

PROCUREMENT
LEADERS

Getting ahead in volatile markets: How sourcing teams are winning with dynamic market sourcing

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MOVE FORWARD

A volatile market

In an era defined by instability and uncertainty, procurement teams must ensure their sourcing processes are fit for purpose



The past five years have seen supply chain disruption on an unprecedented scale. Following the uncertainty created by the protracted upheaval of Brexit, the Covid pandemic struck – a black swan event in its truest sense. And then, just as normality threatened to return, a land war erupted in a part of Europe vital to the production and distribution of a whole range of commodities.

These risks are real: recent Deloitte research revealed that 56% of CPOs said key suppliers have gone bankrupt or are severely hampered while 41% said they had had to expedite shipping to keep critical supply lines flowing.

It's against this backdrop that procurement professionals have battled to maintain stability and resilience of supply. That effort has been challenging as prices fluctuated wildly, and previously stable and reliable sources have come under enormous pressure.

The result is a marked increase in uncontrolled, off-contract, spending to keep the wheels turning across categories. Whether it's raw materials, energy, plastic, oil or transportation, procurement teams are scrambling to find reliability in product delivery and services at a reasonable price.

When they fail, costs spiral and risks increase. Conversely, savings opportunities may also elude buyers as contracts won't allow for flexibility to capture value.

Clearly, the established procurement norms are not fit for purpose. Historically, when sourcing organisations find a new category, they look to control spend. But, running a comprehensive RFP can typically involve a 12-week process. "Categories that have traditionally been very stable were perhaps only put through that process once every three years," says Dylan Alperin, head of professional services at sourcing software vendor Keelvar.

"However, in this time of increased volatility, going to market even once a year is no good when it all falls apart a month later." ■



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Dylan Alperin, Keelvar

KEY TAKEAWAYS

- Increased volatility
- Old model under increased pressure
- Growth of uncontrolled, off-contract, spending



Procurement under pressure

Buyers need to be more nimble and agile to operate successfully in the new normal

The impact of overly long processes can vary but, in many cases, it results in chaotic sourcing and stressed procurement teams fighting fires, putting business relationships under pressure.

“We see an increasing trend of companies going ‘off contract’ to suppliers that they don’t have arrangements with to address shortages,” says Dylan Alperin, head of professional services at Keelvar. “And they’re going to suppliers that don’t meet their strategic goals in terms of sustainability, diversity or supplier rationalisation, where the CPO’s professed aim of fewer suppliers gets lost in the confusion.”

CONFUSION REIGNS

Charles Findlay is an experienced supply chain and procurement consultant who has worked with a range of companies across different sectors. He agrees that the increasingly complex and demanding environment has threatened to leave some procurement departments exposed to unnecessary risk.

“Certainly with bigger companies, you have multiple groups all wanting to know about the suppliers and it becomes chaotic,” Findlay says. “We see it where you have the risk function wanting to know about suppliers; you have the treasury function wanting to [understand cash →



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Alan Holland, CEO of Keelvar

flow implications]; you have the brand team wanting to know 'are we going to be embarrassed by their suppliers or be proud of them?'; you have the legal team worrying about modern slavery; you have a whole range of people all wanting to understand the suppliers and influence their selection. It can very quickly spiral out of control in terms of cost and compliance."

FLEET OF FOOT

The lesson for buyers has been simple: they need to be more nimble and agile to operate successfully in the new normal. "We've seen suppliers unwilling to commit to longer-term pricing agreements with so much volatility in commodity prices and stretched capacity," explains Alan Holland, founder and CEO of Keelvar.

"There was a move towards more tactical buying and that was necessary; it was unavoidable really and suppliers didn't have much of a choice in that.

"But, it was up to procurement teams to adapt and quickly; they weren't going to receive a massive increase in resources and personnel to address the huge spike in workload, because the problem for procurement is that if you're used to doing annual bids or two-yearly bids for a

commodity, you're now adapting to monthly or even bi-weekly bids. Your workload is increasing enormously.

"The need today is to have systems that can do the work for you, so your category managers can be freed from ongoing tactical fire-fighting."

By tying procurement teams in low-value tasks and reactive sourcing, companies are failing to get the best from the most precious commodity: their people.

"You want them working on the strategic goals; not having to fight tooth and nail every day for every single product or service that they're trying to deliver," says Holland. "What's the point of strategic sourcing if it all goes out the window the next day and you're just doing tactical buying?" ■

KEY TAKEAWAYS

- Tactical buying no longer viable
- Procurement teams stressed
- Increased supply chain risk with lack of transparency over suppliers' terms and compliance



A dynamic solution

Dynamic sourcing offers procurement teams assurance and capacity at a time both are in short supply

What can CPOs do to cut out rogue spend, absorb and manage price volatility, while empowering their people to take smarter, longer-term, decisions? The answer lies in dynamic market sourcing.

“CPOs need a way to capture the fluctuations of the market in terms of two main factors,” says Dylan Alperin. “The first is price: we know there are very legitimate changes that are happening to price that may be outside of your supplier’s control, so the buying company needs a way to effectively manage that - to make sure what they pay is still in line with the market, and to make sure that you are in the driver’s seat.”

While dynamic sourcing isn’t a ‘magic wand’ that allows buyers to mystically avoid increases in a rising market, it adds assurance to the buying process. ‘If your supplier comes back to you and asks for a 50% price increase, you need to make sure that figure is legitimate. That means you need to do an analysis of the market and to have a framework to drive that discussion through,’ Alperin explains.

CREATING CAPACITY

The second critical factor is capacity; a factor that can fluctuate alongside prices, making suppliers reluctant to commit to a full year contract.

“You might have a preferred supplier in your annual RFP that can only give you a limited amount of capacity; maybe next month they can give you more and you pay the same amount; you get better service and everything’s great,” says Alperin.

“Maybe they have lower supply, and you have to find others to take [the slack] but, by switching to a dynamic pricing model, you get better operational control with less firefighting because your buying is planned.”

Under a dynamic pricing system, buyers are able to develop a virtuous circle of updating contracts, systems, and operational teams, allowing them to adapt

to changing circumstances. “If you’re doing it on a monthly basis, you can build the systems and processes around that,” says Alperin.

Drawing on the work Keelvar has undertaken with a range of clients, Alan Holland says that the benefits of moving to this dynamic model for the CPO focuses on gaining greater control over the categories under management.

“Suppliers rarely hesitate to ask for price increases. But procurement teams are generally fearful to go back and ask for decreases when prices go down, because they don’t want to be seen as a ‘bad partner’ or accused of being an advantageous shipper. When, in fact, you’re just trying to take advantage of the market conditions.”

Dynamic market sourcing addresses the one-way street of suppliers asking for increases, helping you both capture value out of chaos and assurance on fluctuating markets. ■



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Dylan Alperin

KEY TAKEAWAYS

- A move towards addressing price and capacity fluctuations
- Greater control over spend and supplier terms
- Flexibility, adaptability and assurance

Automating excellence

The companies that have yet to embrace procurement automation risk being left behind – the time to start is now

Much of the value created by adopting dynamic market sourcing relies on automation, where market moves and contracts can be managed as part of a digital procurement infrastructure. Charles Findlay, an experienced procurement and supply consultant, argues that while larger companies are leading the way on deploying data analytics, many others do not yet see the investment as a critical part of risk management.

“Senior people are asking: ‘Why don’t you know this about our suppliers?’ ‘Can’t you tell me this?’ ‘Can’t you press a button and get this information?’” The answer is: ‘Well, if you wanted that, you should have invested in the capability three or four years ago so it’s embedded into our processes.’”

Keelvar has helped companies adopt the right level of automation and analysis to suit their specific business needs. For instance, a more automated approach would allow



The companies that haven’t focused on automation as a competitive advantage yet are realising that their competitors are getting hold of supplies faster than they are.

**Charles Findlay,
procurement and
supply consultant**

for real-time ‘traffic light’ and/or textual bid feedback, as well as systematically generated bid feedback to be formula-based – including data such as benchmark rates, historic rates, and median bid values.

These provide suppliers with directional price and non-price guidance (for example, transit time). It is not uncommon for this single feature to drive 3% of additional price compression and leading to significant service level improvements.

Greater automation represents a huge opportunity for supply chain professionals to orchestrate a greater number of complex relationships and manage spend across categories more easily.

“The companies that haven’t focused on automation as a competitive advantage yet are realising that their competitors are getting hold of supplies faster than they are.

“Technologies such as dynamic market sourcing are a key lever.” ■

KEY TAKEAWAYS

- Automation allowing value capture at each stage of procurement
- Greater control over spend through cycled feedback
- Service levels open to greater scrutiny





Case study: Identifying a high-risk supplier

By partnering with Keelvar, CJ Logistics is able to move at pace and scale while ensuring supply chain resilience



Undertaking three bids in a year would have been unimaginable, now we do it all the time. To this day we're still learning about what the technology can do, and it's constantly evolving.

Basil Weaver,
CJ Logistics America

CJ Logistics America provides integrated supply chain solutions to a range of clients across the US

The company was growing, with its transportation management business doing particularly well. However, its procurement capabilities remained “stubbornly manual”, according to Basil Weaver, the company’s director of supply chain solutions and analytics. This issue left some within the leadership group feeling the company lagged behind the best in class. “So, while our market presence was growing and our buying power growing along with it, we didn’t have a process or technology to leverage that.”

The impact was felt in terms of both cost and in CJ Logistics’ wider supplier relationships. Keelvar had been introduced to the company to undertake a small project. It became clear where the most glaring gaps in CJ Logistics’ processes were. For instance, the company could not run reverse e-auctions.

“It’s a simple thing,” says Weaver, “but as we executed that one small project we started

to realise what we could do, and we learned a lot. In short, Keelvar helped us refine our processes as we built and leveraged the technology.”

The successful delivery of the pilot project drove further successful collaboration. “We used to perform an annual procurement event that was heavily manual and demanded a lot of resources and time – it could take months to execute,” he says. “It was very cumbersome, and things were slow and difficult for everyone, including our suppliers.

“We know that the most frustrating thing as a supplier is that people engage you in an event and it either never reaches a conclusion or it changes scope and you’ve wasted a lot of time,” he says. To that end, Weaver is now using Keelvar to help balance out efficient and cost-effective procurement with developing deeper and more resilient relationships.

“We recognise that, although the number in the box is important, the value of relationships is crucial. We want to model integrity in our process and, as a purchaser and a provider of shipping services, we participate in many RFPs on both sides. Dynamic market sourcing helps us do that with its focus on transparency and responsiveness.”

Alongside that, Weaver has found embedded analytics to be one of the most useful aspects of Keelvar’s solution. “We can build different scenarios, and we can group carriers, lanes and customers,” he says. “That helps us build that into our award scenarios and it helps us reward the behaviour we want from suppliers.”

Since partnering with Keelvar, Weaver has been able to really interrogate CJ’s deeper procurement needs. Having started with big strategic requirements, there are a new set of potential wins in the future.

“Our first project had \$20m and maybe 18 providers; the most recent that we did has \$400m in it and more than 1,500 suppliers. So, Keelvar has grown with us and helped develop the process. We can go from 100 to 1,000 suppliers quite easily – it’s really scalable.”

“Undertaking three bids in a year would have been unimaginable, now we do it all the time. To this day we’re still learning about what the technology can do, and it’s constantly evolving. Although it’s been built over the years and we’re getting better at it, we still have work to do.” ■

ABOUT OUR SPONSOR

With a modern user-friendly design, Keelvar's sourcing optimization and autonomous sourcing offers easy adoption and enhanced productivity, while supporting large scale deployments for the world's largest enterprises. The products are powered by unique artificial intelligence, designed by our category experts to deliver significant savings and operational improvements for leading global enterprises.

Not limited by size, scale, or complexity – Keelvar powers some of the most demanding global sourcing teams, including Siemens, Microsoft, Samsung, Coca-Cola, and Novartis.

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