B*uy* **IT** Best Practice Network

e-Sourcing

A B*uy*IT e-Procurement Best Practice Guideline

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Forewords

This Government is committed to the development of electronic commerce and making the UK a leading environment for this activity. The introduction of ICT into procurement has provided clear opportunities and benefits to procuring authorities. Better sourcing can help deliver better contracts and establish effective relationships with suppliers. I am delighted that the BuyIT Early Adopter organisations have produced this Best Practice Guideline, which provides clear guidance to help others take full advantage of the many benefits that can be achieved from e-Sourcing.

Paul Boateng
Chief Secretary
HM Treasury

The global marketplace is changing fundamentally. Suppliers around the world are now able to sell their wares and compete on a global scale. A strategic focus by boardrooms on Spend Management, supported by internet technologies, is already seeing many blue-chip buying organisations achieve massive cost savings through new supply chains.

Knowing where these new suppliers are, and how best to source from them, is key. As is having the right tools and processes in place to deliver the savings. e-Sourcing is one of the few areas where IT can make an immediate impact – this document helps you understand how.

Steve Muddiman
Vice President of Marketing for EMEA
Ariba Inc.

e-Sourcing is an exciting extension to the tools formerly available in e-Procurement. It is also the area where the greatest savings can be made.

The most effective way to understand how to handle these tools correctly and to make the maximum savings quickly is by learning from others who have tried them before and have already worked out the right way to use them.

Developed by BuyIT members, this Best Practice guideline provides a clear understanding of all these issues from both a buyer and supplier viewpoint and is an invaluable aid to help organisations gain the benefits of Online Auctions.

Frits Janssen
CEO
BuyIT Best Practice Network

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Introduction to this Guideline

Organisations invested heavily in Strategic sourcing in the nineties to execute programs that delivered initially phenomenal, but often fleeting, results. Purchasing executives want repeatable, sustainable benefits. If transformational change is to stick, a comprehensive solution is needed that addresses all spend items—and not just high-profile, auction event-oriented ones.

Fortunately, now organisations can take advantage of enabling technology, within the electronic sourcing (e-Sourcing) arena, that allows them to benefit from Strategic sourcing in a scaleable way in areas previously not addressed by purchasing.

While the Return on Investment for e-Sourcing can be very positive, it is not a goal in itself. In order for an e-Sourcing program to be successful, it must form part of an integrated approach to elevate the purchasing function. This integrated approach should address all elements of change: strategy, structure, systems, process and people.

This guideline should be read in conjunction with the Executive Overview of the BuyIT ICT Best Practice Guideline on e-Sourcing which provides more in-depth information on the subject. Both guidelines can be found at http://www.buyitnet.org

Key Points

Significant Savings

e-Sourcing underpins the sourcing process and helps ensure optimal use of contracts – both significant contributors to savings.

Visibility

e-Sourcing gives visibility of spend and programmes within procurement and so makes better use of resources as well as helping organisations to accurately predict and monitor expenditures and levels of savings.

Improvements for both buyers and suppliers

Organisations can extend the number and scope of e-Sourcing projects without increasing the number of purchasing staff.

The tools can also radically streamline the negotiation process as well as improve transparency of the process for suppliers and buyers.

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1.   e-Sourcing and e-Procurement – definitions
e-Sourcing

The perception of what e-Sourcing is has strongly evolved over the last years. From a very narrow focus on e-Auctions, it is now generally accepted that e-Sourcing is:

'…….the Sourcing process <u>enabled</u> with the appropriate web-enabled, collaborative technology to facilitate the full life-cycle of the procurement process for both buyers and suppliers.

e-Sourcing is the strategic activity conducted by the procurement professional to establish, manage and monitor a compliant contract. These contracts are made available and accessed through the use of tactical, Purchase 2 Pay (P2P), solutions generating transactional management information.

It covers those parts of the buying process, which are at the discretion of the specialist buyers, which includes Knowledge (such as competence analysis, spend analysis, specification), Request for Quotation/ e-Tender / e-Auction and contract evaluation/negotiation, tracking, forecasting and monitoring savings.

In a more restricted way, e-Sourcing is sometimes limited as the process of interaction with internal (buyers, users, specifiers, analysts…) and external (suppliers, regulators, consultants…) stakeholders from the identification of a requirement to the negotiation of a contract.

e-Sourcing and e-Procurement are key parts of the e-Purchasing cycle. Good Sourcing practice is essential to making e-Procurement work: Organisations find it difficult to achieve traction on their e-procurement platform unless they have followed a rigorous process to establish appropriate agreements with the right supply base.

e-Procurement

e-Procurement is:

'….. using the internet to <u>operate</u> the transactional aspects of requisitioning, authorising, ordering, receipting and payment <u>processes</u> for the required services or products."

Typically, e-Procurement may be seen as the focus of local business administrators and / or empowered users with one of the key goals being to devolve the buying process to local users, covering the requisition against contract, authorisation, order, receipt and payment. e-Procurement is normally linked to the transactional/compliance part of purchasing.

Both e-Sourcing and e-Procurement are integral to the purchasing cycle, which may be illustrated diagrammatically as follows. The types of tools supporting the e-sourcing cycle are described in Section 4.

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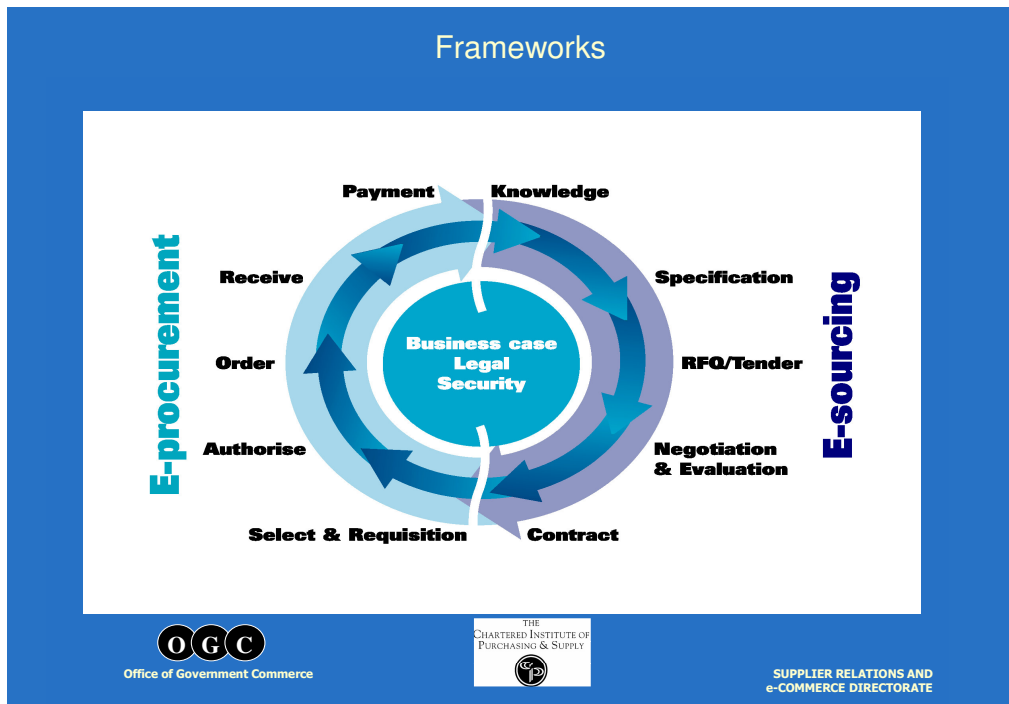
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2.   Sourcing

Organisations have always practised some level of Sourcing. At its most basic, it is the process of analysing the spend of the organisation, understanding the opportunities to reduce spend, based on an understanding of the external market versus internal requirements develop a strategy to manage the spend, conduct RFIs and RFPs, negotiate contracts, implement contracts and measure supplier performance.

Sourcing is an intellectually complex, and traditionally, highly manual process. The Aberdeen Group has estimated that selecting suppliers and negotiating contracts manually can easily take more than three months (in the private sector), which is not surprising given the long list of activities which may be involved:

Properly implemented, Sourcing will enable an Organisation to:

- Prioritise Organisation requirements for goods and services sourced
- Understand all supply markets that produce these key goods and services
- Identify and select suppliers best able to meet the company's needs
- Negotiate with those suppliers for the best overall value
- Effectively manage relationships, communications and collaboration with suppliers
- Develop supplier relations
- Develop cost-reducing and value-enhancing ideas on an ongoing basis
- Continuously monitor the market for better supplier opportunities and more effective Sourcing methods
- Develop strategic business relationships
- Have visibility of which activities haves taken place along with volume, cost, growth, etc.
- Manage performance against agreed service levels and key performance indicators
- Develop Business by agreeing strategic goals, cost saving programmes and efficiencies.

Typical e-Sourcing Cycle

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Identify Opportunities

Understanding the spend profile of your organisation:

There is need to develop a benefits / business case to determine if there will be a return on the investment needed for any sourcing programme. This should cover all aspects, such as:

Process efficiencies: Efficiency gains by reducing the time taken in the tendering process, releasing valuable resource earlier. Applies both at the Buyer and Suppliers organisations. Encourages all parties to follow best practise, enabling a more consistent approach to tendering across the private and public sectors

Direct costs: Reduced direct costs of preparing and issuing the ITT and responding with tenders. Includes; distribution costs, paper, couriers, etc. Collaborative working reduces the need for teams to travel for face to face meetings

Improved contract prices: Buyers able to focus on primary / core activity rather than administration. Ability to identify and act on collaborative opportunities

Reduced risk of failure: Reduces the risk of awarding contracts to inappropriate suppliers, leading to improved performance and reduced whole life costs.

To aid this analysis, it is necessary to determine spend by Sourcing category, assess each Organisation unit's share of the aggregate spend and establish the share of each supplier of the aggregate spend:

• Who is buying what?

• From which suppliers?

• When/how often?

• On what terms?

• Identify and evaluate contracts in place

• Why do we buy?

• What is the business criticality?

• What part of spend is addressable?

Understanding the "true" cost of purchasing: in order to prioritise opportunities, organisations need to understand the total cost of ownership for the categories involved:

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- What is the "landed cost": cost of materials/services, transportation costs, customs, insurance, storage, etc?

- What are "life cycle" costs such as administration, handling and quality?

- Additional in-house costs such as R&D and supplier management?

- Are there any regulatory costs involved: - tariffs, quotas or government regulations?

Understanding the market: a 'what is available in the future' perspective necessary to develop future commodity buying strategies as well as proving further input to the Marketing function:

- Understanding supply markets evolution

- Supplier economics and cost structure

- Supply options

- Possible levers versus the supply options

Select opportunities: narrowing down all of the available options to the ones that best meet the sourcing strategy for that commodity to improve the effectiveness of the sourcing programme.

- Mapping of opportunities in function of procurement objectives

- Deploying resources

Develop Strategy

In order to effectively manage the complete spend portfolio, differentiated strategies are required for selecting and contracting with suppliers to achieve competitive advantage. The overall spend is mapped into a portfolio of requirements and strategies are mapped against these segments.

- For example, managers of high-value/high-complexity (core) categories might follow a strategy of single source, highly engineered materials with proprietary technology focusing heavily on supply chain management and collaboration technologies to optimise innovation and efficiency.
- The managers of high-value/low-complexity categories leverage purchasing power to drive for best possible pricing possibly through a combination of contracted suppliers and spot contracts and then track and manage supplier performance, properly align incentives, drive compliance, and maintain expertise as key operational tools.
- Low-value/high-complexity items require sourcing strategies that ensure the security of supply at competitive terms.

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- Low-value/low-cost (non-critical) items are managed to minimise costs. Managers establish contracts that index or track to market pricing and continuously streamline the transaction process, seek to achieve scale through outsourcing deals where possible, and globally manage these categories.

When developing a strategy, it is important to remember that a one-size-fits-all approach is not an option for a purchasing organisation and effective portfolio management is an important key to purchasing transformation. Spend ad suppliers should be segmented as in the diagram below.

**Segmenting the procurement portfolio demonstrates
the need for *entrepreneurial spend strategies***

	Low — Complexity — High
High Value Impact	**Non-Core, Strategic** • Emphasis on pricing • Contract Mgmt • Supplier metrics • Compliance / **Core, Strategic** • Single sourcing • Supply Chain Mgmt • Collaboration technologies
Low	**Non-core, Indirect** • Outsourcing • Focus on pricing • Market price contracts / **Direct, Non-strategic** • Outsourcing • Security of supply • Leverage scale
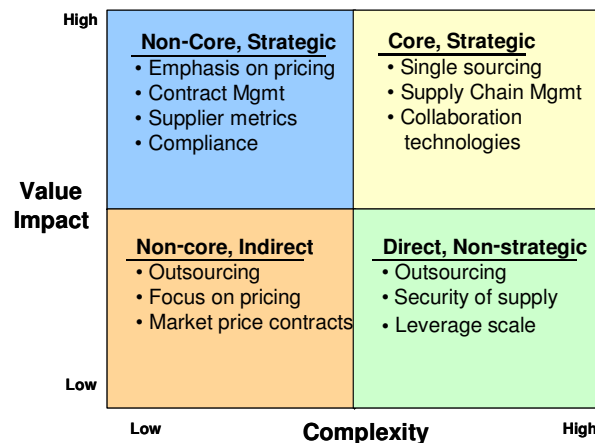
Source and Negotiate

Agree a clear definition of the requirements (cost, functionality, speed of delivery, etc) and then use the chosen sourcing methodology (RFP, RFQ, Auction, etc) to find the organisation(s) that best fit those requirements.

- Definition of requirements with functional stakeholders

- Understanding the supply market

- Preselect suppliers

- Collaborate with preselected suppliers through RFI/RFP

- Negotiate RFQ/auction.

- Building evaluation criteria and weightings

- Optimise decisions through decision support

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Implement contract

With the final one (or two) selected suppliers, negotiate final terms taking into account issues such as risk, quality, termination, Intellectual Property ownership and so on.

• Negotiate and agree on Terms and Conditions

• Set up contract and ensure controlled access

• Ensure compliance with contracts

• Manage contracts expiration

• Identify in a timely manner and in line with contractual conditions, contracts up for renewal.

Monitor and manage

One of the most important, and often overlooked, part of the sourcing cycle is to publicise the new contracts and measure how they are being used.

• Monitor and demonstrate added value of the purchasing organisation to Organisation leaders

• Monitor usage and compliance with contracts

• Monitor and manage performance of purchasing professionals

• Monitor and manage supplier performance

• Supplier (and business) development based on this feedback and also on ongoing market changes in order that the strategic aspects are optimised for the future.

3.   Challenges to the Implementation of Sourcing

Performance in opportunity identification, as well as supply base selection, purchase strategy development, negotiation execution, enterprise contract utilisation, supplier fulfilment and buyer productivity, are all key to putting effective Sourcing strategies in place and achieving repeatable savings.

The initial benefits of Sourcing in most Organisations during the nineties have in many cases been obtained through investing considerable amounts in internal or external consulting. These results will inevitably be more difficult to deliver over time. Purchasing executives want repeatable, sustainable benefits. The strategy should be that Organisations measure themselves against more than just last year's performance. A variance such as a year-to-year period measures period-over-period improvements; such short-term variances are not a reliable measure of long-term value.

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Long-term measures include the time-value of money, cost of quality, business opportunities, strategic relationships and market benchmarks. These measures help to drive up quality and reduce cost - to benefit both the buyer and also aid the supplier t deliver successfully against the ensuing contract.

'……..consequently, even the largest Organisations limit the number, scope, and duration of their Sourcing projects, leaving many potential savings on the table due to lack of staff and time. More disturbingly, the inefficiencies inherent in many manual Sourcing efforts make it difficult for Organisations to even verify that they actually achieved the promised price targets and delivery terms over the life of the contract'.

(*ref: IDC report 'The Online Sourcing Advantage – Analysing the Customer Experience*')

The challenges to a successful deployment of the Sourcing Process that most Organisations face are:-

Analysis

For the most part, purchasing executives are flying blind, and that is not a comfortable feeling. They are forced to make decisions without good management information, and this lack of information is all the more surprising when compared with their colleagues in manufacturing, finance, or human resources who typically have plenty of statistics and the ability to construct their data in several ways. This is in part because some ERP applications were not designed with strategic purchasing in mind (if they did think purchasing, they thought about executing transactions and the physical flow of materials) and in part because the required information comes into the organisation in a variety of formats (invoices, delivery notes, contracts, order confirmations) that could not, until now, be easily combined into a consistent picture. Typically, the data is all there – but it needs to be presented in a form that buyers can use.

In order to understand and prioritise opportunities purchasing organisations need to be able to analyse their spend. Most organisations struggle with this because:

- Data is not available in an adequate level of detail and / or information is spread over several IT systems that are not integrated

- Data is not accurate and even if data is available and can be consolidated it may still not be usable because of lack of standardisation of coding across operational units, inadequate detail of the classification or the inaccurate use of a classification model

- User input is also needed to develop and validate the data

- Information is Finance driven not procurement driven.

Because of the lack of availability and accuracy, organisations typically invest significant amounts of resources to come up with actionable data or have to make assumptions that may have serious impacts on the Sourcing process further down the stream. The resources required to perform the analysis typically need to have specialist knowledge of

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the company's systems and accounting and have to be used to manage large amounts of data/information. Purchasing organisations typically lack these skills and have to turn to external subject matter experts to provide one-shot exercises.

e-Sourcing tools can help by providing visibility on spend across existing ERP (and, sometimes, bespoke) systems using data extraction, cleaning and enrichment tools. They also allow the purchasing organisation to analyse the data from all relevant angles (suppliers, organisation units, contracts, categories, among others) in order to build appropriate category strategies.

Develop strategy

Many purchasing organisations tend to fall back to one or two generic Sourcing strategies instead of adopting strategies and processes that are optimally adapted to the spend category being managed. This is caused by:-

- Lack of the appropriate analytical tools to understand a total cost model from source to pay, to address quality and warrantee implications, to activity based costs…

- Lack of sharing of best practices and experience between operational units and making optimal use of past experience

- Lack of involvement of internal stakeholders or of purchasing or of Organisation category owners.

- For many spend categories that are typically managed by other functions such as marketing, HR, logistics… Purchasing is involved at a very late stage of the Sourcing process and can only contribute in a very limited way.

In some cases organisations have taken the effort and invested significant amounts of resources to define and document Sourcing processes for a broad range of spend categories. Many times we see this knowledge and guidelines end up in a binder that is afterwards hardly used because they are not embedded into day to day operations.

By introducing a culture of using "e" enablement, not just full blown e-Sourcing tools, users become familiar with using a browser to search for information, i.e. an intranet.

e-Sourcing tools can support defining the appropriate category strategy by giving visibility over the category spend, supply base,… by providing a collaborative environment through which both purchasing and its stakeholders can define requirements.

Category specific sourcing processes can be defined and embedded in daily operations ensuring best practice sharing and process compliance.

Source and negotiate

In many cases Sourcing and negotiating is only systematically applied in the major or critical spend areas because:

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- Purchasing professionals do not have the capacity to identify and evaluate new possible suppliers

- Evaluating new possible suppliers is a very labour intensive process

- Evaluation, internal validation and comparison of proposals is very labour intensive

- Past experience or experience of similar activities in a different operational unit is not shared or not available

- Involving internal stakeholders slows down the process

- Purchasing is brought in by stakeholders only at the final negotiation phase

- It is easier not to question the status quo.

e-Sourcing tools (e-RFx and e-Auction) provide the tools to facilitate internal and external communication on negotiations and support purchasing organisations to derive maximum value out of negotiations.

Contract

Sourcing only adds value if the negotiated conditions are effectively implemented and if internal users comply with them. Some typical challenges in this critical step of the Sourcing process are:

- The Sourcing and negotiations activities do not take into account the subsequent "procurement-process" requirements for the specific category and result in contracts that are not followed

- The contracting process is handled as separate from the negotiation of commercial conditions and the internal legal resources are not involved upfront. It is a manual and paper intensive process that increases significantly the cycle time of negotiations

- Frequently there are insufficient controls (non standard clauses, maverick creation)

- Negotiated contracts are not centrally managed, not visible or enforceable to internal users, or are not updated on time

- Need to be simple and easy for Users to access and understand. Need to ensure it is not seen as procurement flexing its muscle to get Users to conform, rather allowing Users to continue to operate as they have but in an easier way.

e-Sourcing tools facilitate the contracting process through contract authoring tools; ensure visibility of and compliance with contracts.

Monitor and manage

Many purchasing organisations typically struggle with:

- Measuring performance and keeping information up to date on more than the top 20 suppliers as information regarding supplier performance is scattered. Also lack of communication between units that interact with the same supplier often makes it difficult to establish who owns the supplier relationship.

- Complex organisation-wide Sourcing initiatives may involve hundreds, if not thousands of parts or line items. Tracking performance and realised savings versus predicted savings can be a significant challenge.

- Keeping track of the achieved results of the purchasing organisation through Sourcing initiatives versus budgeted results is a very labour intensive and unreliable process. In many cases category leaders fill out spreadsheets manually that are then consolidated in a manual way. This lack of transparency means it is difficult to optimally deploy resources over opportunities as conditions evolve.

- Ensuring compliance with existing contracts and processes. This is specifically becoming critical as organisations become under pressure to ensure that appropriate controls are in place. In the US this is already a hot topic with the Sarbanes-Oxley act applying to organisations filing reports with the SEC. This Act requires officers of public companies to certify for various representations regarding the fairness of financial statements and the effectiveness of disclosure controls and procedures. It also requires management to file an internal control report with annual report (10-K). The internal control report must articulate management's conclusion on the effectiveness of internal controls. In the area of Sourcing companies need to certify that appropriate controls are in place in the areas of Approval authority, Monitoring of Contracts Compliance, Supplier Additions and Deletions, Budget and performance monitoring. Similar regulation changes in IAS will apply for European organisations in 2005

e-Sourcing provides process workflow and reporting to ensure and monitor process compliance.

4.   Benefits of e-Sourcing

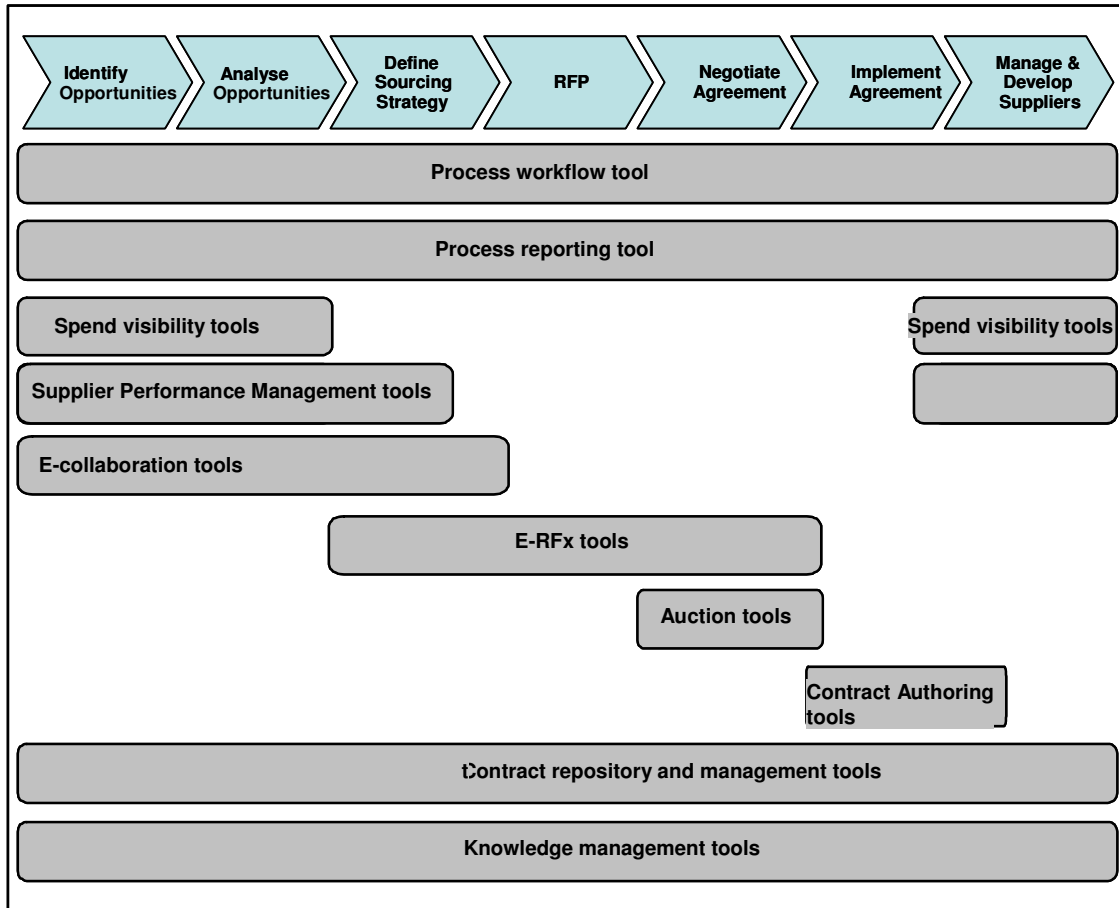The benefits of enabling the Sourcing process with the appropriate tools can be classified under four main headers:-

- Analysis (spend, process, performance)

- Process and knowledge management

- Collaboration and negotiation

- Compliance.

The end result is that e-Sourcing allows the purchasing department to act more effectively and increase its credibility and its footprint in the organisation.

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Identify Opportunities	Analyse Opportunities	Define Sourcing Strategy	RFP	Negotiate Agreement	Implement Agreement	Manage & Develop Suppliers

Process workflow tool

Process reporting tool

| Spend visibility tools | | Spend visibility tools |

| Supplier Performance Management tools | | |

| E-collaboration tools | | |

E-RFx tools

Auction tools

Contract Authoring tools

Contract repository and management tools

Knowledge management tools

e-Sourcing tools

Analysis

Spend visibility

The information available is only as good as the data put in. So there's a need to establish consistent protocols as a part of transformation, and the ultimate solution will take time to achieve. Initially, analysis will allow Organisations to understand how much they spend, the commodities/categories they buy, from whom, and by which business unit, and to update this information on a real-time basis. This is a good start if you are used to the time-consuming extractions from general ledger or accounts payable databases today and the subsequent fine-tuning required to combine suppliers with multiple vendor numbers and to manually apply category codes to them in order to understand what is being purchased. But it will go further? With the information extracted at the line item level allowing the following possibilities:

- Price comparisons between sites and ultimately between suppliers that provide the same item/service. This might apply to a part or to a service such as staff augmentation

- Aggregation of spend by supplier, by Organisation unit or cost centre, by category and sub-category, by line item. This facilitates compliance tracking as well as identifies where to prioritise resource investment to make improvements

- Contractual compliance relating information on price, accuracy, on-time delivery, defect rates, and warranty claims to the terms originally contracted for.

This level of insight opens new horizons to purchasing executives as such analytical capability is the single most critical building block to purchasing transformation. The analytical capabilities that result are more powerful justifications for implementing an electronic transaction solution because the fields provide the data required to populate the analysis.

Programme visibility

By allowing access to multiple projects for project directors and key stakeholders and providing visibility into the status of the various Sourcing projects, e-Sourcing solutions allow purchasing management to optimise resources over the various projects and react in a timely manner if deadlines are not being met.

Performance visibility

Besides making the elements of spend visible and increasing the visibility of the processes, organisations can also track in real time realised savings versus identified savings and versus budgeted savings. Other performance indicators that can be tracked include supplier score cards, contract compliance.

Process and knowledge management

Knowledge management

Traditionally, procurement expertise has been embodied in individuals. If you need knowledge, you find the right person. And in the world of Sourcing this has often been an outside consultant with domain expertise. Technology changes this by enabling the capture, cataloguing, and dissemination of information in a cost-effective manner. And as enabling technologies coincide with an emerging consistency in procurement definitions, processes and practices, there is a tremendous opportunity to share knowledge in a useful manner.

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Internally, organisations will be able to more effectively share information as well as work output and tools. For example, by capturing Sourcing and supplier management activities and information within an integrated set of tools, the work done by a team in Europe Sourcing chemical supplies can be accessed, reviewed, and modified by a team in Brazil. And the Australian team that addresses the same category the following year can enjoy the benefits of utilising both teams' work that might include supply market analyses, comparative product performance, RFP and negotiations templates, as well as pricing and contract details.

Externally, organisations can access existing data as well as share sanitised performance data in benchmarking solutions. Although much of this data is available today, it's typically not easy to find and retrieve and format for use, and so purchasing professionals are unable to take advantage of it.

Process Management

Instead of having a limited number of generic processes that are really followed, organisations can tailor processes to the requirements of specific categories. Once processes have been designed they can be reused across the corporation.

Process quality, audit trail, process compliance

By embedding the category specific sourcing processes into the operational tools of the buyer, organisations can ensure that best practices are really followed. Through exception reporting non compliance can be identified.

Applying the Sourcing processes for smaller spend areas

Instead of only applying best practice Sourcing processes to the major strategic spend areas, the use of e-Sourcing allows purchasing organisations to apply the same best practices and processes to smaller and lower value Sourcing categories. These categories where purchasing, because of lack of resources, did not previously focus can frequently generate higher savings than categories that have been long time in the focus of purchasing.

Applying the Sourcing processes for complex spend areas

Where a business process is more complex than simply creating a specification, running an event, such as an auction and choosing a winner, some commodities can require specialist applications with specific functionality. The data requirements are dynamic and two-way. Some other characteristics, e.g. the industry sector, may require specialist treatment or sector-specific expertise.

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Examples of complex commodities could include Human Resources/Temporary Labour, Travel, Print Services, Courier and Parcel Services, Custom Engineering and Property and Facilities Management.

To take Temporary Labour as an example, it can be a complex process because it involves obtaining approval to recruit; obtaining candidates CV's; the selection process; recording and approving time worked and finally, invoice matching. The data requirements in this instance would include for example the nature of the role required, skill levels, assignment dates etc.

The answer to a suitable Sourcing solution may lie with a solution fully integrated with e-Purchasing systems, which would allow all the processes to have:-

- Suppliers to be accredited and registered

- preferred suppliers defined and selectable

- seamless communication process with suppliers to request and select candidates

- time recording and authorisation against purchase order

- Invoice generation from time recording for easy matching

- All purchasing data readily available for analysis

…….and also be fully defined within the e-Purchasing solution.

A hosted HR solution sitting between the buyer and the supplier could be accessed via punchout, (or round robin, which it is sometimes called). This means it allows data to be brought back into the buyer's e-Procurement system for analysis and approval.

Similarly, Sourcing travel is complex because of the profile of those travelling, the approval to travel (trip authorisation) and gaining information from the relevant providers of travel, such as global airline reservations system, rail services, hotel and car hire, and ticketing requirements. Travel Sourcing solutions store travellers' profiles, all travel requests and approval, check reservation systems and offer options, and book selected reservations. Data can be brought back into the buyer's Procurement process for approval and analysis via integration.

Embedding processes in day to day operations

By using the appropriate e-Sourcing solutions, organisations can ensure that the processes defined can be embedded into the day to day operational activities of purchasing professionals ensuring that the processes are really followed.

Collaboration and negotiation

Broadening supply base

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With the category strategy in place, it is necessary to engage the supply market and the internal stakeholders to establish the commercial agreements that embody the strategy. First, who are the potentially qualified suppliers for the material or service? There is always the known list of suppliers that are typically incumbents in a narrow geographic range, and it is important to research potential new suppliers that can create a new level of competition. e-Sourcing allows buyers to take advantage of existing supplier databases, build in incremental data over time, and enables buyers to easily identify new suppliers that might otherwise have not been considered.

Stakeholder involvement/Frontline management

With the collaborative capabilities of e-Sourcing, it becomes much easier to involve relevant stakeholders (engineering, marketing, finance, legal, etc) early on in the Sourcing process at the stage of defining requirements, validating requirements, which suppliers should be carried forward to negotiations, and so on.

Appropriately, criteria can be set based on the category strategy at the time the RFI/RFP was written, and each potential supplier's response is now evaluated against the criteria in a collaborative way, and only the qualified/competitive organisations are included for negotiations.

Effective collaboration also means better visibility down the supply chain – ensuring, for example, that sub-contractors can see and are using the right version of drawings and documents.

Purchasing effectiveness and productivity

Benchmarks have shown e-negotiations on average save 33% in project throughput time
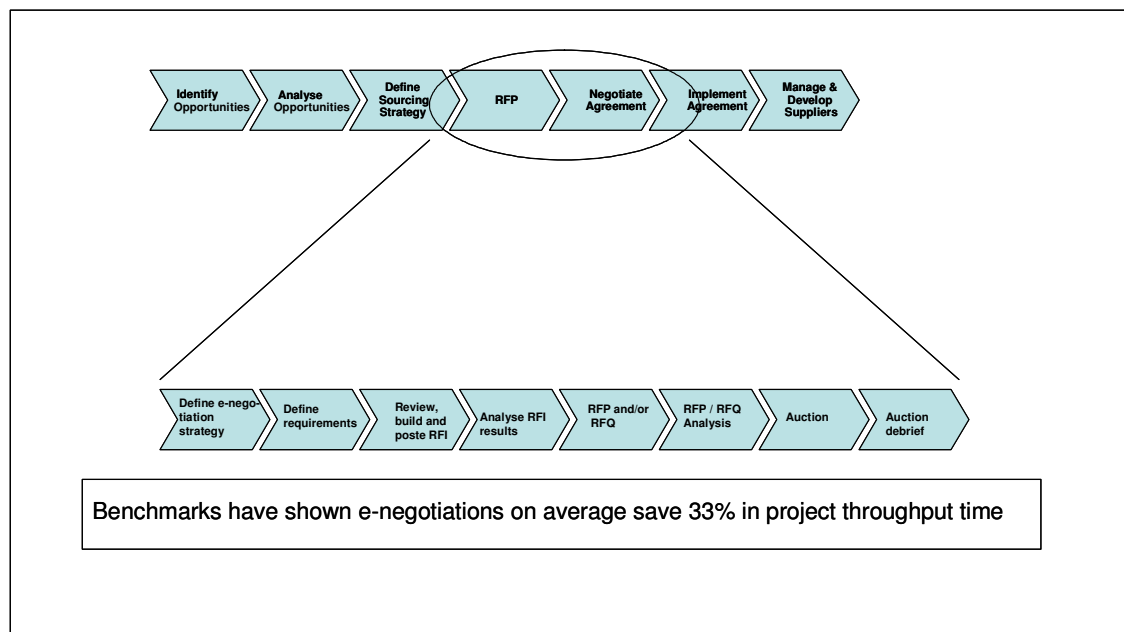
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Depending on the category a different Sourcing process will be followed. The negotiation process can consist of several rounds of RFI (Request for Information), RFP (Request for Proposal), RFQ (Request for Quotation) and finally auction. In the case of a genuine strategic alliance or a supplier that possesses proprietary technology, the next step will be to engage in fact-based negotiations focusing on improved ways to work together. For other categories, though, the first step is typically to develop and issue a Request for Proposal (RFP). Organisations can quickly build and gain collaborative input on the RFP structure appropriate for the category. As Organisations begin to build their own experience, they will be able to maintain a library of RFPs with their own unique requirements. Suppliers will go online and respond to the RFPs, and the buyer will know which supplier has completed how much, and will be able to quickly analyse the responses as all the information will have been returned consistently.

By automating the bidder qualification and RFI/RFP/RFQ process, Organisations can extend the number and scope of Sourcing projects in process without increasing the number of purchasing staff, thereby increasing the annual saving achieved through Sourcing contracts. Benchmarks show that the effectiveness of the process from requirement definition to final negotiation can be significantly improved; typically a reduction in process throughput time of 33% and a reduction of the effort on the process of 50% can be achieved (independent benchmark data).

Increased competition between suppliers allowing buyers to reach true market prices

The auction tools available today can radically streamline this negotiation process and can be used very broadly with the ability to run multi-parameter negotiations. We have seen that for those categories where auctions are applicable, the use of online auctions typically bring additional savings. Auctions move the negotiation from a buyer driven competition to a supplier driven competition.

In defining if a category is suitable for auctions following criteria should be taken into account:
- Product/Service: are the requirements easily specified?
- Value: is the package being considered fir auction of sufficient size to attract competition for its delivery?
- Market competitiveness: supply base, market evolution, and commodity traded category?
- Position of the buyer in the market: Buyer/Supplier dominance in the relevant market?
- Ease of Implementation: existing contracts still ongoing, extensive supplier certification required, etc?

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Transparency of the negotiation process for suppliers: Although buyers are often concerned that the auction sets up the wrong dynamic for a supplier relationship, in many respects the supplier finds the approach beneficial too. From the start the process is more clearly defined and expectations of suppliers are easier to manage. Less time is absorbed in the selling process. Suppliers are able to benchmark against their competitors and understand how competitive their bids are; and they genuinely know where they stand relative to other Organisations. Suppliers share the same level of information on the process that is being followed and it creates a level playing field.

For new suppliers, the acquisition cost for new customers is reduced.

Contracting

Contract creation stage:

e-Enabling contract creation has many benefits as it allows the use of common, pre-agreed, legal and business clauses rather than needing to develop and confirm these for each new contract. In summary the benefits are:

- Reduced contract creation cycle times

- Increased visibility to standardised templates and legal language

- Standardised process and controls

- Risk mitigation of legal exposure.

Contract repository stage:

This is a key element of the procurement process and one where e-enablement can add significant benefits. It is regarded by some as the 'central hub' of procurement as it links together all of the elements – sourcing, transactional, supplier management and so on. Its benefits include:

- Enterprise wide visibility to supplier contracts

- Increased visibility to complex vendor relationships across divisions

- Better risk management to legal risks and exposure

- Visibility to contracted/preferred vendor agreements.

Performance management stage:

Only by monitoring the performance of a contract (Is it being used? Does it meet the users' needs? Is the quality to contract? And so on) can continual improvements be made and also better sourcing decisions (Did we make the right choice?) in the future. In summary, it brings:

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- Streamlined support for managing complex supplier agreements

- Increased performance tracking: Organisations can better monitor and assess the actual effectiveness of specific Sourcing contracts and the performance of successful contractors, thereby ensuring that the company actually receives a return on its Sourcing programmes. *(Ref IDC Report `The Online Sourcing Advantage')*

- Better compliance for complex price items

- Increased visibility on spend.

In summary, automating the Sourcing process translates into better returns on current Sourcing efforts, an expansion of Sourcing initiatives into areas not previously covered, and a more rapid turnaround of Sourcing projects.   This allows sellers to complete the Sourcing project more quickly, ensuring that the actual Sourcing contract reflects current market conditions rather than conditions of, say three months earlier.

Strategic e-Sourcing can therefore achieve accelerated reductions in spend and, consequently, improved cash flow. More categories of spend with better strategic management focus and therefore, greater reductions in total cost and sustained performance over the long term to provide the basis for continuous improvement and the lowest possible cost over time.

One key measure that stands out above any other is the percentage growth over time. A typical manufacturing firm that spends 50% of revenue on purchasing with a 10% pre-tax margin would achieve 5% growth in income for every 1% reduction in spend. Unbelievable as it seems, a 5% reduction in spend can affect the bottom line by 25%.

e-Sourcing can help to create well-structured contracts and implementation plans, which can be communicated centrally and used to help Organisations accurately, predict future expenditures and levels of savings.

e-Sourcing also offers a company the ability to measure and control, to monitor and improve performance. Availability of performance results for any large percentage of the revenue a company spends on strategic goods and services is critical to sustaining the performance over time.

5   Barriers to successful e-Sourcing deployment and how to overcome them

Perception that e-Sourcing equals e-Auctions

In many cases organisations embarking on an e-Sourcing implementation, are faced with the perception that e-Sourcing equals e-auctions. The reason for this is that when e-Sourcing started to take off about 5 years ago, most organisations were attracted by the high savings potential e-auctions were promising. At that time the e-Sourcing technology was still in a very early stage and in most cases the e-auction technology was the most mature.

Why do e-auctions have a negative perception:

Organisations tried to auction every type of spend without taking into consideration category specific strategies and other processes that may have been better suited. They also did not consider the use of auction formats adapted to the specific types of spend (multi parameter, total cost of ownership, etc)

Professional organisation of e-auctions requires a certain level of expertise and a strict definition of, understanding of and compliance with the rules of the game. Certain cases where initial commitments e.g. to award business or where bids were manipulated have created resistance with certain suppliers. However the feeling is that with organisations applying e-auctions in a more appropriate way, the supplier resistance is reducing.

How to overcome:

Resistance to e-Sourcing can be reduced by clearly communicating the shift to a collaborative Sourcing technique with a focus on process transparency and quality, knowledge sharing, interaction with stakeholders. Auctions can be one element of this whole process. Also organisations have to ensure that when they use auctions they follow strict rules and stick to commitments.

Organisations have to ensure that they embed the appropriate category strategies in their Sourcing activities. This will allow them to get buy in from a broad range of functions and stakeholders.

Successful examples of Organisations deploying e-Sourcing include Telefonica, the leading Spanish telecom operator, who have run over 2800 Sourcing events across 250 categories ranging from network routers, subcontracting, travel, marketing to consulting services.

There are also many successful examples in the public sector such as the Irish Government, the UK Government in process of procuring, and the Scottish Executive. The UK Government has e-Auctions firmly in place and being used by many public sector organisations.

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Political

A major benefit of e-Sourcing is that it enables organisations to benefit from the use of Sourcing processes and best practices in areas where purchasing has historically had a very limited role (marketing, temporary labour, logistics …).

This may be viewed as the stakeholders from these functions as a threat, and as a loss of control.

In addition deployment of e-Sourcing, although it is a comprehensive change project that should be regarded as a transformation process (involving strategy, rethinking of the organisation, process redesign, technology,…) that allows purchasing to reach the next level of performance, holds an important technological component. The requirements and the direction purchasing is driving may be again be perceived as a threat by the IT function.

To overcome this, purchasing needs top level buy-in to its transformation plan and needs to involve functional stakeholders appropriately along the process.

Organisational

In order for Buyers to effectively use the appropriate tools, organisations will have to invest in growing awareness and training the purchasing organisation.

As in any transformation program, resistance to change will also occur from within the purchasing organisation. Buyers see e-Sourcing as a threat:

- "Why would the use of e-Sourcing allow us to obtain greater savings? As a purchasing professional/category manager I know my domain best"

- Implementing e-Sourcing makes the Sourcing process transparent, measurable and allows buyers and suppliers to create an audit trail

- Buyers fear e-Sourcing will create additional non value add work. There will initially indeed be additional efforts required, but this will lead to greater efficiencies down the road.

Supplier engagement

It is vital that suppliers are on-board with an e-Sourcing strategy and programme. This both aids the process but also ensures that the benefits (process savings and compliance) can be achieved.

To overcome these fears, uncertainties requires a structured change management program. (See Section 6)
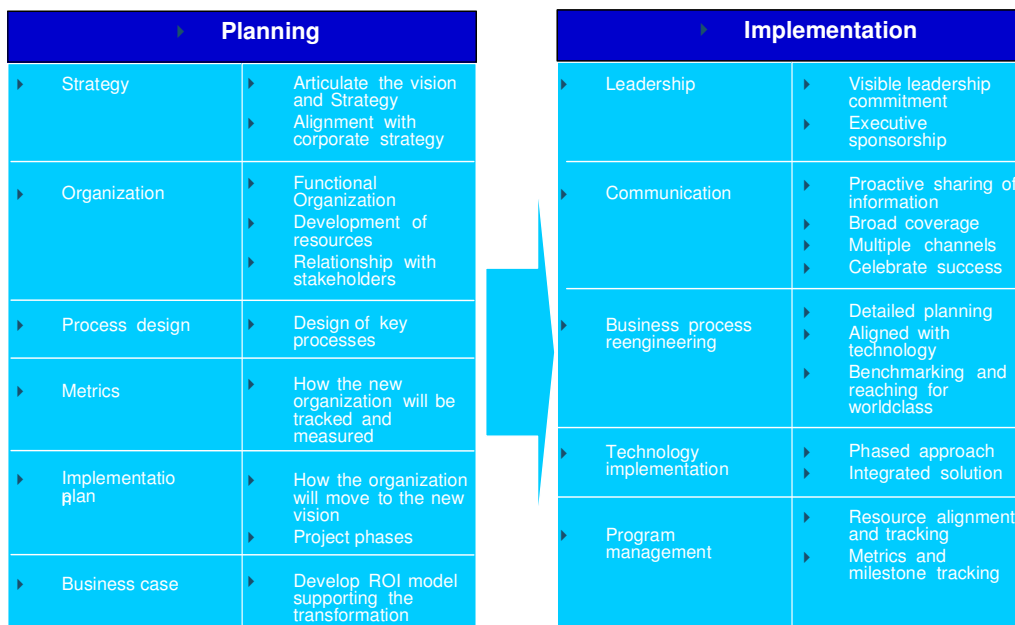
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6.   Driving a successful deployment plan

Successfully driving an e-Sourcing transformation program takes full-scale change management. This is the most challenging part of the transformation because it will be different for each organisation, and it requires vision, commitment and leadership. As with any other large-scale implementation, e-Sourcing requires a high level of board level support with a clear plan to take matters forward and continuous communication to the rest of the organisation.

Change Management Programs

Planning	
Strategy	Articulate the vision and Strategy Alignment with corporate strategy
Organization	Functional Organization Development of resources Relationship with stakeholders
Process design	Design of key processes
Metrics	How the new organization will be tracked and measured
Implementation plan	How the organization will move to the new vision Project phases
Business case	Develop ROI model supporting the transformation

Implementation	
Leadership	Visible leadership commitment Executive sponsorship
Communication	Proactive sharing of information Broad coverage Multiple channels Celebrate success
Business process reengineering	Detailed planning Aligned with technology Benchmarking and reaching for worldclass
Technology implementation	Phased approach Integrated solution
Program management	Resource alignment and tracking Metrics and milestone tracking

Some key elements of the change program specifically oriented to e-Sourcing include:

Clear definition of objectives

e-Sourcing is not goal in itself, but a way to reap the full benefits of Sourcing. Therefore Organisations that have successfully deployed have:-

1. purchasing initiatives included in the overall corporate objectives

2. purchasing objectives include clear objectives that articulate organisational transformation and e-Sourcing as a key element to achieve these objectives. These objectives are linked to clearly formulated metrics e.g. increased compliance with contracts to x %,…and are also linked to defined tactics as e.g. y% of spend will be negotiated through e-Sourcing, every Sourcing activity will be performed using e-Sourcing,… The metrics are regularly audited by finance and reported.

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3. in order to be effective these objectives are reflected in the objectives and reward schemes of different constituents of the purchasing organisation and of the individuals.

The organisation needs to have a procurement strategy that is part of the overall business strategy. Approaching e-Procurement or e-Sourcing in isolation to the rest of the business will reduce benefits and take-up and ultimately see it fail.

The "Big Picture" is made up of small pieces.

Organisation Strategy
↓
(e)Procurement Strategy
↓
(e)Sourcing Strategy

Phased implementation plan

Based on the overall objectives of the purchasing function and the current state of maturity of the organisation, organisations will have to consider what the optimal deployment plan is. Many Organisations normally adopt a phased approach by process step. It is generally recommended that an organisation establishes and encourages a culture of using "e" enabled applications so that the very thought of using the internet does not present a barrier. Where to start varies and every starting point has its advantages:

Analysis

This is typically used as a starting point when the organisation is moving towards a centralised category leadership approach. This is normally the logical starting point but may also be the most complex one. Buyers need to work with stakeholders to understand their needs,

Process and knowledge management

Process re-engineering is key. The advantage of starting here, mostly in conjunction with the collaboration step, is that it is perceived as the politically least controversial step. It focuses on knowledge and process management across a decentralised organisation and collaboration with purchasing stakeholders within and outside of the organisation.

Collaboration and Negotiation

Starting here is probably the easiest to justify: the result is very visible to all stakeholders in terms of negotiated savings and therefore carries the highest ROI. However it is important not to stop here: purchasing organisation risk failing to bring continuity to their e-Sourcing programs if they limit it to this stage: without visibility on the

spend/opportunities, without embedding e-Sourcing through the appropriate process/knowledge management and converting the negotiated savings into realised savings an e-Sourcing project may be at risk after the first successful wave of e-Sourcing negotiations.

<u>Contracting</u>

Starting here means laying the groundwork for a subsequent deployment and has value in itself through the increased efficiency in contract creation, the visibility and proactivity in contract management derived from a central contract repository and the improved performance it creates by ensuring compliance to contracts across operational units.

Communication

- Start at the top – get Board agreement. Start at the bottom see what real users need. This approach will ensure all objectives are met

- Communicate to purchasing stakeholders about objectives in order to achieve buy-in. e.g. deploying the "contracting" step in the process will require buy in from, and close collaboration with, the legal department

- Use internal/external marketing to create awareness and to broaden the understanding

- Communicate to sponsors results achieved and success stories

- Communicate to purchasing professionals by recognising and publicising achievements

- Communicate to suppliers about the program in order to avoid supplier resistance

- Adopt a Buyer code of conduct for Auctions e.g.:

  1. For every sourcing events clearly communicate rules of the game at the start and stick to rules

  2. If changes are required, communicate openly to all participants

  3. Only allow credible suppliers to participate.

  4. Do not allow separate deals outside of the auction process

  5. Inform all participants within the agreed timeframe of the outcome of the auction

  6. Unbundling of lots is not allowed unless this is clearly specified upfront

  7. Ensure simultaneous availability of information to all participants

  8. During the auction follow the parameters of the RFQ.

People

New technologies and new processes require a change in skill set for both the buying and the supplying organisations. This requires more than training on a "tool". Purchasing

professionals need to have the necessary analytical skills and the commercial and communication skills to engage with internal functional and external stakeholders, including suppliers. Suppliers needs to also be able to interact with Buyers using new processes and interfaces. Successful deployment plans include plans on upgrading the organisation.

Organisation

Question what your core mission is as a purchasing organisation and what the organisation will allow you to do in order to achieve the objectives:

How will the purchasing organisation set it self up so that it can successfully help to manage those spend areas traditionally not effectively owned by purchasing such as marketing, travel, temporary labour, transportation,…?

Bringing in new processes and technologies will also imply new ways of working and a shift in types of activities; e.g. negotiating online complex areas of spend, can result in negotiation events that involve communication with, enabling of hundreds of suppliers in a very short timeframe. Is the organisation ready to cope with these peaks of rather administrative work? Or would you rather outsource this?

7.   Conclusion and Future Developments

As technology advances (the Aberdeen group states that the market for e-Sourcing technologies is currently growing at a 98% compound annual gross rate), Organisations are embracing Sourcing applications because it is a clear and direct approach to capturing value and is moreover a toolset for capturing and storing relevant data and effective efficient analysis.

Every pound spent poorly or otherwise wasted is a pound of lost profit. According to Tim Minahan, Vice president, Supply Chain Research at Aberdeen Group, "e-Sourcing delivers significant benefits and is possibly one the greatest levers an organisation can pull to get quick cost-savings and performance improvement". There have also been reports of improved quality among suppliers and enhanced levels of co-operation with the suppliers customers are doing business with.

Some Organisations who have invested in ERP/e-Procurement systems initially may be holding back to see what e-Sourcing suites these providers develop over time in order to avoid/minimise integration problems. One thing is for sure however, there are already e-Sourcing tools available now which offer great functionality. It is debatable whether it is better to enjoy the flexibility and functionality from providers who concentrate on e-Sourcing suites or if it is better to wait and take up functionality from existing ERP/e-Procurement providers. In any event it would be unwise to ignore this issue altogether and let competitors take advantage of the potential savings which such functionality has to offer.

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The BuyIT e-Procurement Best Practice Network

The BuyIT e-Procurement Best Practice Network was set up with the backing of UK Online for Business and the government's e-Envoy at Cabinet Office to enable UK-based organisations to share experience and accelerate their take-up of e-Business. The Network provides a national programme of facilitated dialogue events, research and guidelines aimed at senior managers in the top UK companies.

An e-Business Experience-Sharing Group supports the introduction of e-enabled Procurement systems and processes in member organisations by providing an independent, informal and confidential forum for its members and production of relevant Best Practice Guidelines.

Membership of the e-Procurement Network is open to private and public sector organisations. For a full list of members and access to all the published guidelines please visit our website: www.buyitnet.org

The BuyIT e-Business Best Practice Network is managed by IT World Limited.

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