

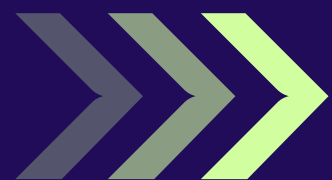
Keelvar >

Automate Sourcing, The Right Way

The Automation train has arrived at the Procurement station.

Here at Keelvar we are seeing large enterprises automate tens of thousands of sourcing events and enjoy radical success that trumps anything these businesses have seen in the preceding two decades. So whilst Sales, Marketing and Finance were faster to adopt automation, Procurement may see an even bigger impact. The most successful businesses have all had very ambitious plans and recognised early on that aiming for best practices and automating them is the key to success.

We will explain in this article what Procurement leadership teams should expect from Autonomous Sourcing systems. It's key to automate sourcing processes the right way so that automation will be adopted quickly, remain sticky and welcomed by all as a leap forward. The correct choice of technology at the outset can help avoid years lost in the wilderness of low adoption.



Read on to learn more about choosing the right technology to automate your sourcing.

What is Autonomous Sourcing?

Gartner defined Autonomous Sourcing as follows:

Autonomous sourcing solutions use AI and advanced technologies to streamline and automate the sourcing process and facilitate decision support for awarding spend to suppliers. Capabilities vary but can include automated event creation, lot/line structuring, dynamic event timing, automated supplier feedback, response scoring, analysis and award.

We wish to highlight an overlooked point; automation of business processes isn't just to have a machine operate the process previously conducted manually.

Instead, the objective is to enhance the process by doing more work than was optimal when it was laborious, to a reliably high standard. It is not simply an opportunity to greatly lower operating costs but also an opportunity to find more suppliers, execute transactions faster, achieve better tradeoffs between cost, speed, emissions and quality. Procurement has been starved of resources for many years so the opportunities to achieve category excellence were limited but as automation effectively unlocks labor supply it now becomes possible to aim for the highest standards every time you go to market.



Here at Keelvar we've been developing Autonomous Sourcing for several years and not just in the context of buy side activities but in the wider context of Machine to Machine negotiations. We urge companies investing in this technology to consider the end goal for Autonomous Sourcing: instantaneous, multi-round negotiations across multiple qualified vendors to negotiate win-win outcomes that benefit both parties. This requires building automation on top of best practice sourcing workflows so that best practice in different spend categories is respected. Holistic thinking in terms of what suppliers and buyers require for this to occur is required so that we can revolutionize efficiency in B2B trade for all parties.

We define Autonomous Sourcing as

Highly configurable workflows for conducting multi-party negotiations with Suppliers. It relies upon AI Agents to manage synchronous, iterative bid processes aiming for win-win outcomes that balance cost and non-cost objectives.

A key characteristic of Autonomous Sourcing is category flexibility. It is critical for enterprise buyers to tailor the automated sourcing process to meet the market dynamics and needs in each category. Another crucial aim is to ensure suppliers buy into the process and are receptive to it as a fair means of deciding who to work with. For these reasons, it's essential that automated sourcing workflows can accommodate the nuanced characteristics of different spend categories and markets.

Must-have features of Autonomous Sourcing systems

Automation will receive strong support internally (fellow employees) and externally (from suppliers) if they witness a workflow that makes sense and addresses the quirks and nuances of that market. However, if the workflow is an oversimplification of how that market operates, then people will object or not engage. In order to maximize the success rate, it is critical that Autonomous Sourcing supports the following features that will make everyone's lives easier and not more difficult.

Multiple Intake Paths:

Requests are received from different sources. It's important to support them all.

- API-driven intake: Import demand from integrated systems, ERPs, and databases.
- Manual intake: Fully-customisable, rich, and dynamic intake forms that simplify and speed up that request process.
- LLM and NLP enriched request formulation for direction to the correct workflow to use and dynamically populates intake forms using structured inputs.

Contingent Workflow Routing:

Assess conditional rules and thresholds to route workflow tasks and trigger events.

- Automate supplier selection, approvals, and awards based on the nature of the request.
- Automate the award process based on bid coverage and competition.
- Expedite the award process by dynamically closing events when your target rate has been met, or based on essential compliance measures (number of bids received, etc.).



No-code Workflow Builder:

This enables sourcing teams to create and execute sourcing best practices. Automate the best process for your stakeholders' needs; assign manual control and approvals where necessary.

- Category excellence requires flexibility in workflow design that supports each businesses unique characteristics. This leads to a requirement for no-code solution to architect the workflows.
- This self-service process control is critical for self sustaining incremental improvements and adaptation:
- No-code avoids dependency on tech providers or shared service centers to change workflows.

Integrations and Documented APIs for I/O:

Use APIs to integrate with upstream and downstream systems. Import demand and export data easily and simply.

Usability

- Requesters require little-to-no training.
- Design the workflow, build the request form, and assign users quickly and easily. Become an expert with our comprehensive training to enable more advanced use cases and better returns.
- Easy-to-use, consumer-grade workflow orchestration, form-builder, and automation rule-builder.

Supplier management

- Create and manage groups of suppliers that can be leveraged for multiple workflows.
- Build rich supplier profiles by assigning attributes which can be used to automate supplier selection or make manual supplier selection more intuitive.

Reporting

Real time updates on:

- the number of AS events you are running;
- spend;
- cycle time;
- performance;
- and supplier engagement.

Intelligent systems work differently

When considering Autonomous Sourcing, it is important to think differently about the best process to automate. Best practices for human operated sourcing systems are constrained in ways that machines are not: people don't have the time to do as much work in data gathering, cleansing, pattern recognition, and are clearly not available to work 24/7.

Just as factories that automated food production don't have machines operating the same kitchen implements as a chef, those architecting Autonomous Sourcing bots to automate workflows should not limit their thinking. When planning for automation it is imperative to plan for a future where suppliers are empowered to automate responses to auctions and RfX events. Sourcing at the speed of light isn't far away and when it arrives it will spread quickly. So investing in automation of best practice sourcing techniques will future proof your Procurement organization.



Autonomous Sourcing delivers a competitive advantage

Superior sourcing performance in Procurement is an important and often under-rated competitive advantage. Autonomous Sourcing enhances performance in numerous ways that can separate your business from competitors, including:

1. Reduced errors & increased speed: Being proactive in identifying what data needs to be collected during the request level so that Suppliers are presented with sufficient information to provide accurate bids. Also, ensuring that uniform and detailed enough bids are captured from Suppliers is something that automated processes are better at than humans. Everybody wins with automation set up to check for errors.

2. Visibility / Accountability: improve visibility with a centralized platform where all requests and tasks (supplier selection, approval, bid, award) are documented. Team members and decision makers can track workflows and the status of each task in real time.

3. Control / Productivity: Predefined business rules trigger steps based on conditions to automatically delegate tasks. For example, some requests require approval, say requests exceeding \$20k, others may not.

4. Integration Friendly: Workflow management must be able to easily integrate with other applications the business is using. Otherwise, unnecessary it increases complexity and processing time.

5. Request Intake: Autonomous Sourcing may be triggered by manual requests or, alternatively, by signals from markets, internal demand forecasts or supply chain warning systems. Having automated triggers enables agility and reduces lead times for alternative supply lines in the event of market disruptions.

6. Multilateral, synchronous negotiations: Effective negotiation relies on leverage. The best leverage is to have credible alternative suppliers who can serve your needs. Negotiations must be conducted synchronously and in parallel with a multiplicity of suppliers. Ideally, iterative feedback is provided to highlight where each supplier has room for improvement. Likewise, it is important to listen to suppliers preferences and agree to tradeoffs that can generate win-win outcomes.

7. Multi-Criteria Scenario Analysis: Overly simplistic sourcing processes that simply look at price or don't invite competition to incumbents are a false economy. Automation of poor practice will drive up costs for goods and services procured. However, applying best practices of sourcing optimization in automated processes can yield significant savings and also help your organization to lean into non-cost objectives such as sustainability, speed and supply chain robustness.

8. Intelligence: AI to Learn and Improve and enhance process performance.



'The Right Way' to prioritize Automation

New technology requires new ways of thinking. It's important to retain best practices but enhance the strategies of old so the business is more adaptable to change and disruption. Category Management skills have honed good strategies for sourcing a wide variety of goods and services but did so in a world where technology was a more constraining factor. Autonomous Sourcing is radically altering the landscape of opportunities; it needs to be embraced so that automatic triggering and execution of workflows is adopted at scale. The following are examples of categories that can benefit from leveraging Autonomous Sourcing.

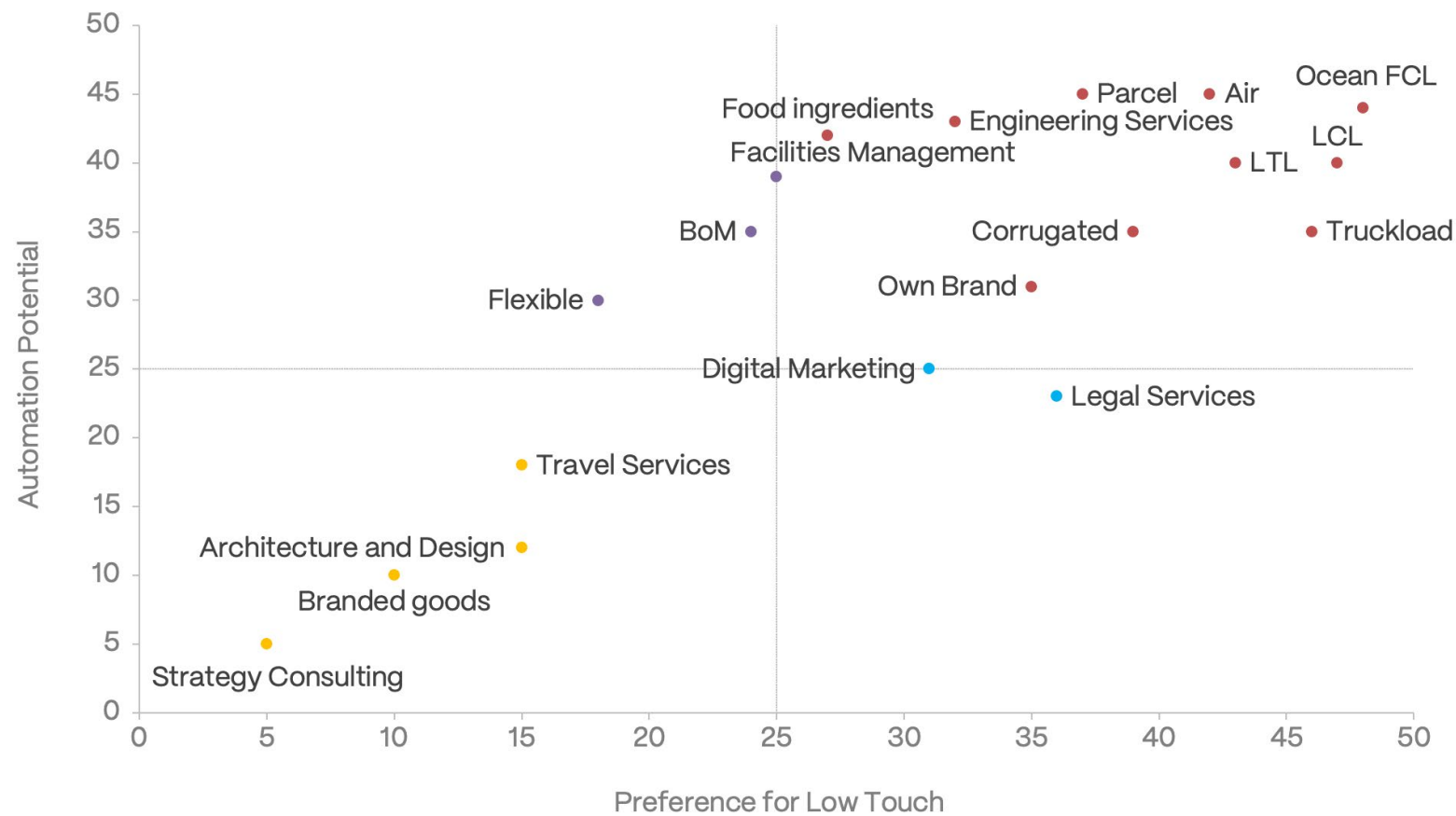
CATEGORY	CLASSICAL STRATEGY	ENHANCED STRATEGY
Raw Materials (e.g. Chemicals, Metals)	<p>Long Term Strategic Supplies: For raw materials, securing stable and cost-effective supply is crucial due to market volatility.</p> <p>Strategic sourcing involves long-term contracts with key suppliers, bulk purchasing, and price hedging to manage cost fluctuations and ensure continuity of supply.</p>	<p>First, utilize strategic sourcing optimization to elicit economies of scale (via package bids and conditional discounts). This reveals the cost footprint at a granular level, so you learn where you can add secondary sources with reduced overall costs and improved redundancy.</p> <p>To further enhance security of supply, develop a sourcing bot for spot buys (spawning one directly from the optimized sourcing workflow). This bot can act opportunistically in a market but also provides options for increased responsiveness in emergency situations. A secondary benefit of enabling sourcing automation is that suppliers are aware that you can be responsive. This changes supplier behaviors.</p>
Professional Services	<p>Preferred Supplier List and Competitive Bidding: For professional services, quality and expertise are critical. Establishing a preferred supplier list based on rigorous selection criteria ensures high-quality service. Competitive bidding for specific projects can drive cost efficiency while maintaining quality standards.</p>	<p>The Prof Services category is adapting quickly as automation is accelerating in this space quite swiftly. This is letting buying organizations to expand their panel of vendors more broadly as the workload per RFX is decreasing. Furthermore, integrations with systems such as Salesforce is permitting greater speed to market for Procurement and ensuring inclusion of key data for providers. GenAI can be a useful means of summarizing offers.</p>

CATEGORY	CLASSICAL STRATEGY	ENHANCED STRATEGY
Facilities Management	Strategy: Outsourcing: Outsourcing non-core activities like cleaning and maintenance to specialized providers can lead to cost savings, improved service quality, and the ability to focus on core business functions. Contracting with providers who have expertise and economies of scale in these areas is beneficial.	Utilize strategic sourcing optimization to elicit economies of scale (via package bids and conditional discounts). This reveals the cost footprint at a granular level, so you learn where you can add secondary sources with reduced overall costs and improved redundancy. To further enhance security of supply, develop a sourcing bot for spot buys as new facilities arise. This bot can act opportunistically in a market but also provides options for increased responsiveness in emergency situations.
Direct Product Materials (e.g. components for manufacturing)	Just-in-Time (JIT) Procurement: JIT procurement minimizes inventory holding costs and reduces waste by aligning orders closely with production schedules. This strategy works well in manufacturing environments where timely availability of components is critical to maintain production flow.	Autonomous Sourcing complements the JIT strategy by moving swiftly as needs arise and establishing clear conditions on timeliness of deliveries. It can also provide a systematic way of tying inventory control policy triggers to sourcing initiation and volume controls. It is more operationally efficient and can permit more nuanced reasoning about timing, volumes and can introduce competitive tension where previously it was inoperable in a human-driven process.
MRO (Maintenance, Repair and Operations)	Supplier Managed Inventory (SMI): MRO items are essential for maintaining operations but managing inventory can be complex. SMI places the responsibility of managing inventory levels on suppliers, ensuring that necessary items are always available without overstocking, reducing carrying costs, and improving efficiency.	MRO is a classic example of a category that has been hard to manage because there is such a long tail of items required and low volume per item. Buying organizations transferred ownership of this challenging problem to suppliers and this is no longer necessary (or optimal) as Autonomous Sourcing can tilt the balance of power in the relationship back in favor of the buying organization. By integrating with inventory control and ordering systems (e.g S4/Hana), sourcing workflows can be designed to reason about how to manage this category more flexibly because the margins for suppliers can be extraordinarily high in some areas where management was ceded to suppliers. The main benefits include cost reduction but also operational speed, visibility and adaptability are other major wins.

Another way of prioritizing categories for automation is to examine your businesses preference for 'low touch processes' and the readiness of the process for automation. The top right quadrant in this graph denotes the categories that are best to begin your Autonomous Sourcing journey.

See below for an example of such a classification.

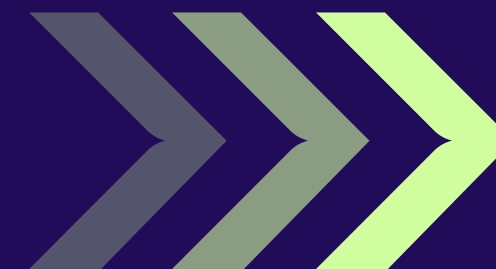
Prioritizing Autonomous Sourcing



Remaining future-ready

The technology frontier will keep moving forwards. The next wave of developments you may expect will involve Machine to Machine Negotiations. Inevitably, once Procurement's performance metrics plateau as all tactical and tail spend is covered by Autonomous Sourcing, it becomes necessary to find the next step change in performance. This will come from empowering suppliers to automate their reasoning when responding to RfX invitations.

Autonomous Sourcing is one side of the efficiency coin. The other grand challenge will revolve around empowering suppliers to be as fast as Procurement is becoming. At Keelvar, we are ready for this challenge because we have always architected our solutions in a manner that will accommodate and embrace future change. It is critical for enterprise Procurement teams to also consider the readiness of their technology vendors to not just embrace these challenges but also be a force for change in the industry.



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