

JumpStarting Your eSourcing Initiative

Leading procurement organizations offer best practices
in sourcing technologies



Much has changed since the late 1990s when a handful of companies—GlaxoSmithKline, Hewlett-Packard, Dell and Sun Microsystems—began using sourcing technologies. These companies were industry pioneers as they automated their sourcing processes by using electronic tools and technologies to request and evaluate quotes or proposals (RFXs), negotiate with suppliers (reverse auctions), and manage sourcing workflows and information. Today, 12 years after the beginning of the sourcing technology revolution, we can reflect on the success of companies that embraced these tools and reengineered their business processes to fully leverage them.

As delivery tools such as software-as-a-service (SaaS) have become more popular, so has eSourcing. There is ample evidence to suggest that these tools have keen advantages, from accelerating sourcing cycle times and expanding the sourcing process to more suppliers, to increasing incremental savings, especially when compared to standard, paper-based approaches.

Yet given the technological advances and results reported by the eSourcing pioneers, it is somewhat surprising that these tools are *still* not pervasive throughout all Fortune 1000 companies. Our research shows that while more than 75 percent of companies report that their procurement organizations have used these tools at least once, only a small fraction report using them in any sig-

nificant way (defined as more than 200 online RFXs or reverse auctions per year). Fewer than 5 percent of companies report having reengineered their sourcing processes to fully embed and leverage these tools.¹ The story is no brighter on the sales side, where only a few companies have reengineered to adapt to the changes these tools force on the traditional sales processes. Instead, while many companies may have introduced the tools with great fanfare, they neither changed their business processes nor trained their staff to use them effectively.

This paper examines the use of and business case for sourcing technologies, often called eSourcing. We outline best practices in eSourcing, identify some of the major pitfalls, forecast where we believe procurement visionaries will go next,

¹ A.T. Kearney's *Assessment of Excellence in Procurement* study is performed every two years. The study, which benchmarks more than 600 global enterprises in more than 15 industries, is available at www.atkearney.com.

eSourcing Technologies

Procurement organizations have evolved over the past 20 years as they have adopted various strategies and tactics to improve the purchasing process—from strategic sourcing to negotiations technologies and finally to spend visibility solutions. By the early 2000s, several tools and technologies to automate the process were gaining popularity⁴:

- **RFX (request for information, proposal or quote).** Tools that support the distribution and dissemination of company requirements to suppliers, provide a means for buyers to request infor-

mation from suppliers while controlling supplier responses, and support the automated or accelerated evaluation of responses by the buyer

- **Negotiations.** Tools that support and automate the negotiations process, including reverse auctions, sealed bids and expressive bidding
- **Analytics.** Tools that provide for advanced optimization to allow the buyer to evaluate alternative vendor proposals, alternative award allotments, and the impact of alternative constraints placed on the sourcing process

- **Workflow management.** Tools that allow for design and dissemination of standard sourcing process(es) across an extended team, ensuring consistency of execution and transparency into activities

- **Knowledge management.** Tools that allow for the creation and storage of intellectual capital for use throughout the sourcing process, including functionality to support the design, maintenance and deployment of templates and frameworks to support a consistent, high-quality sourcing process

and examine how the technology leaders will likely improve their products over the next 10 years. Finally, we outline 10 tips to JumpStart an eSourcing initiative—plotting a course to help companies attain that elusive goal of sourcing “nirvana.”

The Case for Sourcing Technologies

The reverse auction was among the most profound eSourcing technologies. First introduced by FreeMarkets in 1998, it quickly captured the eye of procurement leaders who understood that reverse auctions provided transparency and credibility in the negotiations process. As suppliers could see the lowest price a competitor would charge for a pre-defined item, it challenged longstanding, incumbent supplier relationships and ensured the buyer was contracting for the best

market pricing available. Sourcing managers began to test the use of reverse auctions on all types of purchases, expanding their use well beyond traditional commodity items.

Sensing a market opportunity, more vendors developed competing technologies, and introduced online survey tools to automate the cumbersome and time-consuming RFX process.² Technology vendors kept innovating by introducing sourcing workflow, knowledge management and collaboration technologies to automate their efforts (*see sidebar: eSourcing Technologies*).

Anecdotal evidence suggests that incorporating eSourcing technologies into an already well-managed sourcing program can increase savings incrementally by 5 to 8 percent on average.³ Although there is no definitive data to explain why or how these incremental savings are achieved, it is

² Vendors include Ariba, eBreviate, Frictionless, Emptoris, Iasta, Oracle and Procuri, among others.

³ Evidence is based on work performed by Aberdeen, AMR, A.T. Kearney, CAPs and SpendMatters.

⁴ Although tools may also include those that support the collection of data and requirements, contracting and purchasing, in this article, we limit the scope to those mentioned in this section.

generally assumed that these online events provide suppliers with real-time visibility into the most competitive bids available. Suppliers often respond with lower prices, so buyers obtain a price best described as “what the market will bear.” Additional advantages for buyers stem from an increase in:

- Number of sourcing events that can take place
- Frequency with which sourcing events can take place
- Reduced cycle time required for sourcing events
- Increased availability of templates and analytic tools, which improves the consistency and quality of the events
- Ability to include more suppliers in the process (due to the increased communication and collaboration functionality these tools provide)

Simply put, procurement organizations find they can do more with existing professional headcount, accelerating incremental savings while reducing operational costs. Indeed, we know of one top-150 corporation that reduced its professional procurement staff by more than 50 percent in the past eight years after putting in place eSourcing practices globally. Even better, the company is still delivering incremental savings on its total annual expenses (software, hosting, maintenance and workforce, among others) associated with its eSourcing program about every five working days. The figure on this page highlights some of these benefits.

**Best Practices in eSourcing:
How the Leaders Lead**

For more than 30 years in our work with companies, and in performing formal benchmarking studies across different industries, we have studied various procurement organizations and identified best practices. The following are several strategies that distinguish leading procurement organizations from the followers:

Form a sourcing team to define requirements.

Leading procurement organizations establish a sourcing team to define requirements and expectations of sourcing technology providers, rather than delegating this task to their IT colleagues.

Establish a “center of excellence.”

Leaders set up a center of excellence from which they deploy sourcing tools, starting small with highly visible pilots, and very quickly training power users (rather than relying on external partners) to support other users (*see sidebar: eSourcing Center of Excellence on page 4*). They invest significant time and funds toward training activities. These companies also design and implement a comprehensive change management strategy for

Figure
Performance comparison:
Traditional sourcing versus eSourcing

Metrics	Traditional sourcing	eSourcing
Percentage of spend in reverse auction	0% to 10%	80%
Percentage of spend sourced (includes all RFX events)*	0% to 35%	98%
Number of events per year	0 to 100	1,000+
Sourcing efficiency (time per sourcing event)	Weeks or months	Hours or days
Savings	0% to 5%	15%+
Geographic reach	Local or regional	Global
Key suppliers involved (%)	0% to 25%	98%
Return on sourcing investment (timeframe savings realized)	Months or years	Days or weeks

*RFX refers to request for information, proposal or quotation
Source: A.T. Kearney analysis

how to deploy the tools more broadly while encouraging adoption.

Build a meaningful governance model.

Leaders understand that governance is vital to supporting and guiding a new program, engaging stakeholders and defining the “rules of the road.” They use governance to change the conversation from one of “prove to me why we should use these tools” to “prove to me why we should not.”

Design and deploy metrics. Measurement is essential. Defining targets for the program and tracking progress against those targets ensures that these targets are translated into individual annual performance programs for stakeholders and sourcing team members. In best practice companies, the metrics go beyond tracking savings to also include the number and types of events completed, the number of suppliers and stakeholders engaged, and supplier compression achieved, among others.

Adhere to the highest ethical standards.

Leading procurement organizations focus on the

design, deployment and maintenance of their programs, never giving 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 practices. One of the advantages of eSourcing tools is the audit trail they provide. We know of at least one company that offers suppliers an independent audit of any questionable event, and to our knowledge, this company has never been asked to do so.

Avoiding the Pitfalls

As with all change efforts, the leaders do not achieve success without first encountering a few failures along the way. Understanding where the potential pitfalls are and how best to navigate them can help to de-risk a new program:

Say no to pay-per-use. Charging stakeholders for the cost of the technology or the sourcing staffs’ time to support the technology is

eSourcing Center of Excellence—What It Takes to Get It Right

Leaders that have created eSourcing centers of excellence also have people with unique expertise—the kind that only comes from running hundreds of events across dozens of spend categories. These experts are a new breed of strategic sourcing professional. They know how to exploit sourcing technologies as they determine the right balance of bid parameters and supplier conditioning messages to generate price, cost and total value.

For bid parameters, decisions are made about the level of transparency given to competing suppliers. For

example, do you reveal rank only, or position versus second lowest price or lowest price, or various other permutations? Bid parameters also include configuring eSourcing functionality to best leverage conditions, including event timing, market positioning, lot structure, SKU segmentation, transformational or expressive bidding.

Supplier conditioning takes on an entirely new meaning in eSourcing as it allows buyers to communicate with suppliers. eSourcing experts hone their skills over hundreds of events as they cultivate message strat-

egies that deliver the greatest benefits. Message strategies include not only *what* gets communicated to the supplier, but also *how* it is communicated (via phone, email, instant message), by *whom* (via the tool from the sourcing manager, the internal stakeholder, the event manager, or others) and *when* (before, during or after the event, or in overtime).

A transformation is taking place as leading procurement organizations recognize the power in combining the knowledge and insights from seasoned category domain experts with that of eSourcing strategy experts.

not a good idea. For the most part, stakeholders view these eSourcing tools as a risky proposition to start with, so charging them a hefty fee to use them can stop a program before it gets off the ground.

Don't wait for people to opt in. Waiting for stakeholders and even sourcing staff to opt-in to the program is a recipe for disaster. Success depends on program metrics, tied to individual performance metrics, that clearly communicate expectations.

Forget the flavor of the day. Merely rolling out the tools and some directives on how to use them will make this program just the latest flavor of the day. The leaders invest in a long-term, holistic change management program to encourage adoption and use of the eSourcing tools.

Resist supplier pushback. Change is difficult for most people, so do not be surprised if suppliers push back and try to circumvent, postpone or eliminate the process. Companies that stood firm in their commitment to the process and tools, and invested resources to communicate this stance to their suppliers, were able to get past this hurdle. More suppliers recognize that eSourcing tools provide them with access to critical information needed to compete for existing and new business. Further, these tools allow for collaboration and communication that allow buyers to include more suppliers in the process, resulting in access to more potential business opportunities.

After years observing both leaders and followers, we developed a “stages of sourcing technologies excellence” framework to help companies benchmark their current performance (*see Appendix on page 8*). Using this framework, companies can prioritize investments and plot a course for improvement along the four stages of excellence. Importantly, most companies neither aspire to nor achieve stage-four status across all elements of their sourcing programs. Rather, they focus on

those elements that they believe will deliver the greatest results.

Where are the Leaders Headed Next?

After mastering eSourcing tools and using them in their day-to-day sourcing processes, leading companies are now turning their attention to next-generation strategies. There are four strategies on the near horizon worth mentioning and preparing for:

Pre-approved supplier networks. Companies are beginning to build pre-approved supplier networks. By sourcing and contracting with a network, or “stable” of pre-approved suppliers, they 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 management purposes, along with 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), and opt out when they are sold out.

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—for it can ignore supply market capacity or make it tricky to ride technology price curves down—it is a pragmatic solution for managing sourcing costs. However, with eSourcing tools, companies can drive down the cost of negotiations and allow the buyer to leverage real-time supply and demand conditions in which “best price” is derived by current market conditions. Here, of course, we are talking about a marginal pricing strategy used by companies with excess capacity, excess inventory or that just need cash.

Request for solution: Expressive bidding and optimization tools. Among the underlying principles of strategic sourcing is that buyers must clearly define their 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 propose 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 both for the buyer and the supplier. 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 stock-keeping-units (SKUs). A leading procurement organization recently used these expressive bidding and optimization tools for a global

service category, while another used them within the print and fulfillment categories. Both companies achieved double-digit savings percentages on categories that had been repeatedly sourced in the past.

Advanced analytics. With the wealth of information that 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. In addition, with advanced analytic techniques, procurement leaders can work hand-in-hand with their R&D colleagues to reduce complexity and support detailed cost modeling strategies that translate into bottom-line supply market savings.

As procurement leaders push the boundaries of what eSourcing technologies can do today, technology vendors are aggressively keeping pace, developing advanced functionality, and rolling out solutions that are more cost effective to imple-

CASE STUDY: eSourcing Changes Traditional “Best Price” Levers

A global pharmaceutical company increased its program to more than 10,000 eSourcing events conducted annually in more than 60 countries. Roughly 90 percent of its total third-party spend was being electronically sourced. As event capacity increased, the average length of contracts fell from 3.5 years to fewer than two years.

With eSourcing, the company was able to test competitive supply

markets more often and even establish competitive bid networks of approved suppliers for repetitive purchases supplied by multiple suppliers. Company executives believed the electronic sourcing environment was doing a better job of matching supply and demand. Instead of locking up certain spend categories with sole sources of supply, they put out a bid to the competitive bid network every time there was a requirement. The

strategy was proving repeatedly to provide more savings than the traditional approach.

Executives took pride in running a fair, ethical and transparent electronic sourcing program that over time delivered the very best suppliers—those that were highly efficient, demonstrated consistent quality, and had excellent control over supply chain risks and costs.

ment, access and deploy (SaaS, for example). These same technology firms are similarly focused on improving integration with other core business applications, such as ERP systems, collaboration systems, and business intelligence systems.

The case study on page 6 offers an example of a major pharmaceutical company's successful use of eSourcing technologies.

How to JumpStart Your eSourcing Initiative

The following are 10 tips from the professionals—leading companies that have successfully launched and implemented eSourcing initiatives:

1. Get the right technology. There are many low-cost solutions available that can provide the same results but do not require purchasing expensive, complex software.
2. Identify and prepare a core group of technology savvy employees. Take a “train-the-trainer” approach by developing a few *black belt* experts and lots of *green belt* users.
3. Develop an initial pipeline of eSourcing events for categories with robust specifications and with suppliers willing to compete.
4. Establish a virtual center of excellence, with a dedicated technology center in at least one location. These can be simple setups designed to showcase eSourcing events, such as a small conference room with a large flat screen monitor or LCD projector.
5. Invite key stakeholders and business clients to

watch eSourcing events; begin with events that are most likely to succeed and include only supportive stakeholders.

6. Publicize the successes and give credit to participating business partners.
7. Obtain visible support from senior executives. If you are delivering savings without sacrificing supply, quality and service, senior executives are more likely to support the eSourcing program.
8. Develop and execute a change management strategy that wins over the skeptics and detractors, both internal and external to the organization.
9. Set ambitious program goals.
10. Run a fair, ethical and transparent program, no matter what.

Taking on the Challenge

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 in catch-up mode, all is not lost. As outlined in this paper, 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 on the challenge and get busy.

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Appendix

A.T. Kearney eSourcing stages of excellence

	1	2	3	4
Area	Limited experience	Novice	Building competency	Programmatic approach
eSourcing strategy	<ul style="list-style-type: none"> No formal strategy to use eSourcing tools Tools have been piloted in the past, but no formal plan to adopt 	<ul style="list-style-type: none"> Formal sourcing strategy is in place but eSourcing tools are not embedded eSourcing tools are: <ul style="list-style-type: none"> Available but used at end-users' discretion Primarily used for RFXs, with limited use of reverse auctions, advanced auction formats, expressive bidding, collaboration and optimization 	<ul style="list-style-type: none"> Formal sourcing strategy is in place with eSourcing tools firmly embedded within the process; yet still not deployed systemically or enterprise-wide eSourcing tools are: <ul style="list-style-type: none"> RFXs and reverse auctions, where appropriate Beginning to stretch beyond price only to total cost and transformative bidding tools 	<ul style="list-style-type: none"> Formal sourcing strategy and process is fully deployed enterprisewide and integrated into the company's overall business strategy eSourcing includes: <ul style="list-style-type: none"> Full complement of tools, including RFX, reverse auction, advanced auction formats, expressive bidding, collaboration and optimization Full complement of tool setups and designs, including total cost and transformative bidding and using auctions in day-to-day category management strategies such as in specification bidding of pre-qualified suppliers (e.g., printed materials)
Organizational alignment	<ul style="list-style-type: none"> No formal resources in place to support the use of eSourcing tools Some tools are available and "power users" are emerging 	<ul style="list-style-type: none"> Power users of eSourcing tools are identified (either formally or informally) Executives are beginning to proclaim the use of eSourcing tools 	<ul style="list-style-type: none"> Center of eSourcing excellence or an eSourcing community is in place to encourage eSourcing adoption Sourcing and category managers are competent in using online RFX tools and becoming familiar with reverse auction tools Skills required to use eSourcing tools are incorporated into job descriptions, competency models and career development plans Executive champion is actively leading the eSourcing effort 	<ul style="list-style-type: none"> An internal eSourcing process "owner" is named with responsibility for: <ul style="list-style-type: none"> Developing an eSourcing technology roadmap to plan for IT upgrades and transitions Reviewing process results (metrics), stakeholder feedback and technology roadmap and revising process as necessary eSourcing "factory" is in place to manage access and support tactical work associated with tool set-up, design and deployment (leaving category and sourcing managers free to focus on more strategic activities) Power users and other "eSourcerers" are mentoring staff in tool use and advanced strategies Multiple executives are actively championing the eSourcing effort
Training	<ul style="list-style-type: none"> No formal training on use of eSourcing tools 	<ul style="list-style-type: none"> Training on eSourcing tools is available on an ad-hoc basis 	<ul style="list-style-type: none"> Formal eSourcing tools and strategy training are in place to support end-users Skills required to use eSourcing tools are incorporated into broader organizational competency models 	<ul style="list-style-type: none"> Formal eSourcing tool and strategy training is in place, including a formal certification process based on both classroom training and demonstrated competency with the tools (e.g., blackbelt proficiency) Skills required to use eSourcing tools and execute events are formally defined for various roles, and a curriculum supports career development Power users offer advanced training sessions for end-users, using analytics from outcome of events
eSourcing process effectiveness and efficiency	<ul style="list-style-type: none"> Limited or no reuse of templates and data analysis from previous eSourcing efforts Limited or no effort expended on developing an eSourcing pipeline 	<ul style="list-style-type: none"> Templates and data analysis from previous eSourcing efforts are reused in some categories eRFX and reverse auctions are used on standalone basis only Pipeline of potential eSourcing candidates and events is beginning to develop eSourcing process is in place, either to supplement or integrate with strategic sourcing process (outlining what is necessary for success, including supplier training activities and quality checks) 	<ul style="list-style-type: none"> A repository of tools is available to category managers, including RFP/eRFX libraries, Internet auctions, market information and product specifications Formal eSourcing process is fully integrated with strategic sourcing process to ensure successful event execution Workflow technology is used to automate and integrate the sourcing, eRFX and reverse auction processes Workflow technology is beginning to link pipeline activities to "feed" eSourcing planning efforts 	<ul style="list-style-type: none"> Stage "gates" are in place within the online sourcing process to allow formal management review and approval Formal templates are defined for each step in the process; completed templates are captured and warehoused within the sourcing workflow Formal analytics are performed on eSourcing events, data and results and used to develop go-forward strategies eSourcing event planning process is formally linked to procurement's 12- to 24-month planning process of activities and resource requirements; CPO adopts planning tools similar to those used by VP of sales (CRM)
Performance management	<ul style="list-style-type: none"> No performance metrics are in place to encourage use of eSourcing tools 	<ul style="list-style-type: none"> Performance metrics are in place but limited (e.g., to track events per year) Penetration of eSourcing tools: approaching 20% of total spend enterprisewide; tools deployed internally approaching 25% (in sourcing, buying organizations and roles) 	<ul style="list-style-type: none"> eSourcing performance is measured against quantitative goals (e.g., events for department, category or person; results by event) Process completion cycle times are tracked Annual performance objectives for staff members are defined Penetration of eSourcing tools: approaching 70% of total spend enterprisewide; tools deployed internally >50% (in sourcing, buying organizations and roles) Savings are tracked and reported throughout the eSourcing process (audited and validated by the finance function) 	<ul style="list-style-type: none"> Performance measures are in place and include both quantitative (number of events, cost impact) and qualitative (process effectiveness, customer satisfaction, innovation) dimensions Strategic sourcing cycle times are established and tracked for segmented category types (e.g., 3 to 4 weeks for low complexity categories; 2 to 3 months for medium complexity) Measurement systems support variance and root cause analysis for both financial and non-financial performance Penetration of eSourcing tools: exceeds 71% of total spend; tools deployed internally >75% (in sourcing, buying organizations and roles) Savings are tracked and reported throughout the eSourcing process (audited and validated by the finance function)

Notes: eRFX refers to electronic request for information, proposal or quotation; CRM is customer relationship management
Source: A.T. Kearney analysis

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