

BUYER'S BOOK VOL II

KEELVAR 
MOVE FORWARD

Keelvar's Guide To:

Making the Case for Sourcing Optimization

Featuring a Foreword
from Kelly Barner of
Buyers Meeting Point

FOREWORD

Automation Ahead of Its Time: Sourcing Optimization



By Kelly Barner

Kelly is the Owner and Managing Director of Buyers Meeting Point and has worked in procurement for nearly two decades, spending time as a practitioner, consultant, and independent thought leader.

Procurement has been gripped by the buzz surrounding emerging technologies for the last couple of years. We can hardly contain our excitement over the idea of applying Artificial Intelligence (AI), Machine Learning (ML), robotic process automation (RPA), and blockchain to age-old spend management problems. Some industry leaders have already secured their place as early adopters, and there is little doubt that these technologies will unlock tremendous value for all of procurement in the future – but most enterprises need solid solutions to complex problems now.

What many procurement teams may not know – or may have forgotten – is that there is an equally sophisticated technology already available and well proven: sourcing optimization.

In some ways, sourcing optimization was ahead of its time. In the early 2000's when it first entered the scene, many procurement organizations were not yet addressing spend categories that justified its use, and, if they were, they weren't mature enough to take the level of approach that optimization facilitates.

More than anything else, optimization harnesses a way of thinking about and qualifying spend management options relative to each other. It combines data and business strategy to become science. Procurement is finally ready to think in terms of constraints and scenarios. We have proven that we can manage 'heavy lift' spend categories without losing perspective of the value-beyond-savings the business needs to build or defend a competitive advantage.

(continued)

In this comprehensive ebook, we read about some of the critical achievements that optimization can bring within procurement's reach today:

Scalability and Repeatability: By escaping the clutches of Excel for analysis, procurement can satisfy every 'what if' scenario without delaying business progress. New or updated bids require just a re-running of those scenarios, not a return to the beginning of cumbersome calculations.

Fully Leveraged Supplier Capabilities: When supplier proposals are bound by the limitations of manual analysis, tangible value is left behind. Optimization removes this roadblock for the benefit of everyone involved.

Knowledge Retention: Creating a repository of sourcing strategies can deliver next-level results in subsequent projects. Optimization records live centrally beyond the project and are based on logic that can be easily transferred between project leads.

Greater Stakeholder Engagement: Despite the progress that has been made, many stakeholders still see procurement as an administrative obstacle. Demonstrating cost and benefit trade-offs at the category level positions procurement as an expert without presenting a threat to the business' ownership of the domain.

There is always a next frontier in procurement, and today we are rightly focused on the use of automation to scale and democratize our impact. The choice is not between optimization, AI, ML, RPA, and blockchain, but how we can best combine them.

Perhaps most importantly, procurement should implement all of these tools with the intent to implement them enterprise-wide, using them to empower distributed buyers to take control of enterprise spend in alignment with the company's goals and objectives rather than positioning them as 'so complex only we can use them' and artificially limiting our impact. We cannot implement technology for technology's sake; making the business case is a crucial first step, as this ebook illustrates.



CONTENTS

PART ONE: THE OPPORTUNITY

- 4 Introduction: What Is Sourcing Optimization And What Is The Opportunity?
- 6 “The Sourcing Rut”
- 9 5 Common Challenges Driving A Sourcing Tool Upgrade Consideration
 - The Need to Model More Than a “Lowest Price” Decision
 - Giving Suppliers Flexible Bidding Options
 - The Need to Support Larger-Scale Sourcing Events
 - Getting New E-Sourcing Events Set Up
 - Future-Proofing With Innovation and Automation

PART TWO: BUILDING THE BUSINESS CASE

- 13 Defining Expected ROI
- 15 Worksheet: Non-Price Factors
- 16 Customer Value Examples: Packaging, Transportation, Indirects
- 20 Supporting Corporate Sustainability Initiatives
- 22 Extending Value With Autonomous Sourcing
- 26 A Practical Checklist For Evaluating Solutions
- 28 Summary

PART ONE
The Opportunity



Introduction: What is Sourcing Optimization and What is the Opportunity?

Sourcing optimization enables procurement teams to go beyond simplistic supplier award decision-making that is driven solely by a lowest-cost model. Its main benefits include identifying new cost savings, reducing operational risk, speeding sourcing decisions, improving sourcing process quality, and discovering new supplier innovations. If you're new to the concept -- or even would just like a refresher -- here is a quick background:

Sourcing optimization solutions first came onto the landscape in the early 2000s, delivered either through software offerings or specialized consulting services backed by technology. It was the next natural advancement following widespread adoption of eRFP and e-auction tools, which in the 1990s introduced a way to digitize and centralize silo-based, often manually executed buyer-supplier negotiations. Particularly in the case of e-auction tools, those offerings also helped to introduce more competition between suppliers by giving everyone greater visibility into the standing of submitted bids, targets, and deadlines.

But those eRFP and e-auction tools mainly focused on price-based decision making. For many types of spends, it was crucial to consider other factors that would combine with price to determine the best award choice. Many examples of those factors exist, including transit speed, supplier ratings or incumbency, sustainability and CSR considerations, contract terms, and more. Combinatorial optimization as an area of mathematics offered the foundation for addressing this challenge through technology, to help everyday procurement users more readily find the best option given a set of criteria and data.



Today, with sourcing optimization software, buyers and their stakeholders can collect a wide range of price and non-price bid information from suppliers, and then more easily analyze various awarding scenarios based on those criteria and other constraints. Through the software, the users do not need to be experts in combinatorial optimization mathematics to enjoy the results.

Sourcing optimization tools have certainly proven their value over the years and across a variety of major spend categories in mid- and large-sized companies. Customers have reported not just confirmed financial savings, but also examples of risk reduction, innovation discovery, sustainability improvements, improved supplier engagement, and increased process consistency and transparency.

But time doesn't stand still. These solutions must evolve to address modern-day challenges that may not have been present 20 years ago when the earliest product versions first entered the scene. Sourcing optimization should be even easier than ever to use across more parts of the organization, and the offerings should be doing more to automate repetitive tasks and improve productivity. The supplier side of the picture also should not be frozen in time.

In this Buyer's Book, the team at Keelvar shares some of what we've learned through our experience working with many customers who were either:

A) Re-evaluating their existing, first-generation sourcing optimization tool

or

B) Looking to implement sourcing optimization for the first time as an e-sourcing 'upgrade'

To help you assess and build the business case for a modern sourcing optimization solution, we'll share some benefit examples from real sourcing optimization customer usage across categories. And we will provide some helpful guidance on evaluating solutions and planning your implementation.

At Keelvar, we believe sourcing optimization shouldn't be complicated to use and should also help put you on the path for more robust autonomous sourcing when you're ready. In the following chapter, we'll review the contemporary challenges that companies face -- and where sourcing optimization can offer substantial help.

“The Sourcing Rut”

Here’s a real-world scenario that may hit close to home: A sourcing need arises, but the buyer finds it difficult and/or too tedious to configure the requirements in the company’s e-sourcing tool. So instead, they open up the familiar spreadsheet and revert to a more manual, email-based collection of supplier bids and analysis. That workaround has the perception of being quick, easy and familiar, even though it likely may not be.

There are shortcomings and consequences of that choice that may not be considered or be dismissed in the interest of expediency. The speed and flexibility of creating a bid sheet in Excel create the illusion of progress. But that pace grinds to a halt when this practice is applied to many suppliers who then introduce data that is “unclean” or introduce conditionality in their bids that Excel is not able to interpret and defend against.

Perhaps worse is that buyers often choose to limit the type of data they collect in their RFPs to avoid dealing with the analytical complexity that results, and this often means savings and other value are sacrificed for simplicity. And those issues are just the tip of the iceberg -- as none of this practice becomes centralized, easily auditable, scalable, or capable of decision innovation.

Why does this happen? These professionals don’t have poor intent. But they are facing increasing challenges in their work and it’s time to reassess the solution toolbox to make sure teams are equipped to meet their goals. It is critical that supplier decisions balance cost, quality, and risk.

Unfortunately, many sourcing teams are relying on basic eRFP, e-sourcing, or legacy tools from up to two decades ago that have not seen meaningful advancements.

You’re in a sourcing rut if your tools and existing resources are preventing you from moving forward to find new value, innovate, and adequately achieve goals.



CHECKLIST

Primary contributors to the sourcing rut:

- ✓ Sourcing is getting more complicated
- ✓ Different spend categories have different needs
- ✓ Disruptions and unpredictability require greater agility and speed
- ✓ The tools haven't kept up
- ✓ Teams are flat or shrinking, not growing
- ✓ Skill sets vary greatly (expertise shortages)

A good example here is among logistics sourcing teams, who during the COVID-19 pandemic, were frequently faced with a demand for rapid spot bidding across ocean and air freight. In these cases, annual negotiated rates were no longer being honored, and decision making needed to weigh a combination of factors and trade offs: higher rates, transit time, business impact, incumbency, alternate routes, CO2 emissions, and even transportation mode switching.

Technology should progress to meet the needs of the time, and sometimes that requires more than just incremental feature additions or improvements here and there. And certainly with all the innovation available, we should do better than spreadsheets.

FUN FACT: Microsoft Excel launched in 1985. That's the same year music CDs first came out, Coca-Cola introduced New Coke, and the movie *Back to the Future* hit theaters.

External Research to Support Your Business Case:

"Complexity masters" adopt modern technology at a rate that's **30%** higher – and consistently outperform other companies in spend influence, savings, and effectiveness.

68% of CPOs are spurring a digital transformation by automating procurement processes with modern applications.

Source: Deloitte, Global CPO Survey

It's important right now to assess whether your current solution is sustainable from a value delivery standpoint and ready to future-proof your needs, at least for the next five to 10 years. Sourcing practitioners and their management may need to take a step back from the status quo and identify any gaps in tools, processes and/or skill sets.

SELF-ASSESSMENT GUIDE

Here are six key questions (and sub-questions) to answer to help with a sourcing solution assessment:

1. What types of bidding events are we not able to run in our current e-sourcing tool and why?
 - a. Is that due to: Event size, complexity, frequency?
 - b. Is it a constraint due to the technology or a personnel capacity or training issue?
 - c. Is it due to supplier or bid submission concerns?
2. Do we have an easy way to optimize more supplier award decisions across more spends, so that we can balance cost with other important criteria, such as sustainability, transit time, supplier reliability, or alternative offers?
3. Is our solution doing enough to enhance the supplier bidding experience and maximize competitive tension?
4. Are we where we want to be in terms of tool adoption and utilization?
 - a. Where are we still relying heavily on spreadsheets and “offline” practices?
 - b. Are the tool usage obstacles related to product training and onboarding, or to user dissatisfaction?
 - c. If we have sourcing optimization, why are we not running more spends through it?
5. Where are we experiencing higher-frequency tedious sourcing tasks that are bogging down human talent and can more easily be automated?
6. Where can we conduct proof of concepts with digitization, optimization, and automation?

It may be helpful to conduct this exercise for each major category of spend (logistics, indirect materials and services, packaging, direct materials) and determine where the bigger or “low hanging fruit” opportunities exist for sourcing optimization.

5 Common Challenges Driving an E-Sourcing Tool Upgrade Consideration

In the previous chapter of this Buyer's Book, we described how e-sourcing tool limitations can be a confining factor for ongoing procurement transformation and sourcing modernization. Let's go into more details about that here.

Why would a procurement team today need to consider a change -- or addition -- to their existing e-sourcing toolset? After all, precious effort and time were spent evaluating that product choice against other offers, selecting and implementing it, training internal staff, on-boarding the bidders, and seeking to drive financial results and process improvements through its use.

As already mentioned, the challenges faced by procurement teams evolve. Everything from new business requirements, changing stakeholder preferences, supply-side innovations and limitations, pricing variability, and competitive pressures are all areas that can and do affect the practice of both strategic and tactical sourcing. The tools that support that work must be able to adapt over time to those evolving needs, or risk obsolescence.

Customers Share Their Reasons

In canvassing Keelvar's customers across a range of industries and global locations, we've compiled a list of the five most common challenges that they tell us drove them to re-evaluate sourcing tools: (1) Analyzing Beyond Lowest Price; (2) The Supplier Bidding Experience; (3) Constraints on Event Size; (4) Starting New Events; and (5) Longer-Term Innovation.

1. The Need to Model More Than a "Lowest Price" Decision

Lowest-price-only buying decisions may be fine for some simple e-auction events, but in many cases, buyers and their spend stakeholders want to evaluate other criteria. Many sourcing award decisions must weigh price alongside other factors, such as sustainable sourcing practices, delivery speed and reliability, contract terms, capacity, and more. Even if that data is collected through an emailed spreadsheet or eRFP tool, it may not be incorporated into an optimization model that allows you to analyze and cost various scenarios with those bid attributes. This is where sourcing optimization truly shines as a solution category. (See our later section in this Buyer's Book about Sustainability as a prime example of this.)

2. Giving Suppliers Flexible Bidding Options

Suppliers want to put their best foot forward in a competitive bidding process. If the bidder has a financial incentive, favorable terms, or even an innovation or alternative item or lane to submit that the buyer might view as better overall, they want a tool to accommodate those offers. Many e-sourcing tools don't allow for more flexible event setups that give suppliers those creative bidding options. Not only does this tie the hands of the suppliers, but the procurement team also misses out on getting insights into new areas of potential savings or risk reduction.

Conversely, suppliers want to avoid being awarded items where they know they have weaknesses or challenges. Suppliers often want to offer conditional bids, so that they will only supply a certain item if they win some other item they value more that makes it worthwhile. Having more flexible capability allows suppliers to bid more aggressively and avoid adding premiums for items where they see more risk. Permitting suppliers to communicate both economies and diseconomies of scale or scope drives better outcomes.

A Bidder's Perspective:

"Over the years, I have used many bidding tools from different vendors, but Keelvar is the one I have liked most of all. As a supplier submitting bids, Keelvar is very easy to navigate, very comprehensive, and communicates the tender process very clearly and nicely. Its light design makes the work easier as well. My thumbs up to the tool creators, good job!"

Dragan Vidicki, Director of Transport & Logistics, Agrorit D.O.O.

3. The Need to Support Larger-Scale Sourcing Events

Strategic sourcing teams need to support their largest annual RFPs with greater ease and efficiency. It's the perfect use case for technology, but many e-sourcing tools simply can't handle an event over a certain number of items/lanes/SKUs (rows), bid attributes (columns), and invited bidders. That means the buyer is back to using the spreadsheet that is home to the RFP and manually collecting all the bids -- or sub-optimally breaking it up into smaller events.

Now, that doesn't mean there's a perfect tool that can support the largest-sized event that ever could be conceived, but real-world annual bidding events should certainly be easily handled.

4. Getting New E-Sourcing Events Set Up

Another common challenge heard from sourcing practitioners is that moving their existing bid sheet templates into the e-sourcing tool, or designing the event within the tool, may not have been as easy as hoped. This is particularly true if the event needs to go beyond simple price-focused bid collection and analysis as described in the previous point. Some teams even rely heavily on consultants to do this work for them, adding further to the total cost of ownership for their solution.

Here it's important to have an on-boarding and customer success methodology for making an e-sourcing switch. Customers want (and need) this process to be as simple and seamless as possible to minimize operational disruption and drive internal adoption.

5. Future-Proofing With Innovation and Automation

Procurement organizations increasingly rely on technology to help them achieve scale, efficiency, and measurable savings to meet their responsibilities. That means sourcing solutions should continue to innovate. Sourcing leaders seeking competitive advantage and agility are looking more closely at technology product roadmap plans to determine if they are partnered with a solution provider that will carry them forward.

One of the newer advancements proven to drive real-world results is the application of automation features that utilize artificial intelligence (AI), machine learning (ML), and natural language processing (NLP) to take on the more tedious tasks. That type of autonomous sourcing makes it possible to have better responsiveness to execute new sourcing events faster and at higher quality and compliance than ever before -- particularly around market-reactive spot bidding, routine mini-tendering and e-auctions.

Adding Up Those Challenges: Lower Adoption Means Lower Results

Taken separately or in any combination, these challenges lead to lower adoption rates of e-sourcing and optimization tools and less incentive to use the tool beyond what is absolutely necessary. In some cases, an additional driver may be the user-friendliness of the tool itself; does the user experience promote adoption?

Despite these challenges, there indeed may be wins for some sourcing events conducted in the product, but how many events and results are under-performing due to size, complexity, frequency, or even buyer training status? What is the pace of diminishing return? This results ultimately in a lower ROI than planned.

PART TWO

Building the Business Case



Defining Expected ROI

When putting together a business case to advocate for a new process, solution, or another resource, you're principally looking to answer one or both of these questions:

What problem will this solve?

What value and benefits will we gain?

In the case of sourcing optimization, both questions can be answered. The common challenges reviewed in the previous chapter largely can be addressed through the addition of a well-constructed and market-proven sourcing optimization product and implementation plan. "Pain" can be reduced in many areas.

On the value question, the results can be robust, and the degree of positive impact can be tied to the breadth and depth of its internal usage. Sourcing optimization isn't just for the most complicated sourcing needs. Even indirect procurement spend categories like facility services, truck rentals, subcontracting services, and MRO can experience savings and other important benefits.

Expected ROI and Benefits from Sourcing Optimization:



Cost Savings: For many categories, further increasing competitive tension through a more creative bidding process can generate clear savings. Depending on the category and its attributes, savings can range from 5% to more than 20%.



Time Savings: Trying to accomplish what a sourcing optimizer product can do through more basic tools or through manual effort can consume significant time and resources. These products are built for computational speed. Customers have reported up to 50% in overall sourcing process time reduction.



Reduced Risk: Spend stakeholders can work cooperatively with their sourcing team members to evaluate various awarding scenarios that model for risk. Factors such as incumbency, reliability, supplier scores, certifications, and more can be weighted with optimization.



Process Consistency: Standardizing the sourcing bid collection, negotiation, and awarding process brings benefits in consistency, predictability, transparency, and traceability. This is a key win for Sourcing Centers of Excellence as they seek to scale best practices.



Supplier Satisfaction: It can be easy to overlook the supplier experience, but giving them a more user-friendly bidding tool that allows them to submit their most favorable proposals is a win for all. A fast, efficient tool also makes it easier to include more eligible suppliers because scalability is no longer a concern.

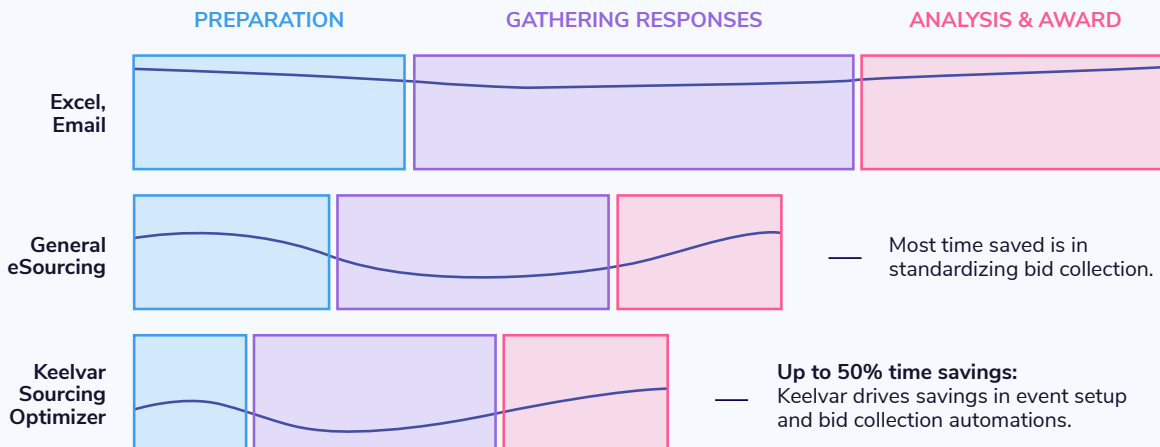
Driving Efficiency Across the Sourcing Event Lifecycle

As we see in the figure below, the sourcing process can require varying levels of effort and time during the preparation (blue), response gathering (purple) and analysis/award phases (pink) -- depending on the sourcing tool in use.

For sourcing functions still relying on Excel spreadsheets and email to manage their event processes, a very high level of manual effort is required across the board, from gathering bid responses all the way through to making the final award decision.

Teams using standard eRFP tools are still likely to require significant manual effort in the preparation and the analysis/award phases, but can expect some time savings, efficiencies and process improvements in the response-gathering phase as bids are directly entered into and validated by the e-sourcing tool.

By comparison, sourcing optimization solutions such as Keelvar's Sourcing Optimizer allow teams to drive a lot more efficiency across the entirety of the sourcing event lifecycle, with some customers reporting as much as 50% (or more) in time savings overall.



WORKSHEET: How Important Are These Non-Price Bid Attributes Across Categories?

You can conduct this simple exercise with your category managers and spend stakeholders to determine to what degree various categories require consideration of non-price decision factors. You may even need to further break this down by sub-categories.


Common characteristics that can determine supplier award allocation include:

NON-PRICE FACTORS	LOGISTICS	INDIRECT SERVICES AND MATERIALS	PACKAGING	DIRECT MATERIALS
Sustainability, "Green" goals				
Incumbency preferences				
Supplier ratings				
Minority / women owned suppliers				
Transit / delivery speed				
Innovation, alternative offers				
Contract / payment terms				
Bundled pricing				
Certifications				
Other: _____				
Other: _____				

Customer Value Examples

Leveraging customer use case stories and the real-world results they report back are excellent ways to determine and build a business case. Below, Keelvar shares some examples from customers using our Sourcing Optimizer solution across a range of spend categories where a variety of benefits have been realized.

Customer Use Case: Indirects - Maintenance, Repair, Operations



Challenge: Some companies tend to overlook the significance of their indirect spends on their overall business. But for one customer with several processing plants, the sourcing of Maintenance, Repair, Operations (MRO) parts such as motors, chains, bearings, and tools is of huge importance to keep global operations running smoothly.

Their MRO sourcing is complex and highly competitive due to the number of SKUs, allocations, and multiple rounds of negotiation required in each event. The customer also desired supplier feedback built into the tool.

Solution: Having already successfully implemented sourcing optimization in several other of their complex spend categories, the customer broadened their application of Keelvar's Sourcing Optimizer tool to MRO in order to assess if increasing competition could drive tangible and sustainable savings while preventing value leakage.

Results: Thanks to Keelvar's comprehensive, easy to navigate interface and traffic-light feedback on supplier bids, the customer has been able to extract more category insights and savings during multiple rounds of negotiation for their MRO spends.

Results include:

- **Savings** accrued of around **6%** for MRO
- **Centralized** category data and **consolidated** supplier information internally
- Stronger **supplier performance** guided by easy to submit feedback
- Improved **price negotiations** across multi-round events

Customer Use Case: Packaging



Challenge: With supply chains spanning five continents, packaging has long remained one of this customer's most complex spend categories due to the number of SKUs, factories, and several thousand suppliers involved.

This customer's strong sustainability focus means that negotiation at various levels is required to ensure each supplier aligns with their strict standards and policies. However, a deep-rooted reliance on spreadsheets over many years meant their sourcing teams were managing processes using desktop tools, often faced with thousands upon thousands of data points for different suppliers, countries, and preferences.

Solution: The sourcing of packaging materials for this customer represented a crucial, high-stakes and competitive category. In search of a solution that could help the company achieve faster negotiation times and maximize savings, they made the strategic decision to switch to e-sourcing and optimization solutions for packaging while continuing to use auctions and spreadsheets for simpler spends.

To further capitalize on missed opportunities and manage potential risks, the customer adopted Keelvar's Sourcing Optimizer: initially starting with their packaging category before rolling it out to several of their other complex spends.

Results: Since introducing sourcing optimization, the customer has made significant strides in reducing inefficiencies along the supply chain. By optimizing its flexible plastic spend, the customer saw initial savings of 20-25% and has continued to generate savings between 10-15% in this category by leveraging Keelvar's Sourcing Optimizer for various events.

Of the 100+ sourcing events across all categories (including indirects and transportation) carried out by the customer, almost half were being optimized with Keelvar's solution.

Results summary include:

- **Ongoing 10-15% savings**
- **Transparency and traceability** of the entire process
- **Equal conditions** for all bidders
- **Simplified data analysis** for buyers
- **Better allocation decisions** through optimization

Customer Use Case: Ground Transportation (FTL and LTL)



Challenge: This pioneering technology company has a globally connected network of manufacturing facilities, distribution partners and business divisions made up of various industries and product categories. For this customer, ground transportation is a very significant spend category due to the large volume of carriers, data, and many decision scenarios that need to be evaluated before awarding business.

The customer sought a new sourcing solution that could easily address a wide range of its logistics spend needs, large event sizes, and complexity, while enhancing supplier relationships.

Solution: Keelvar's Sourcing Optimizer was selected to help the company meet its transportation procurement challenges thanks to our advanced optimization features backed by a strong track record of successfully helping logistics buyers make swift business decisions across various category-driven price and non-price inputs.

Results: The customer shared results from optimizing truckload sourcing events in both the United States and EU regions. In the US, their full truckload (FTL) event was approximately \$60 million in spend and involved about 650 lanes.

In the EU, they optimized both FTL and less-than-truckload (LTL) sourcing events involving about €45 million in spend and 4000 lanes.

Results in these events:

- **Savings** of between 10-15% in the U.S. FTL, with a strong emphasis on **supplier consolidation** at the division and location level.
- **Savings** of 10% for the EU FTL and LTL events, also with emphasis on **supplier consolidation** by origin country and overall.

Customer Use Case: Ocean Sourcing



Challenge: A renowned industrial manufacturing conglomerate with more than \$200 million in annual spend volume, this customer's principal business divisions have uniquely different shipping processes, policies, constraints, and multiple suppliers. As a result, the customer was searching for a solution that could quickly collect and analyze ocean carrier proposals alongside the business rules and preferences of various stakeholders, to increase efficiency and reduce costs, while still ensuring capacity needs were met.

Solution: The customer embarked on a center-led strategy to merge its ocean shipping operations from the business units, choosing Keelvar's sourcing optimization solution to streamline the process and unlock new opportunities for their ocean sourcing. The customer was able to use Keelvar's solution to engage their ocean freight carriers in flexible bidding which encouraged them to maximize their competitive advantage by offering more cost-effective bids, volume discounts, and by creating efficient lane packages.

With Sourcing Optimizer, the customer leveraged scenario analysis and user-friendly event management capabilities to quickly review carriers' unique proposals as well as the service and incumbency preferences of the various business units.

Results: The customer was able to analyze lowest-cost results in addition to the cost impact of their business preferences and constraints such as the number of core carriers, different ocean alliances, transit times, and ports of origin. This gave the customer more control over the cost of their decisions so that they could find the optimal balance of ocean rates, capacity commitments, service quality, and carrier relationships.

Results included:

- **Savings** of 20% in annual RFP vs. prior bid rounds
- 40% **time reduction** in managing data and processes
- **Multi-objective award criteria** with rich scenario analysis
- **Advanced data cleansing** with benchmark-driven bid feedback

Supporting Corporate Sustainability Initiatives

Attention on once-sidelined sustainability targets looks likely to return with fervor for many companies in the years ahead. Within procurement specifically, the COVID-19 pandemic exposed the vulnerability of having complex, interconnected supply chains, an over-dependence on a specific geographic region and the importance of being resilient with a diverse pool of suppliers to pull from during unforeseen, highly disruptive events.

More sourcing teams are making the transition from the traditional focus on “lowest-cost model wins” to more strategic award decision-making that might favor more environmentally conscious suppliers. To support that shift, the e-sourcing solution must offer features to help companies analyze multiple awarding scenarios based on those criteria and other constraints.



External Research to Support Your Business Case:

According to a recent McKinsey survey, sustainability is increasingly important for consumers. Marine litter and pollution are top of mind concerns globally, while the vast majority of consumers surveyed claim to be willing to pay more for sustainable packaging.

Yet Gartner reported that 30% of supply chain leaders said they have no or low-maturity supply chain sustainability initiatives.

The first step for optimization is to capture the right data from suppliers, whether through the eRFI or sourcing event itself, including the option to submit alternatives in addition to bidding strictly to the buyer's specification. That leaves flexibility for the supplier to propose, for example, alternate pricing for a similar item that uses recycled packaging material or produces less waste.

In logistics procurement, another option with sourcing optimization is to offer bidding capabilities that allow carriers to bundle round-trip lanes and convey efficiencies that reduce emissions, time, and money. Collecting carrier capacity commitments at varying geographic combinations can help mitigate reactive spot bidding when loads are not accepted. This can ensure that your Smartway Certified carriers are utilized more often, rather than resorting to a non-compliant backup carrier.

Of course, collecting data about suppliers and the products they sell in an RFQ is one thing, but figuring out the right ratio of cost and sustainability mandates becomes a much bigger challenge when dealing with hundreds of suppliers and thousands of line-items.

That's where sourcing optimization can provide insight on how best to award business based upon your constraints and preferences, and you also have the option of giving systematic feedback on bid items to help guide suppliers into compliance on things like transit time or the percentage of recycled material.

Some example scenarios for analyzing sustainable awarding:

- Award at least 50% of the business to Smartway Certified carriers
- Award 100% of these select lanes to slow steaming bids
- Optimize on lowest CO2 possible and compare to the lowest cost possible
- Award 100% of the items to sustainable-certified suppliers unless it costs more than \$500,000
- Optimize on the highest sustainability score and compare to the lowest cost possible
- Award as many round-trip lanes as possible to one carrier per round-trip combination
- Favor recycled material bids by 5%
- Penalize suppliers with SmartWay rating less than .75

Procurement professionals have an opportunity to make a significant contribution to positive change through the action taken in the supply chain and lead the way to a better future for all, and sourcing optimization can help them get there more easily.

Extending Value With Autonomous Sourcing

No longer just a solution for the future, sourcing automation is already up and running within visionary procurement organizations and worldwide, spanning industries that include food and beverage manufacturing, industrial and electronics manufacturing, medical and pharmaceutical producers, and more.

Autonomous Sourcing provides a way for teams to scale in their ability to:

- Shorten the time-to-award cycle after initiating a new sourcing event by over 50% vs. other e-sourcing processes
- Free up human resource time by offloading 60-80% of sourcing event workload
- Leverage sourcing optimization key features by non-expert buyers
- Increase competitive bidding even in smaller-scale events
- Dramatically improve sourcing data quality, transparency, traceability and process compliance

The clearest use case applications for sourcing automation ROI is where sourcing is conducted at higher frequency -- such as with more tactical, operational events like smaller eRFPs or spot bidding events that react to market or supply chain changes. While those events may be smaller in spend size and level of complexity, they each still require a minimum number of tasks in order to execute -- tasks that currently require human time and attention, but may be rather tedious and repetitive in nature.



Some key areas of automation -- usually through an “autonomous sourcing bot” -- can include:

<p>Online event creation:</p> <p>Set up from a bid sheet upload, existing previous event, or new inputs</p>	<p>Sourcing event management:</p> <p>Timeline, number of bid rounds, task tracking, digital rate card updates</p>
<p>Bidder management:</p> <p>Eligibility and invitations, bid collection and validation, feedback, status reports, and final award notifications</p>	<p>Reporting and analysis:</p> <p>Tracking of bids; analysis of bids against desired goals/constraints; recommendations</p>
<p>Category manager help:</p> <p>Supplier approvals; bid status; event closure, extension, or re-opening; award decision</p>	

As the application of Autonomous Sourcing expands within procurement teams and across more companies, it will be a key decision point in evaluating solutions providers and their current product status and roadmap for supporting automation.

Leading sourcing innovators are already using these capabilities to launch events within minutes and even automate the entire spot bidding process from start to finish.

Such smart automation solutions are most beneficial and have a lower longer-term total cost of ownership (TCO) if they are closely integrated with the sourcing optimization application, rather than built as a custom, superficial “layer” using robotic process automation (RPA).

A Practical Checklist for Evaluating Sourcing Optimization Solutions

The primary, broad application for sourcing optimization is to capture more value by finding the best outcome that balances price and non-price award considerations. This benefit crosses many categories and types of events. However, getting to that benefit requires the right tool, one that's easy for your internal users and your invited suppliers to implement and adopt.

Core Desired Features:

As a minimum set of requirements, you'll want a sourcing optimization tool that can provide:

- Relatively easy creation of eRFPs for a variety of bid sheet types for different spend categories
- A competitive bidding environment for your sourcing event, including some feedback to bidders about their standing
- Data validation rules on bid submissions to ensure "clean data" and coherent bids
- Flexible bidding options for suppliers to submit creative offers
- Cost models that can be configured to reflect your preferences
- Scenario analysis tool to run "what if" options with your stakeholders
- Reporting and central archiving/tracking

Since most sourcing optimization offerings on the market cover many of those fundamental features, it may actually be just as important to look closely at additional criteria when comparing providers.

On the next page, we offer some areas of differentiation that you may want to keep handy during your process.

DIFFERENTIATING CRITERIA

Beyond Core Optimization Features:

Usability

- How skilled do my users need to be?
- What is the app experience for internal users?
- What is the app experience for bidders?
- How easy is it to get started?
- How can we scale its use for more events?

Flexibility

- What range of our event needs can it support?
- Can it scale for larger events?
- Can it easily adapt to our different categories?
- How easily can it integrate with other key systems?

Innovation

- What is the pace of product enhancements?
- What automation capabilities are offered?
- What is the provider's longer-term vision for the product plan?
- How well does it support digitization and transformation goals?

Customer Commitment

- What is the training and on-boarding approach?
- What is the customer success methodology?
- What expert services are available to help us?
- How accessible are their key people when needed?

Other evaluation considerations that may vary in importance or relevance, depending on the procurement team, may include things like: flexibility in contract terms; proof of concept options; references; IT and data security compliance and certifications; technical support and professional services; and integration options.

Summary

Customers who need to create more value through their sourcing strategy may be re-evaluating their current eRFP and sourcing tools, especially as their needs and challenges have evolved beyond what existing solutions can support. It may be a good time to conduct a fresh assessment across spend categories and determine where sourcing optimization -- and new features for sourcing automation -- can help uncover untapped areas of cost savings, efficiencies, risk mitigation, and quality improvements.

As Ardent Partners stated in its recent Procurement Big Trends and Predictions report: "The digital transformation of a procurement department is an opportunity to use technology as a means to reimagine the organization's entire scope of operations and how it performs.... A successful digital transformation requires many things, including sponsorship, effort, collaboration, vision, expertise, and a supporting technology infrastructure."

Keelvar's modern Sourcing Optimizer product has delivered results for global companies for transportation, direct materials, packaging, and indirect materials and services -- and we are driving even more innovations in the area of intelligent sourcing automation that helps extend the value of optimization. Our team is happy to help you with your research into these solutions and provide close looks at our products, even demonstrating with your own data, as you build your business case.

About Keelvar

Founded in 2012, Keelvar is moving procurement forward with our best-in-breed SaaS software for intelligent sourcing optimization and automation, designed for easy adoption, scale, and productivity. Our customers are global, blue-chip corporations and mid-sized companies using our solutions across transportation, direct materials, indirect goods and services, and packaging categories.

Contact us for pricing and a demo: www.keelvar.com

For more resources like this, visit us at:
www.keelvar.com/resources