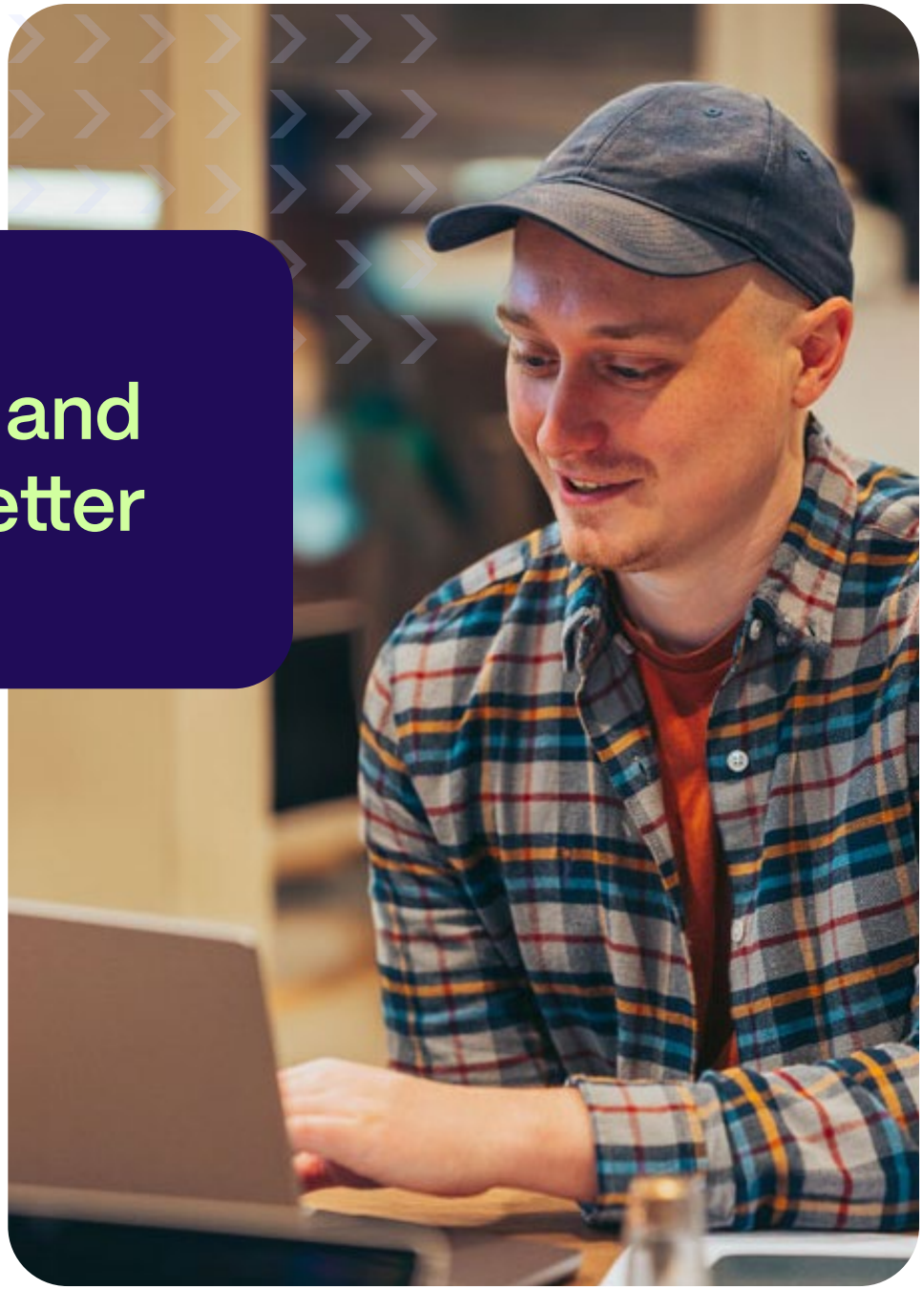
Keelvar

WHITEPAPER

Embrace Optimization and Automation to Drive Better Sourcing Outcomes



Organizations that apply a one-size-fits all approach to their sourcing needs are leaving money on the table and will struggle to serve the needs of the organization. Instead, procurement leaders and category managers should tailor the sourcing approach to the needs of specific categories and their requirements.

In this whitepaper, discover how you can overcome complexity to drive value, and leverage automation to extend best practices for sourcing excellence across the entire business.

Adapt your sourcing approach to category needs

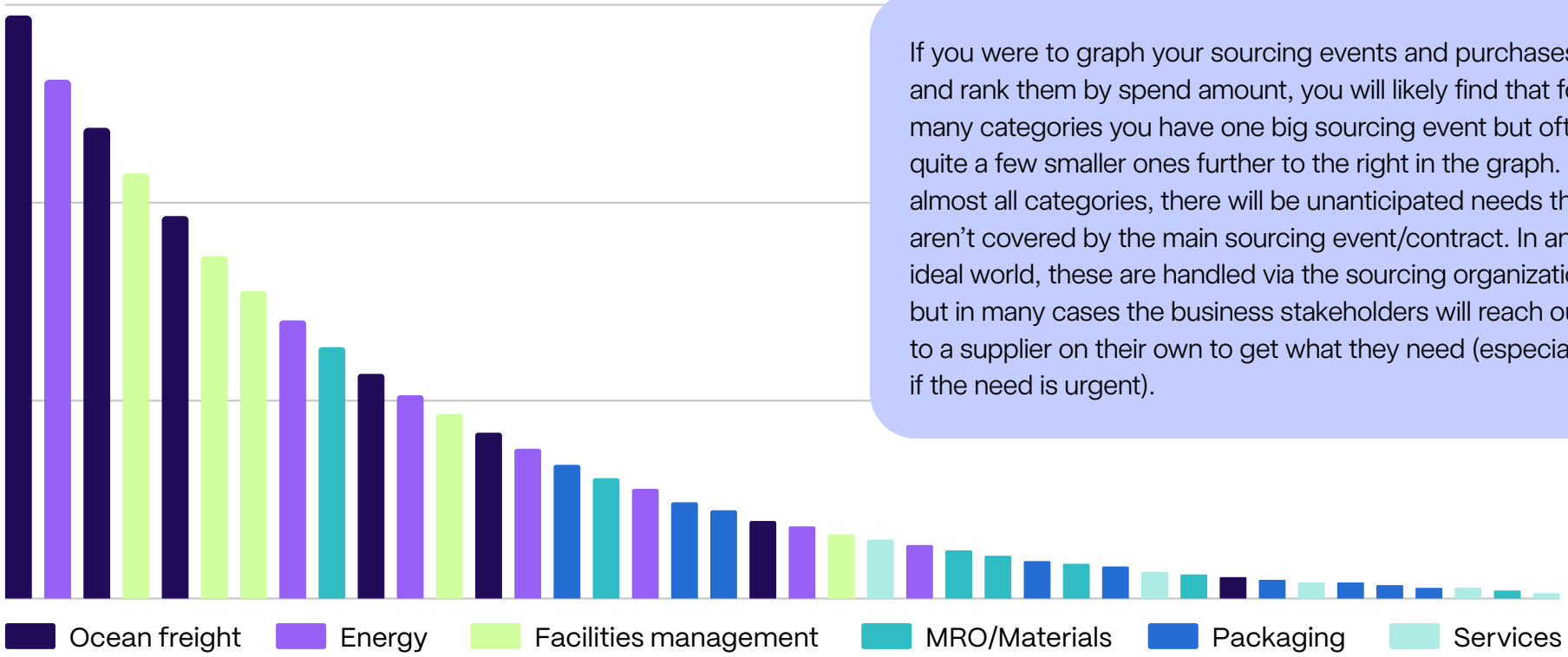
In order to organize and prioritize work, most organizations classify spend categories in some way. Some use the Kraljic matrix (a two-by-two matrix that categorizes spend categories into strategic, bottleneck, leverage, or non-critical by importance of purchasing and complexity of the supply market; while others sort categories by spend and determine the highest value categories to be strategic. Given that most organizations have limited resources, it's common for sourcing teams to focus on the strategic categories, applying a so-called strategic sourcing strategy to the spend in these categories.

The concept of strategic sourcing was first introduced by AT Kearney in the 1980s. It promoted a more considered strategic method of sourcing that involved examining both supply and demand for a category before deciding how to source. Over the last decade or so, the more strategic elements of AT Kearney's original process have been moved into a discipline of its own called category management.

It is important to note that category management in and of itself does not deliver the execution of a sourcing strategy.

Recognize that each category has a different pattern of events

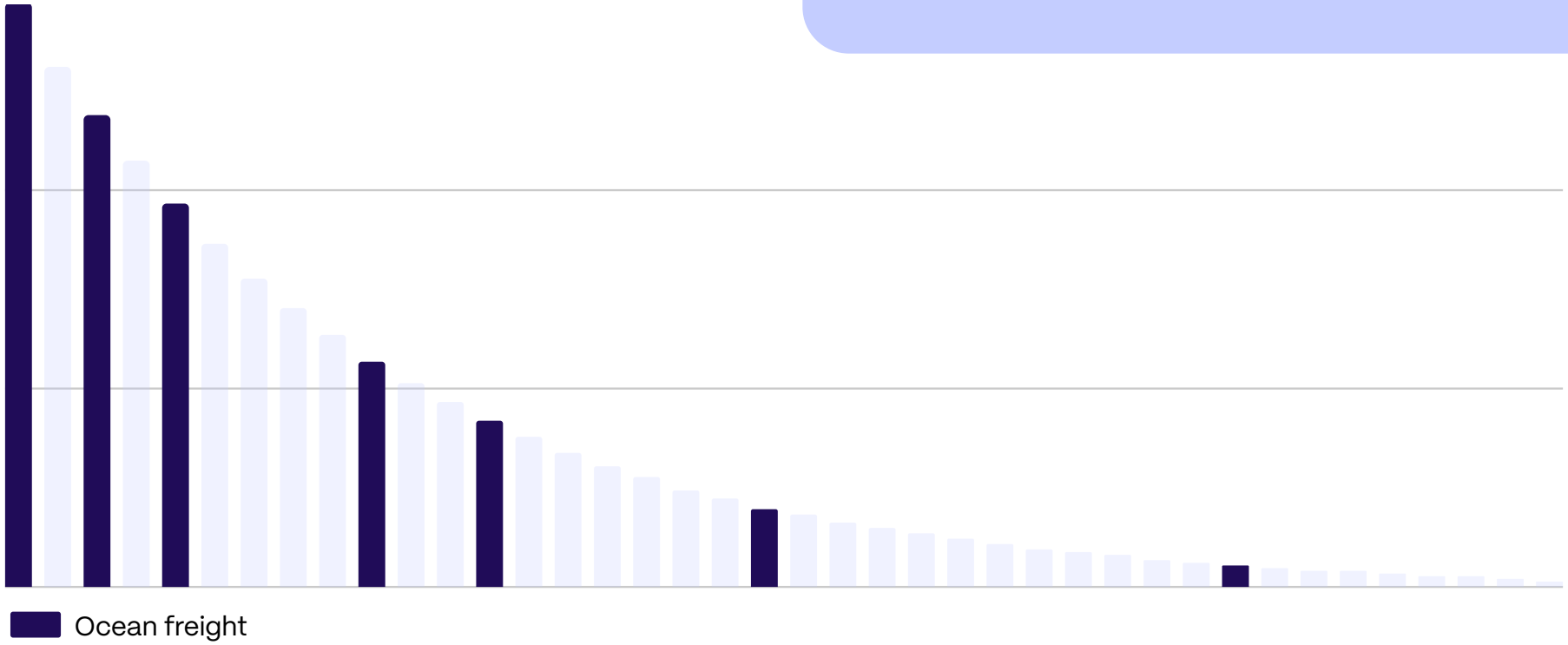
Organizations need to make a distinction between a strategic spend category and a strategic sourcing event. The former dictates the overall strategy for how you manage a specific category from beginning to end. The latter refers to how you conduct a sourcing event which is deemed to be strategically important, irrespective of category.



If you were to graph your sourcing events and purchases and rank them by spend amount, you will likely find that for many categories you have one big sourcing event but often quite a few smaller ones further to the right in the graph. For almost all categories, there will be unanticipated needs that aren't covered by the main sourcing event/contract. In an ideal world, these are handled via the sourcing organization, but in many cases the business stakeholders will reach out to a supplier on their own to get what they need (especially if the need is urgent).

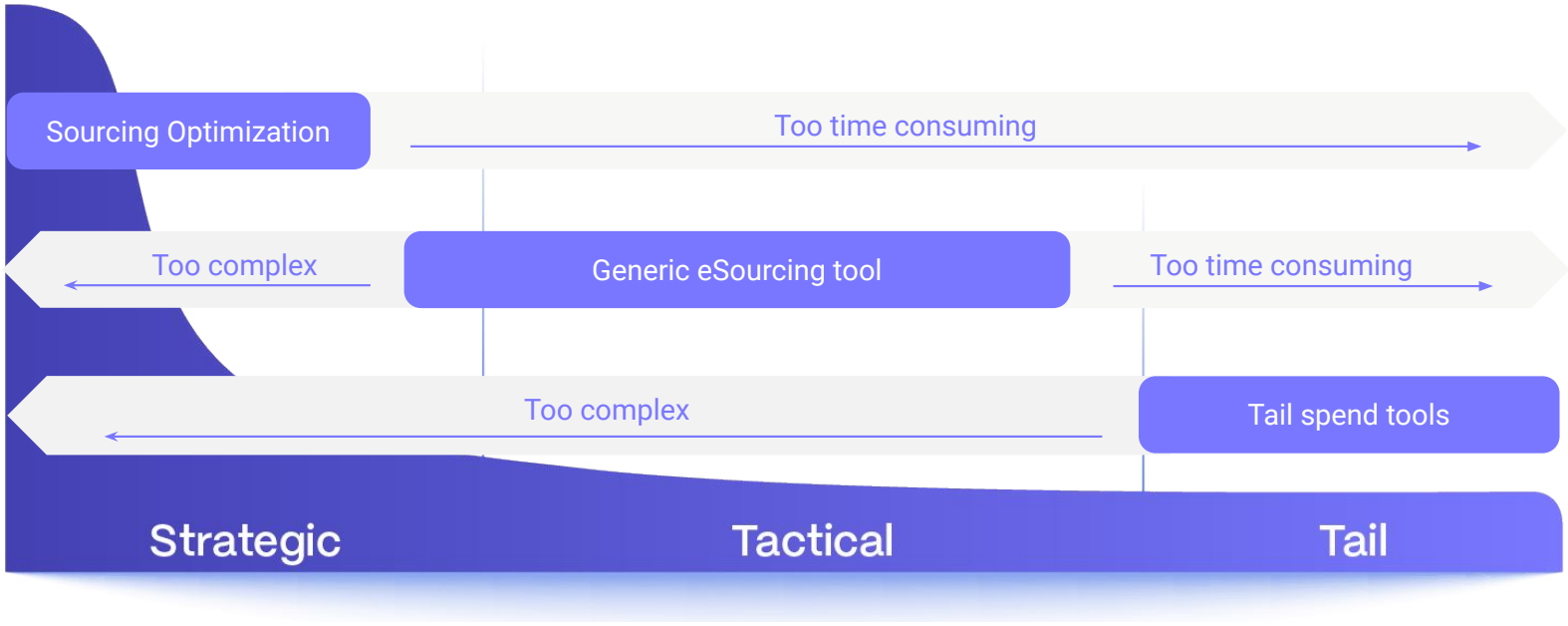
For some categories, the pattern might be one global annual sourcing event, run by the sourcing department, using the classic sourcing process. In another category the pattern might be many smaller RFQs which are run when a specific demand occurs. In the ideal world the business is empowered to run these RFQs themselves to minimize lead times, improve agility, and reduce workload of the sourcing organization. In most cases, organizations will probably need a mix of these approaches.

A comprehensive sourcing strategy for categories should ideally incorporate the ability to run large, complex events – most likely handled directly by the sourcing team, and smaller, more repetitive events which ideally should not place too much overhead on the sourcing team. So the question is why are most organizations not able to do this today?



Legacy solutions can’t support all types of sourcing

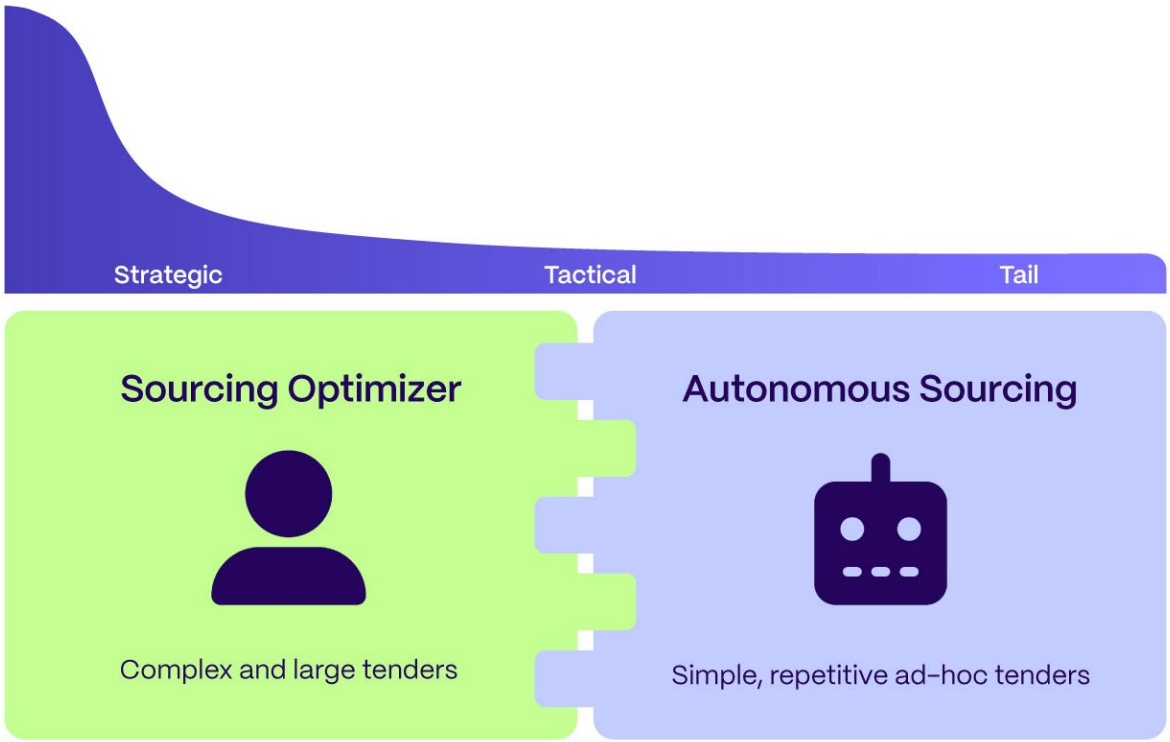
Existing solutions in the market today don’t offer the flexibility to manage large, complex tenders and ad-hoc, repetitive sourcing requests that can be easily run by business users. The first generation of sourcing optimizers are too complex to use beyond a few very specific categories and large spend events. On the other hand generic e-sourcing tools struggle to handle the complexity needed to maximize value from larger sourcing events. Added to this they are too time consuming for very low-value events. Finally, tail spend management tools are too basic to manage anything beyond “three-bids-and-a-buy”.



One of the biggest mistakes organizations make is adapting their sourcing strategy to the limitations of their tools. You don't want to compromise your most important sourcing projects because a sourcing solution can't manage all the data or potential scenarios, nor should sourcing expert resources be spent on running low value, simple RFQ's.

The goal is to manage the complexity of larger critical sourcing events to make sure you maximize value and leverage your suppliers strengths and innovations. At the same time you should offer business users easy access to source what they need for urgent or lower value needs without putting the business at risk. If you can do this you will bring more spend under management and dramatically increase the efficiency and productivity of the sourcing team overall.

A sourcing architecture which serves every type of spend



To achieve this, a solution is needed which provides the agility to deal with any type of sourcing event in an efficient and effective way. A sourcing solution which delivers this would need to offer sourcing optimization to cater for the needs of sourcing teams running large and complex events. At the same time it should be capable of exposing the power of optimization to the wider organization without mandating that end users be trained to configure an optimizer. Such a solution would require automation in order to enable bots to take on the configuration of the optimizer on the basis of simple, ad hoc requests submitted by users or triggered by state changes in other upstream systems.

Drive better outcomes for strategic events with sourcing optimization

Successfully executing strategic spend events involves managing the complexity of balancing decision factors such as price as well as non price factors such as supply risk, sustainability requirements, supplier diversity. The key is to be able to evaluate multiple different scenarios and then give feedback to suppliers so that they have an opportunity to react and perhaps offer conditional discounts.

Keelvar recommends: Don't shy away from complexity. Instead ensure that you have the tools to manage it and arrive at optimal sourcing decisions.

Overcoming the complexity which is inherent in strategic sourcing events is a key element of a successful sourcing strategy. The key to achieving this is leveraging an optimizer which can streamline the sourcing process whilst ensuring the optimal sourcing outcomes are achieved.

Sourcing optimization can handle a large number of line items and suppliers and allow the creation of various scenarios that factor in constraints and non-price criteria. These scenarios can include the number of suppliers per item, location, and certain amounts of business awarded to incumbent suppliers. Additionally, the cost of qualifying a new supplier or modifying costs based on quality performance or sustainability factors can also be added. Scenarios can also be created where non-price criteria are taken into account. For instance, what are the costs associated with awarding business to suppliers that meet these criteria vs. a purely cost based alternative?

But even though sourcing optimization has been around for many years, its adoption has tended to be limited to specific categories with large amounts of spend, such as transportation and logistics, or where the extra expense of having in-house experts or consultants can be justified. However, sourcing optimization should be used much wider to ensure you maximize value from suppliers while balancing cost against other business requirements such as sustainability, risk management and innovation.

Leverage automation to extend sourcing best practices

As mentioned, organizations only have so many resources dedicated to sourcing. You have to find a way to enable the business to leverage sourcing best practices on their own if you want to maximize the spend you source. This is especially important for lower value, often repetitive needs. Also, not all spend is suited for a time consuming full sourcing process. Quite often, your organization will have urgent, unplanned needs and won't have time to go through the complicated traditional sourcing processes.

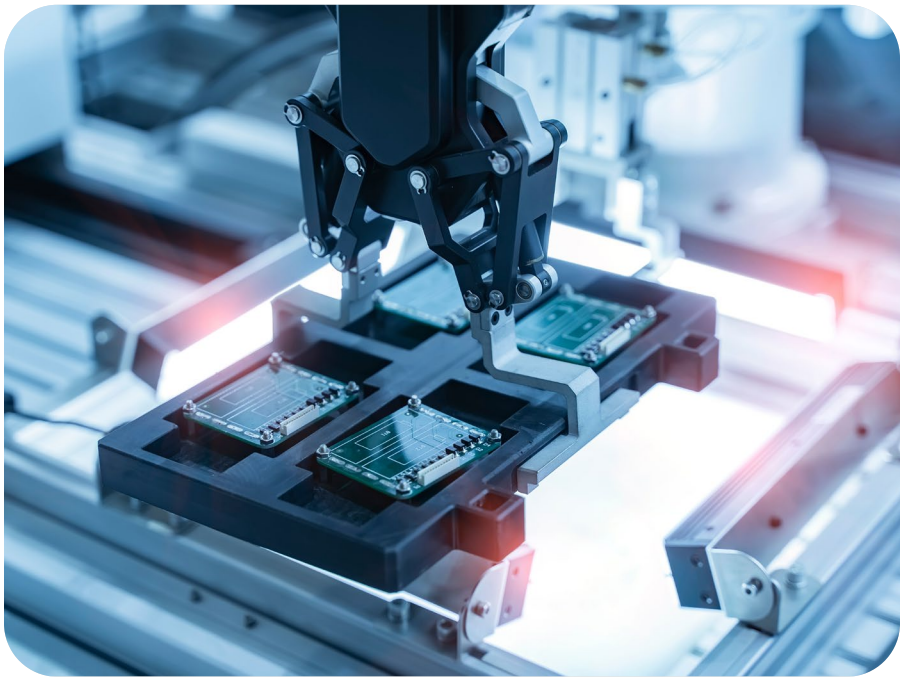
These types of demands are often categorized as "tail spend", or low-value purchases that aren't covered by existing contracts. In these situations, procurement teams should enable the business to source on its own and avoid having to wait for procurement resources to be available.

If procurement can provide easy-to-use requirements input forms, a set of approved suppliers, and automate the RFQ process, the business end users could source directly from the suppliers in less time than it would take them to explain to procurement what they actually need. Depending on the value and criticality of the request, various approvals and controls can be incorporated to ensure proper governance but with much less workload for the sourcing organization.

SIEMENS

Siemens, a global manufacturing company, created a bot for engineers to use to source parts for product development. This has removed hundreds of calls to procurement annually while still ensuring the parts are being sourced according to company best practices and policy.

Another division of the company uses a bot to source installation services for infrastructure equipment they sell. The sales professionals easily source the services they need to include in their quotes to prospects while making sure that they only include quotes from approved suppliers, again removing hundreds of calls to procurement.



It is worth noting that automation of sourcing is not limited to tail spend, the same approach is being used by leading procurement organizations today for high-value, repetitive needs where many of the parameters are the same but the details vary. In other words, procurement can set up a standard format that can be used for multiple requests and encode this logic in a bot that can be run 1000s of times with dramatically reduced workload for the sourcing team. This liberates the sourcing team to work on more strategic tasks. At the same time, business users get what they need faster due to the enhanced agility of the autonomous sourcing approach.

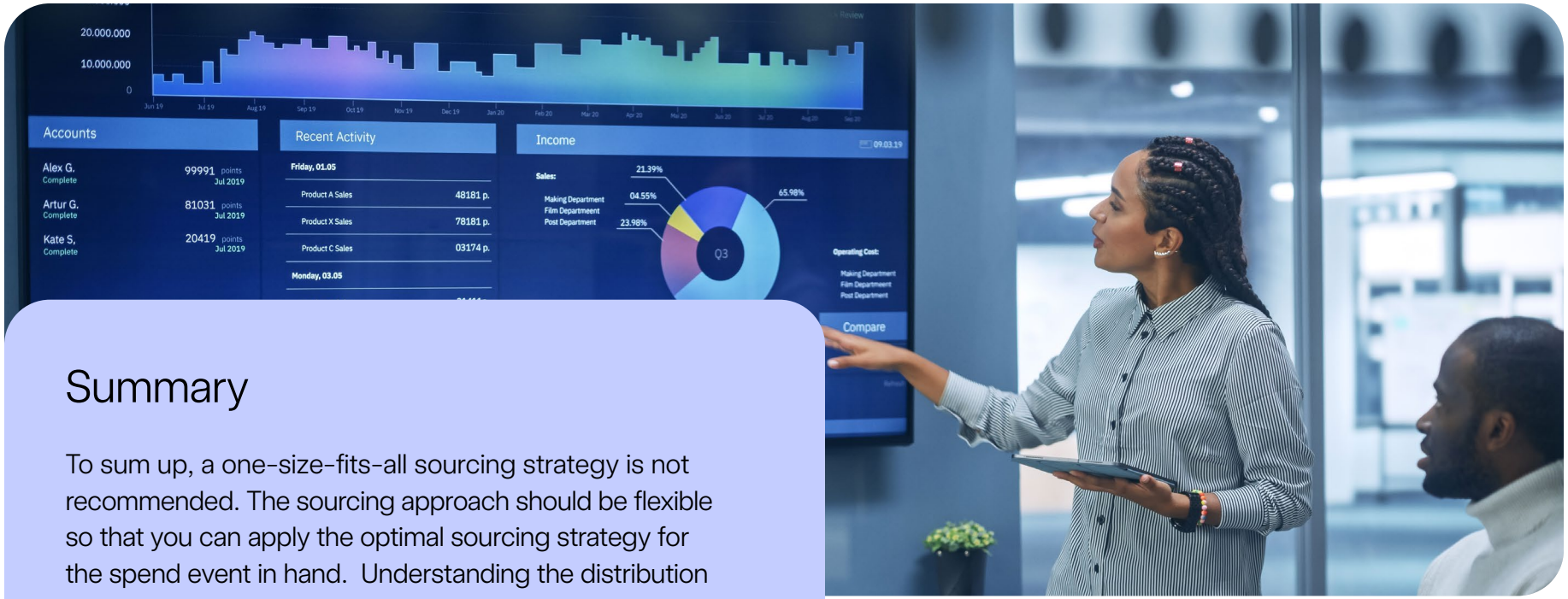
This approach of automating the sourcing process has become known as autonomous sourcing. To truly offer autonomous sourcing, solutions must be able to automate more than just the workflow. It also necessitates the automation of award decisions while supporting just the right amount of human intervention as needed.

Optimization is a prerequisite for autonomous sourcing

When you boil it down to its essence, sourcing optimization's key deliverable is the automated selection of the lowest cost set of suppliers given a set of selection criteria and constraints determined by your business. Only optimization permits self-documenting, repeatable routine automation of highly complex sourcing problems based on multiple business constraints and unpredictable inputs. Thus, sourcing optimization itself must be viewed as the nucleus of a broader autonomous sourcing process which integrates the advanced decisioning of optimization within the context of automated and streamlined workflows.

Businesses that subscribe to this view of autonomous sourcing, and select their sourcing technology accordingly benefit from the ability to apply autonomous sourcing to more complex spend types - where awards are based on both price and non-price criteria, and can be split among multiple suppliers, all with minimum workload for the sourcing team.

So in order for your sourcing solution to truly enable autonomous sourcing, and be used for more than just the long tail of your spend, it needs to harness the power of sourcing optimization.



Summary

To sum up, a one-size-fits-all sourcing strategy is not recommended. The sourcing approach should be flexible so that you can apply the optimal sourcing strategy for the spend event in hand. Understanding the distribution of spend within a given category as between high value or high complexity and low value, low complexity, should allow enterprises to identify when to operate a more manual strategic sourcing process and when to rely more on automation. Selecting a sourcing process which affords this flexibility is critical, and such a technology must have optimization at its core in order to support.

In many cases complexity needs to be embraced to drive value, but it should be managed effectively. The right tools should be in place to extract the extra value brought about by managing complexity.

Finally, automation should be used to extend sourcing best practices to the entire business and improve agility.

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To learn more about how Keelvar can help you embrace complexity and drive better sourcing outcomes, visit: **www.keelvar.com**