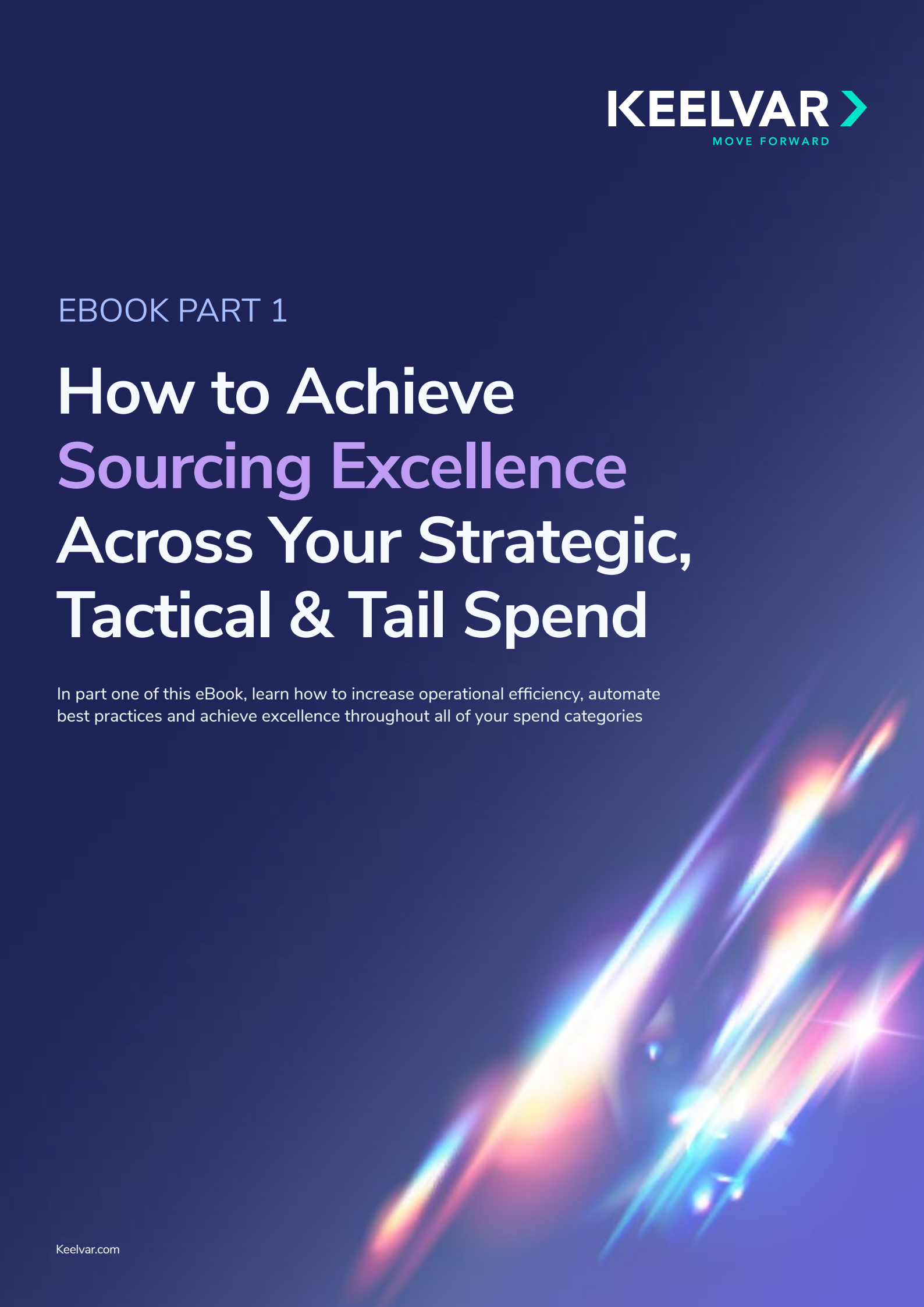
KEELVAR
MOVE FORWARD

EBOOK PART 1

How to Achieve Sourcing Excellence Across Your Strategic, Tactical & Tail Spend

In part one of this eBook, learn how to increase operational efficiency, automate best practices and achieve excellence throughout all of your spend categories



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Introduction

Despite the influx of once unimaginable obstacles in procurement's recent history, more often than not, teams come face-to-face with the same daily challenges as their counterparts the world over.

As an industry, procurement has been under-resourced and short-staffed for a long time, and it's unlikely to change any time soon. Pandemic-related supply chain chaos means time is a luxury few functions can afford; already overstretched sourcing professionals are seeing workloads increase and made all the more frustrating by unpredictable spikes in demand, critical logistics bottlenecks, and stakeholders' expectations of faster turnaround times.

When limited people-power and budget are added to the mix, it leaves few functions capable of achieving compliance and governance across all spend, let alone achieving the sourcing excellence they're striving for.

Obtaining sourcing excellence has long been a challenge because strategic sourcing processes are inherently slow, few individuals are knowledgeable about best practices, and legacy sourcing applications that are not fit for purpose are widespread. As a result, teams are being held back by time-consuming and error-prone manual processes.

Even with enabling tools in place, it can be difficult to square the circle on increased expectations because most tools on the market tend to be limited in their capabilities to only manage niche areas or very specific spends within sourcing.

With many competing tasks for teams to juggle, it's difficult to plan ahead because sourcing is in constant firefighting mode. As a result, professionals are left with little time to devote to strategic projects or focus their efforts where they're most valuable and where the return on investment is greatest. It's clear that procurement needs machines to take on more workload, and the industry has endured insufficient technology for managing bid events for far too long.

While these challenges are unlikely to be news to anyone working in procurement, best practices for addressing sourcing spend across the full spectrum of events are far less understood. Having the ability to build processes that enable sourcing to achieve best practice and cater for all sourcing needs—from strategic through tactical and right into tail spend—is more crucial than ever.

To achieve this, sourcing needs a solution that enables human workers and technology to work in concert across all spend categories; one that allows high-touch for high-spend with low touch required for low-spend and high frequency events so that people are freed up for more important, high-ROI tasks.

However, most people have the long-standing perception that strategic and tail spend should be treated separately, with individual strategies for each. This line of thinking is outdated at best (detrimental to your sourcing strategy at worst) and is an ineffective means of solving the workload pressures facing under-resourced teams the world over.

In this eBook, we will explore why the perception that certain categories or certain events sit within “strategic” spend and others within “tactical” or “tail” spend is the wrong approach if you’re looking to unlock value across your sourcing. We will also introduce a methodology to increase operational efficiency, automate best practices, and achieve excellence throughout all of your spend categories.

But first, let’s take a look at the present state of sourcing at many companies with time-stretched and under-resourced teams who are struggling to manage spend across a range of different categories and event sizes.

A Year in the Life of the Sourcing Team

If we go back a step and look at a typical year in the life of a sourcing team (Figure 1) we see there are many different sourcing categories, and that events of varying complexity are occurring frequently. As time progresses from left to right, we see there are more projects coming in and more jobs to be done of varying sizes and spend requirements:

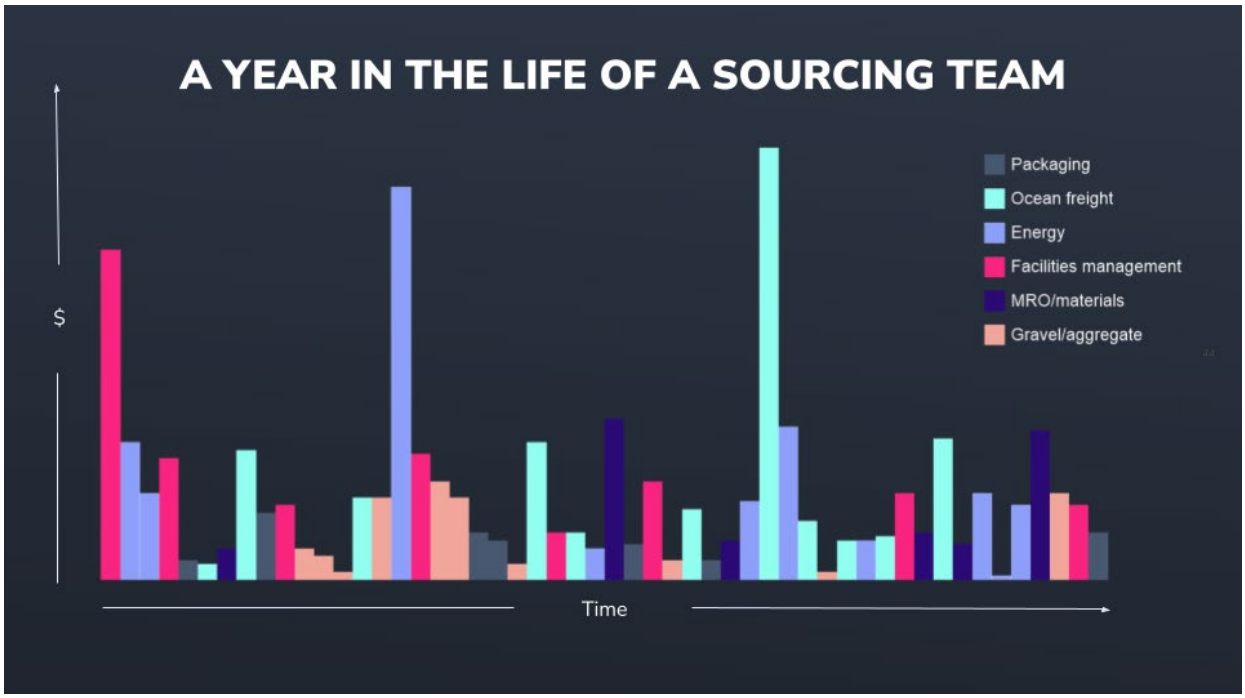

Figure 1: A yearly view of sourcing events across different categories.

Competing projects can often crop up across a range of different categories, each demanding a share of the team's time and attention and making the sourcing process more laborious to manage. The nature of those categories and events may change from company to company, but unpredictable spikes in workloads tend to be common across all companies.

Within this influx of sourcing events and even within the same category, some will have high spend volumes that really do need to be high touch, and some will be low spend where ideally, low touch is sufficient—but it doesn't always work out that way. With so many spikes occurring throughout the year, it's nearly impossible for teams to plan ahead, and many end up in constant firefighting mode.

To combat this, what sourcing teams need are systems that allow them to focus on the higher spend sourcing events—enabling them to put more time and effort into strategic activities, supplier relationship management, and innovation discovery—and take away all the time consumed on the smaller projects of lower spend:

Figure 2: A year in the life of sourcing but where low spend events are automated.

The journey to where sourcing wants to get to sounds logical and straightforward, but for the most part, people tend to take a traditional perspective on sourcing—one where there is a power law distribution in the size of sourcing events, which will be covered in the next section.

Why It's Time to Overhaul the Traditional Perspective on Sourcing

By ordering events by total spend volume, you will likely have a small number of high spend strategic events that demand most of your team's attention. This distribution of events is known as a power law distribution.

Then there's tactical sourcing events—where it's taking up considerable time and effort but the spend volumes are much lower—and tail where the spend volumes may be negligible, but it could extend out into thousands of sourcing events that in aggregate take up a lot of time to manage.

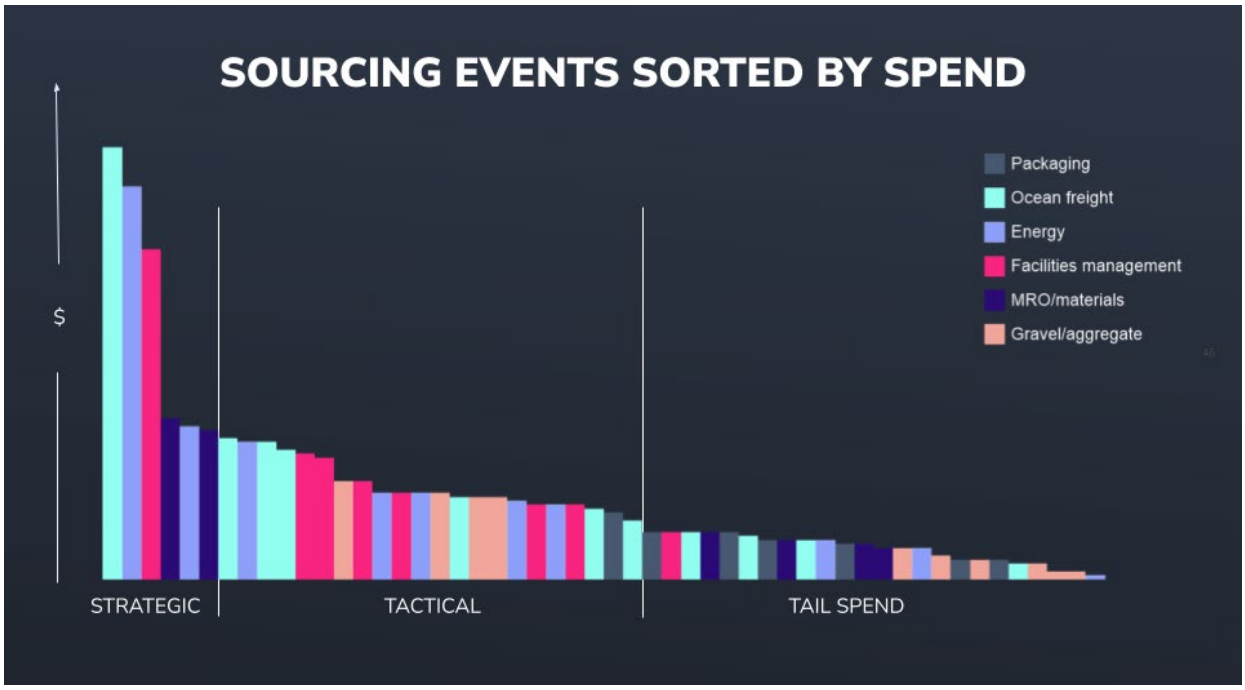

Figure 3: Power law distribution of sourcing events sorted by spend.

When we use a power law distribution to break up a typical year of sourcing events (Figure 3) by spend, ranging from high-cost strategic on the left through tactical and into much lower-cost tail spend on the right, it highlights a shortcoming with that traditional perception of sourcing: when you divide events based on how much they cost, you don't take into account category-specific factors. The reality is, just because a sourcing event is of lower spend doesn't mean it's necessarily less complex.

Adding a Complexity Lens

Theoretically, you could set aside less time for lower spend events. But when we overlay event complexity (Figure 4) on top of sorting sourcing events by spend, we can see that spend volume has a weak relationship with complexity and is a poor predictor of the effort it will take to manage events. Low spend events could actually be somewhat complex, and vice versa.

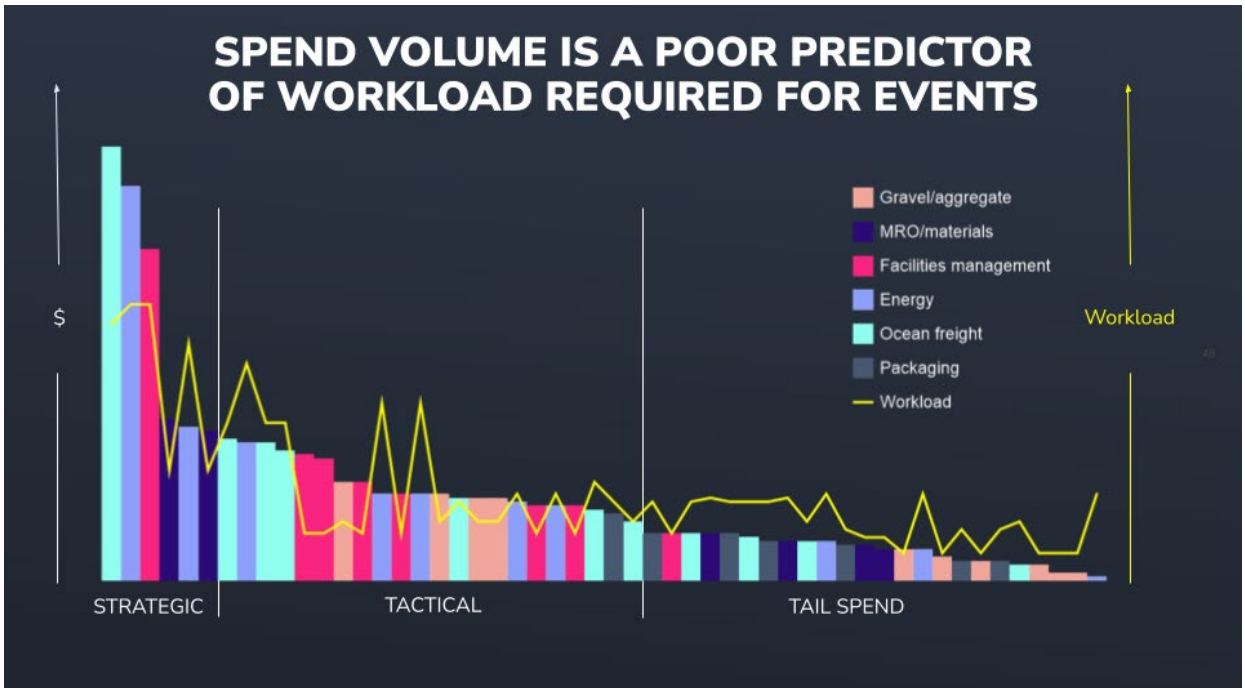

Figure 4: Power law distribution of sourcing events sorted by spend and showing workload.

For example, bid data volume can have a major impact on the complexity involved in an event, and gives a false impression that it's easy to organize sourcing work by spend alone.

At times, ocean freight and gravel/aggregates spend needs might cost the same, but it doesn't mean they should necessarily be treated as such in your sourcing strategy. Mini tenders for ocean freight may need 40 to 50 different columns in a bid sheet in order to map all of the attributes of how you source in your annual bid event for ocean freight.

Whereas if you're running an auction for gravel, you might have two $50,000 sourcing events. But the ocean event takes you a week to run and the gravel event takes you a couple of hours.

Going a step further, if you perceive certain events as either strategic or non-strategic spend, you risk placing certain spends within the long tail where it is often ignored and dismissed as being very simple events that require less work to manage. In reality, that tends not to be the case, and with multiple types of events running throughout the year, it's likely a lot of your categories will span strategic, tactical, and tail spend.

If we look at sourcing on a category by category basis instead, we start to see clearer patterns, as once again highlighted in our example categories of gravel/aggregates and ocean freight explored below (and will be discussed at greater length in eBook 2):

Example 1 - Gravel / Aggregates

Once again, consider a category such as gravel / aggregates, where very large sourcing events will see some complexity creep in that doesn't exist in the smaller spend events. If you need to deal with multiple quarries, for example, you will have such a large spend that you will likely need to elicit volume discount curves and make a split award.

In this case, you will need to use technology to look at scenarios where you can split different percentages between first, second, and third winners—adding more complexity than an auction for a small volume of gravel where you award everything to a single winner.

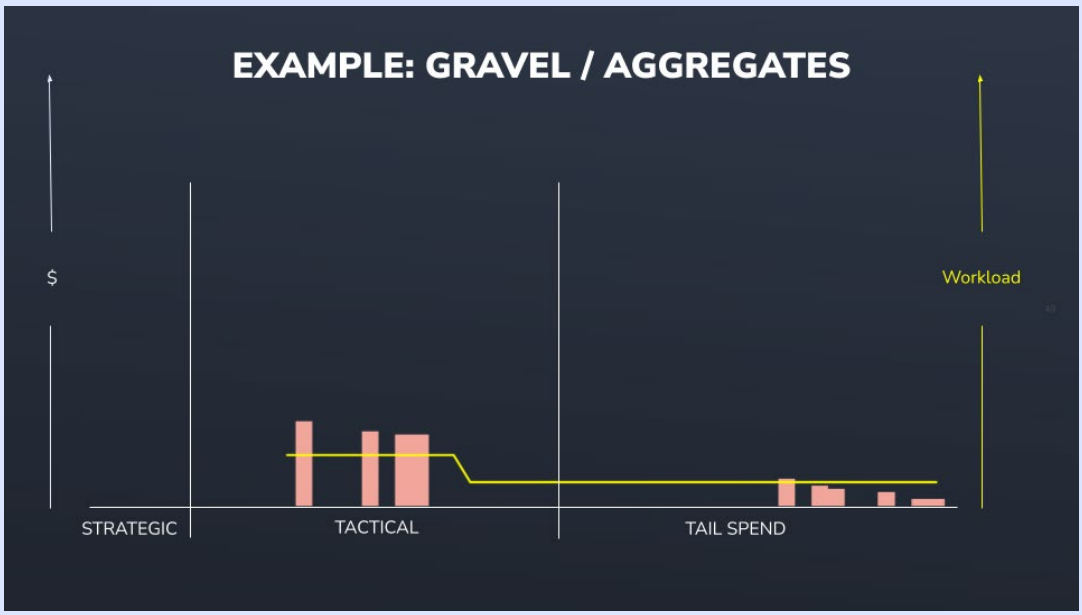

Figure 5: Examples of varying complexity across different sourcing events for gravel / aggregates

Example 2 - Ocean Freight

By contrast, consider the category of ocean freight, where you might have one large annual event that could take several months to run. You might have quarterly bunker fuel update events that each take a week to run, and as many as 50 spot bids.

While the complexity of these may decrease from left (strategic spend) to right (tail spend), the complexity involved is much higher than that for gravel.

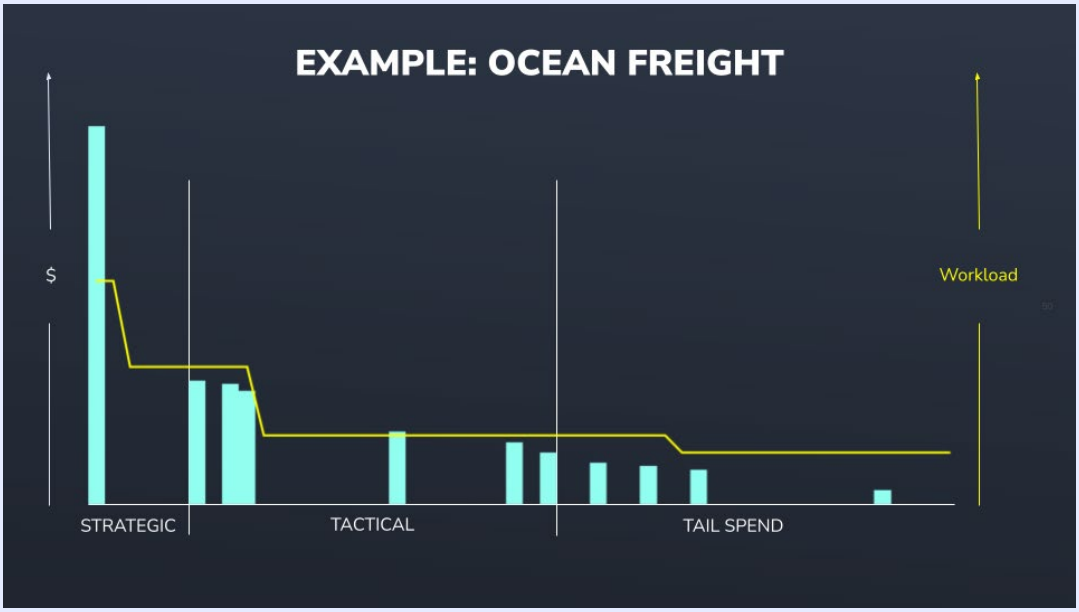

Figure 6: Examples of varying complexity across different sourcing events for ocean freight.

There are several shortcomings with the old perception that strategic spend should be managed separately from tactical and tail spend, with each requiring individual strategies that don't often interlink. This line of thinking is flawed; categories are a lot more complex than fitting left and right on a spectrum of sourcing, and should be treated as such.

What the examples shown suggest is that different technological solutions are needed for ocean freight than for gravel/aggregates; they can't be treated the same, and any solution that seeks to treat them as such is likely to fail. What's needed is automation that is powerful enough to automate your ocean event and gravel events, and do them in processes that are well suited to the needs of those spend categories.

Instead of looking at your strategy by spend, you should look at it category by category and then decide what your overall strategy is. The best way to then scale sourcing excellence across all events is to automate best practice using technology that allows your tactical buying spend to complement your strategic sourcing.

In the following section, we'll talk about technology that makes it easy to handle complexity across the full range of sourcing events. This makes sourcing processes work more effectively and empowers your team to meet the needs of both suppliers and stakeholders.

How Technology Makes It Easy to Manage Complexity

They're rife in the industry, but the fact is that old, cumbersome sourcing applications work well for neither procurement nor your suppliers. In many tools, the flexibility for capturing richer information is poor, and the inability to automate more activities is holding the profession back from achieving excellence.

As for suppliers, they are often left frustrated by poor systems encountered and the quality of the various processes they have to contend with during sourcing events.

However, the right enabling technology can lighten sourcing teams' load of managing competing tasks and tedious processes, freeing people from firefighting to focus on work that requires relationship-building and creative thinking skills.

Sourcing optimization solutions have already proven their mettle in collecting supplier bid data at scale that includes both price and non-price bid inputs, and then optimizing many possible award options based on the various constraints applied to that data.

Thanks to technological advances, artificial intelligence-powered solutions can deliver automated sourcing to best practice standards with unmatched agility. Using intelligent systems to automate complex reasoning that goes above and beyond what human experts can do, **autonomous sourcing** allows for more efficient and creative bidding mechanisms that unlock win-win outcomes for buyers and suppliers, allowing best-practice mechanisms to be designed once and repeated many times.

Despite these advances, most organizations are still in the early stages of the sourcing maturity journey and are heavily reliant on desktop tools or old e-sourcing technology.

Those who have realized the limitations of eAuctions are using a much more sophisticated and powerful approach using optimization to quantify information beyond price input and factor in considerations including sustainability, alternative offers, flexible contract terms, capacity, or incumbency.

Issues can arise, however, when teams focus too much attention on trying to achieve optimal outcomes within their strategic spend, with little or no attention or resources devoted to managing tail. By contrast, some sourcing functions have embedded automation technology solutions that are only capable of managing their tail spend.

What sourcing needs is technology that will let you decide when you want to move from manual (sourcing optimizer) to automated (autonomous sourcing). For every company, that will be different, but ideally, your technology should enable you to choose at what point in terms of spend volumes you want full automation.

With sourcing teams and resources spread so thinly, few have had the time to look at each spend category holistically, and there has been no technology solution that looks at everything holistically either—up until now.

Where We Want to Get To

Keelvar's view of scaling sourcing excellence is to elevate sourcing into a future where humans can be focused on applying sourcing optimization best practice within negotiations for a much smaller number of projects than before, so that their time gets spent where the return on investment is greatest.

In this situation, people would handle the large strategic sourcing projects and leave technology to handle the fast-paced, unpredictable spend that falls below certain thresholds. Then, by applying bot-driven autonomous sourcing below certain spend thresholds that require low-touch, those can be automated completely.

In this holistic view of sourcing, individual spend categories remain, but people's time can now be focused on the strategic sourcing events for each category, and it is much easier for sourcing teams to plan their work and achieve best practice because there's more breathing space between each major project.

By using a total sourcing solution that combines optimization with autonomous sourcing, you can choose your threshold (Figure 7) for switching from high touch, high spend to low touch, low spend.

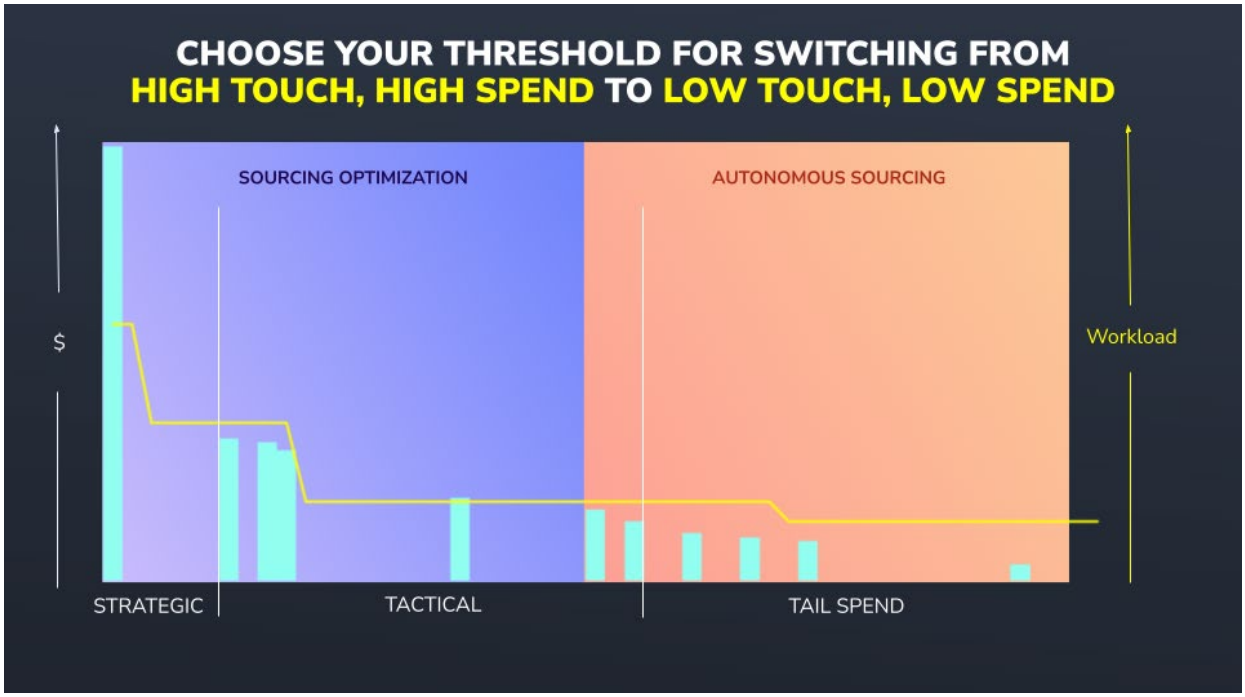

Figure 7: Sourcing optimization for high spend that requires human expertise. Autonomous Sourcing for low spend that can be automated.

In doing so, it becomes possible to examine each category independently, determine its level of complexity, and develop a strategy that is human-centric on strategic spend while automating best practice in processes where a low level of touch is sufficient.

Next Steps

So far we've looked at why the common perception that strategic and tail spend should be treated separately is flawed, highlighted the limitations of legacy technology and niche automation solutions on the market, and shown why looking at sourcing on a category by category basis is critical to achieving excellence.

In part 2 of this eBook series, we will delve deeper into the anatomy of a sourcing event, examine how specific categories have their own unique paths, and explain in detail a methodology for adopting the right approach based on the specific requirements of each.

The secret of getting ahead is getting started. If you would like to learn more about how Keelvar can help you to manage your event complexities using our total sourcing solution, reach out to our expert team for a readiness assessment or a personalized demo.

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**