentiate leaders from followers. We've observed that the leaders distinguish themselves by:

- **Taking the lead in defining IT requirements and expectations.** The sourcing team clearly defines requirements and expectations of sourcing technology providers rather than delegating that task to their IT colleagues.

- **Establishing a center of excellence.**

Within the center, the leaders deploy sourcing tools, starting with pilot programs, and quickly train power users (vs. relying on external partners) to support the troops.

- **Building a meaningful governance model.** The model supports and guides the program, engages stakeholders, and defines the “rules of the road.”

- **Designing and deploying metrics.**

Metrics both define targets for the program and gauge progress against those targets. Importantly, the targets are incorporated into the annual performance programs for both stakeholders and individual members of the sourcing team.

- **Adhering to the highest ethical standards.** In the design, deployment, and maintenance of their programs, the leaders never give suppliers or stakeholders any reason to question the integrity of the process or how the tools are deployed. Although mistakes can happen, there can never be any appearance of unethical practice.

Where are the Leaders Headed Next?

After mastering eSourcing tools and using them in their day-to-day sourcing processes, leading companies are turning their attention to next-generation strategies. Four key strategies appear on the near horizon:

- **Pre-approved supplier networks.** Leading companies are beginning to build pre-approved supplier networks. By sourcing and contracting with a network, or “stable” of pre-approved suppliers, companies can meet their business needs and leverage eSourcing tools to bid out each job or product as it is defined. Buyers can lock in a group of preferred suppliers that have been vetted for quality and risk and apply a pricing framework that can “flex” as requirements are defined. Suppliers have the flexibility to compete when the right supply conditions exist in their operations

(for example, excess capacity) or opt out when they are soldout.

Real-time supply and demand management. Traditionally, high-volume contracts are awarded to a limited number of vendors for multiple-year terms. While this strategy doesn't always ensure the best price—it can ignore supply market capacity, for example, or make it tricky to ride technology price curves down—it is a pragmatic solution to managing sourcing costs. With eSourcing tools, by comparison, companies can drive down the cost of negotiations and allow the buyer to leverage real-time supply and demand conditions—where “best price” is derived by current market conditions.

Request for solution: Expressive bidding and optimization tools. One underlying principle of strategic sourcing is that the buyer must clearly define its specifications so that all suppliers' bids can be evaluated and compared on an apples-to-apples basis. But this strategy has its limitations. For instance, buyers often define specifications in a way that adds more costs to suppliers' business models. If suppliers were allowed to propose their own solutions, they could offer an alternative that works better and is more cost effective for the buyer. Now, with expressive bidding and optimization tools, buyers can do just that—by soliciting unique proposals from suppliers, evaluating each one individually, and coming up with an award scenario that maximizes the benefits for both parties. Rather than sending out a Request for Quotation, buyers can send out a “Request for Solution.” Furthermore, procurement leaders are finding that these strategies are not just for standard goods and SKUs.

Advanced analytics. With the wealth of information procurement leaders have at their finger tips and warehoused within their eSourcing tools over the past 10 years, they now have a powerful data source to support advanced negotiations. In-depth analyses of supplier bidding strategies are being used to develop sophisticated negotiations strategies, including game theory, scenario analyses and optimization tools.

As procurement leaders push the boundaries of what eSourcing technologies can do today, the technology vendors are aggressively keeping pace. Specifically, they are developing advanced functionality, rolling out solutions that are more cost effective to implement/ access/ deploy (e.g., SaaS) and driving greater integration with other core business applications such as ERP systems, collaboration systems, and business intelligence systems.

How to Jump-Start Your Program

The past 20 years have been an exciting time for procurement leaders. Companies that invested in eSourcing tools to automate transactional activities and negotiations and reduce sourcing cycle times are well positioned to take their organizations to the next level. For those that did not and are now playing catch-up, all is not lost. Procurement leaders have done a great job of charting a roadmap to success, identifying best practices to emulate, and pointing out the pitfalls to avoid. Now all that remains is to take up the challenge and get busy. Here are 10 tips from the “pros” on how to jump-start your eSourcing program:

For those procurement organizations still playing catch-up when it comes to eSourcing, all is not lost. The leaders have shown the way.

1. Secure the right technology. There are many lower-cost solutions available today that do not require the purchase of expensive, complex software.
2. Identify and train a core group of technology-savvy employees. Take a “train the trainer” approach to develop a few black belt experts and lots of green belt users.
3. Develop an initial pipeline of eSourcing events for categories that have robust specifications and suppliers willing to compete.
4. Start with a virtual center of excellence with a dedicated “tech center” in at least one key location. This can be as simple as a small conference room with a large flat panel screen or even a LCD projector to showcase events.
5. Invite key stakeholders and business clients to watch events. Start with events where there is a high likelihood of success and where stakeholders support the activity.
6. Publicize the successes and don't forget to give credit to participating business partners.
7. Secure visible senior executive support. If you are delivering savings without sacrificing supply quality and service, senior executives will quickly support the eSourcing program.
8. Develop and execute a change management strategy that converts detractors (both internal and external to the organization).
9. Set ambitious program goals.
10. Always run a fair, ethical, and transparent program.