

# Dynamic Market Sourcing: Optimizing Procurement in an Unpredictable World

Brought to you by

**SUPPLYCHAINBRAIN**  
One Forum | One Focus | Many Minds

Sponsored by



# Dynamic Market Sourcing: Optimizing Procurement in an Unpredictable World

Sponsored by Keelvar

Disruptive events like COVID-19 have upended the traditional approach to sourcing goods and services. A new paradigm and its enabling technologies automate processes to allow companies to return to market frequently and adapt to changing conditions.



The need for speed and agility has been apparent in global supply chains for some years, but procurement organizations have done little to step up their old-school game. Buying cycles were often measured in years. Traditional procurement processes benefited from an abundance of research and thought but were as slow as molasses.

Then came the COVID-19 pandemic, sending shockwaves throughout the procurement world. In the first weeks of the pandemic, consumers

cut back on spending and business planners expected a harsh recession. Manufacturing plants shut down and retailing companies canceled orders.

Only a few weeks later, a massive rebound took place—thanks to massive injections of liquidity by world governments—taking many businesses by surprise. Some factories were receiving orders three or four times their pre-pandemic volumes, and prices started to rise. Transportation providers hustled to re-inject

capacity into the marketplace, unsuccessfully, causing freight rates to skyrocket—by as much as ten times in the case of some ocean transportation lanes—while offering far lower schedule reliability.

As if to emphasize the point, other disruptive events converged around the same time. A huge container vessel stuck in the Suez Canal disrupted ocean cargo traffic from Asia to Europe to North America. And the war in Ukraine caused chaos in energy markets and disrupted

supply chains for commodities like metals and grains.

“Even in advance of COVID, the business trend emerged that the most adaptable survive,” says Alan Holland, founder and CEO of Keelvar, a developer of sourcing optimization and automation software. “During the natural course of business, the need to adapt to market changes was advantageous even in less volatile times. COVID accelerated a trend that could have been expected in any case.”

One of the lessons learned by vendors in the wake of the COVID disruptions was that supply, demand, and pricing were unlikely to be stable for the foreseeable future. No longer were they willing to lock in pricing for three years — or even one year — opting instead for arrangements that lasted months or weeks.

“Buying organizations traditionally had the clout,” says Holland, “but now the shoe was on the other foot. Suppliers had the power to say, even to the largest buying organizations in the world, ‘We’re not giving you a price for a year but only for two months, or even one month.’”

As a result, buying organizations needed to enter the market more frequently to chase increasingly scarce supplies and capacity and to compete to win suppliers’ business. This caused a manifold increase in the workload of sourcing organizations — over ten times if a company increased its bidding frequency from yearly to monthly — and in the volume of data they needed to digest in order to make the right procurement decisions.

“Procurement organizations, even in large enterprises, had to work to become customers of choice by becoming more dynamic and responsive to markets,” says Holland.

Clearly, a new procurement paradigm was called for. Many leading organizations have adopted a new model called dynamic market sourcing, that supports an organization’s ability to go back to market repeatedly, leading to better outcomes for sourcing teams.

**“Even in advance of COVID, the business trend emerged that the most adaptable survive. During the natural course of business, the need to adapt to market changes was advantageous even in less volatile times. COVID accelerated a trend that could have been expected in any case.”**

“Everyone wants control of their supply chains but companies are struggling to keep up with market changes,” says Dylan Alperin, Keelvar’s head of professional services. “Under the old way of doing things, an RFP could be irrelevant by the time it hit the street.”

Without dynamic market sourcing and the means of predicting where market turbulence would strike,

buyers increasingly relied on spot bidding and buying to meet demand. But spot bidding tends to be very inefficient and expensive, and incentivizes price-focused negotiations and rogue spending with non-approved suppliers.

In contrast to the results delivered by a seat-of-the-pants spot bid process, sourcing teams require insights to be able to create value and act nimbly in the face of disruption and rapidly changing conditions. The requirement to speed up processes and digest increasingly large volumes of data speaks to the need for automation.

The building blocks of dynamic market sourcing and its enabling technologies include a flexible workflow engine that can automate processes for divergent needs, paired with an optimizer that can weigh both price and non-price factors when presenting alternative scenarios for ultimate human decision making. Online bots autonomously and continually scour the marketplace for changing conditions and help automate the process of deciding which suppliers should be invited to bid.

The technology that needs to be deployed to make dynamic market sourcing a reality “needs to be able to take in rich information so that suppliers can fashion packages that play to their strengths and preferences,” says Holland. “Presenting suppliers with such a thoughtful, automated process goes a long way toward becoming a preferred customer. Processes that don’t allow narrative information to be included will be rejected by bidders.”

So, for example, in the case of bidding for trucking services, the process should allow bidders to express conditionality. In other words, a carrier may stipulate that if it wins the contract for Lane A, it must also be awarded Lane B. And if it wins

those two, maybe it's not interested in Lane C, so that it can preserve capacity for another shipper.

"Suppliers need to be able to make expressive offers," says Holland. "That shows that the customer understands its needs. Suppliers will not embrace a process if it's too robotic. But if you can address needs better than with manual processes, it's good for everybody."

The result of such a bidding process among trucking carriers might be that one carrier submits a bid package encompassing three routes and a 20% discount, while another bids on partially overlapping routes with a 30% discount. "Now we have a jigsaw puzzle," says Holland. "The optimizer needs to figure out which bids to blend together to get the desired results," that is, the required coverage for the shipper's expected cargo moves. The same process can be applied to a host of procurement decisions, whether it's for logistics services, equipment, packaging, or other goods and services.

An optimization engine can also figure out the impact of non-price factors. If a company has a bias towards lower-carbon solutions, the optimizer works out the best combination of offers to award based on the buyer's preferences and clearly delineates the tradeoffs between cost and non-cost objectives. If a supply chain decides among trucking bidders based solely on simple factors like the shortest routes, the technology can calculate that mathematically. But if the approach is more nuanced, including factors like CO2 emissions, human personnel will have to make the final call.

Implementing this kind of intelligent e-sourcing solution can help companies switch from cycle-based to market-based sourcing — freeing up the time of buying personnel and allowing them to concentrate

on strategic initiatives. "The idea is to get out of a tactical, firefighting mindset and get into a more strategic mindset that is planned, predictable, and flexible," says Alperin. Once the procurement organization figures out the scenarios it wants to consider for a particular category, the process becomes repeatable, perhaps with minor tweaks, so that they can be launched quickly.

"Let the bots figure out who to negotiate with," says Holland, "while humans do the things that bots can't do."

Dynamic market sourcing's supporting technology can automate as much as 90% of the procurement workload and digitize 100% of sourcing negotiations. The technology facilitates increased competition for smaller buys while standardizing sourcing best practices, decreasing costs, promoting data quality and simplifying processes.

Holland believes that the time saved is the biggest benefit. One company saved 93% of the time and workload required for tenders in ocean freight. Another, a global technology company, saved \$60 million by switching from air charters to commercial flights and from an annual RFP process to 17 bid events in 12 months.

Dynamic market sourcing came into its own during a period of inflationary pressures, allowing suppliers to protect themselves with short-term pricing in an environment of rising costs. But supply chains also need to find ways to react to the challenges of operating their businesses in a deflationary environment. And that is what we are seeing now in some sectors of the economy, such as ocean transportation services.

When negotiating long-term contracts, carriers often built in inflation adjustments into their pricing, so

that, if their costs rose significantly, they were allowed to raise their prices. But they would never come to their customers with a price decrease if the opposite occurred.

With dynamic market sourcing, the same processes that allow sourcing organizations to enter the market frequently based on changing conditions, now allow them to benefit from lower prices. Those who locked in annual contracts at high prices during the period of COVID-induced scarcity are now stuck with those higher prices for the duration. Dynamic market sourcing provides purchasers with a vehicle to drive discussions around decreasing prices within the context of consistent processes and ongoing relationships with the other parties—and without the perception of being considered predatory.

"Now that the market is coming down in some areas, an unintended benefit of dynamic market sourcing has emerged," says Alperin. "By unlocking the ability to react faster as markets change, sourcing organizations can take advantage of decreasing prices automatically and get way out ahead of their competitors."

In a world that is changing dramatically, the capabilities represented by the dynamic market sourcing model have allowed procurement to become a two-way street. "It's changing the dynamic of supplier relationships," says Alperin. "Before, procurement looked like a flat line—it was set it and forget it. Now, buyers and sellers both have their fingers on the pulse of the marketplace. They enjoy dynamic communication and can work on the real relationships that they have always struggled with, especially over the last couple of years."

*Resource Link:* [www.keelvar.com](http://www.keelvar.com)