

**Tackle Today's
Volatility and Prepare
for Future Disruption**

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Q&A

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Logistics
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INSIDER Q&A:



Alan Holland, Founder and CEO of Keelvar, tells procurement and supply chain leaders how to best approach the ongoing volatility while also preparing for future disruption.

After a year that was filled with turmoil, volatility and uncertainty, organizations came into 2022 hoping for some relief to at least *some* of their biggest supply chain and business challenges.

That didn't happen. In fact, the first two quarters of the year brought with them an onslaught of new problems, including (but not limited to) the Russia-Ukraine crisis, deeper semiconductor chip production issues and new Covid lockdowns in major production and port cities.

With more than two years of pandemic-related stresses under their belts, procurement leaders have all but learned to live with this "new normal" operating environment. "So far, 2022 has been a tale of even more disruptions that are now coming at companies from new and different sources," says Alan Holland, founder and CEO at Keelvar, a developer of sourcing optimization and automation software for enterprise procurement teams. "As a result, it's difficult to predict how things might unfold for the remainder of the year."

Knowing that procurement professionals are operating in a realm of uncertainty, Holland addresses the current challenges they're facing and how they can deploy automation and technology to tackle these issues head-on in this Insider Q&A.

Q: *What priorities are procurement leaders focusing on right now, and how has that changed this year?*

Holland: Procurement leaders are focused on agility and speed to react to disruptions. Procurement teams have finite resources, so they're trying to aim their limited resources in a way that maximizes return on investment. Procurement teams have been talking to technology vendors like Keelvar to see how we can automate some of their workloads, thus allowing them to focus on supplier relationships, risk management, and all of the disruptions they're encountering day-to-day.

Q: *Capacity constraints, soaring fuel costs and inflation are just some of the complexities engulfing the supply chain right now. What steps are sourcing professionals taking to navigate the turbulence?*

Holland: Their hands have been forced in some ways because suppliers are unwilling or unable to sign up for long-term price commitments. The duration of contracted rates—be it ocean freight or air freight or for materials and so forth—are getting shorter and shorter. That means procurement has to go back out to market more frequently, and this significantly increases their workloads. Procurement has tackled this by automating tactical buying and deploying sourcing bots to negotiate with suppliers on higher-frequency, lower-spend sourcing events.

Q: *What are sourcing bots and how are they being used?*

Holland: Sourcing bots are intelligent software agents that can go to market and identify who you should be inviting to compete for your business. They invite suppliers to compete for business, and then auto-pilot multiple rounds of negotiations in an e-sourcing system. This has unlocked a lot of time for procurement teams, and allows them to focus their attention on more strategic priorities.

Q: *Would you say that supply chain volatility is the new norm, and will things ever return to the "way they were?"*

Holland: Yes, volatility is probably the new norm. I don't think anyone can say with absolute certainty, but the volatility is likely to peak and trough in different ways across different spend categories and geographies. It's very difficult to tell which specific sector, industry, spend category, country or your part of the country will be impacted.

We're seeing severe, localized disruptions right now, including shipping traffic at the California ports, Covid outbreaks shutting down ports in China and the high volume of shipping traffic in the Black Sea region. These are localized disruptions that are quite acute, and some of them may be resolved just as another disruption emerges elsewhere. Companies have had to be extremely responsive; that's the name of the game. You have to be agile and respond to these disruptions and be in a position to move faster than your competitors do.

Q: *Has the annual RFP been in most cases replaced by frequent spot buying events for Keelvar customers?*

Holland: Traditionally companies would go to market once a year and run a tender and say, “These are the 500 lanes,” or origin-destination ports that the goods move between. They would also signify the 500 lanes in 500 rows on a bid sheet (based on historical demands) and ask the carrier to provide the best possible prices for them.

After several rounds of negotiations, the carriers would design a package of lanes and offer a discount for the long-term contract. The company would pay fixed, locked-in prices and you operate based on those prices for the next 12 months. The same process can be used when procuring materials, packaging, temporary labor, IT hardware or other necessities.

The problem now is that the 12-month cadence that historically worked for suppliers and buyers doesn’t work anymore. This is because suppliers are dealing with their own fluctuating costs, with changes occurring so quickly that if they commit to a price, three months later they may be telling the buyer, “Sorry, we actually have zero margin on this anymore, so we can’t live up to these contracted rates.” Then there’s a dispute and a disagreement and the buyer has to go back out to market anyway.

Q: *How are companies and transportation providers managing this volatility?*

Holland: There’s been a mutual recognition that, in many sectors, it just doesn’t make sense to operate on a 12-month cadence anymore. Instead, that timeline has been whittled down to a one- or two-month cadence that companies are operating under.

So, you don’t try to lock in prices for any longer because there’s just too much volatility and too much unpredictability for suppliers to make any firm commitments. As a buyer, you don’t know what your prices are going to be for the next 12 months and it’s very hard to budget. The finance team is saying, “How much will steel cost? What’s our air freight going to cost?” And procurement is answering with, “We don’t know.”

As you can see, the annual RFP has been replaced, and not because buying organizations necessarily prefer it that way. The finance teams would prefer to have longer-term agreements with greater predictability, and many suppliers would also like longer-term agreements with that greater level of predictability.

The latter allows them to make investments in infrastructure and obtain better bank financing terms. Through it all, the most successful companies are the ones that can operate their procurement and supply chains in the nimblest, most responsive manner possible.

Q: *How do Keelvar’s solutions help logistics sourcing teams to navigate and address these challenges?*

Holland: We have ocean sourcing bots and air freight sourcing bots that have been particularly valuable for our customers, given the current volatility in logistics markets. These sourcing bots are extremely quick when responding to needs, changing market dynamics and volatility. When procurement requests

new rates, for instance, these sourcing bots can quickly reach out to more carriers in parallel and operate competitive bid processes faster than any human could do. This is giving shippers an edge in the modern logistics markets.

Q: *What differentiates Keelvar's solutions from other automated options on the market?*

Holland: Our solution is the only one that automates optimized sourcing, whereby suppliers can be more expressive and describe elements like package bids and conditional discounts. It also optimizes both cost and non-cost objectives, and an optimizer allows the bot to put different options to the buying organization. For example, "Would you like the fastest option? Then here's the option with the fastest delivery times."

It can also find the option with the cheapest delivery times or the one with the lowest CO2 output. These are just some of the various non-cost dimensions that companies can optimize against (they can also use a weighted combination of all of the dimensions). The use of sourcing bots to automate best practices to a standard that exceeds human experts' level of performance is a unique market offering that only Keelvar offers.

Q: *Looking ahead, what other ways will automation help companies overcome both current and future complexities?*

Holland: Automation is a great tool for eliminating the complexity that procurement teams would rather not deal with. It allows them to embed best practices in an automated process, with sourcing bots continually collecting the data they need from the market in order to make the best decisions. Automation is not just accelerating processes; it's also raising the bar in terms of the standards in negotiations with suppliers.

At Keelvar, our systems are designed with artificial intelligence (AI) in mind. There's a range of new intelligence systems and capabilities being added to these bots that will set sourcing automation apart from manually-operated, tactical buying in terms of both performance and results.

To procurement leaders that want to leverage these tools, the first step is to consider how your logistics function is going to operate in an age of human and machine, where there will still be many things that machines cannot do and that are best handled by a human being. Then, let the machines do what they're best at. Every company is going to need a plan in place to manage this shift and those that ignore it will just wind up reacting to the plans of their competitors.