KEELVAR
MOVE FORWARD

EBOOK

Turning Chaos into Control Through Dynamic Market Sourcing

The tactics best-in-class sourcing teams are using to win in volatile markets.

Keelvar.com

Contents

3 Preface

4 Why Traditional Cycle Sourcing No Longer Works

8 Excellence Defined: Dynamic Market Sourcing

10 Using Tech To Stop Reacting and Take Back Control

12 Summary

Preface

Restoring business stability is high on the agenda for companies that produce, move, and sell goods. However, there's still a long road ahead for procurement professionals managing their supply chains. While the good news is that the procurement industry has been elevated to a critical business function in these uncertain times, the bad news is that after three years of "isolated incidents," volatility is now the norm and it's likely here to stay for the foreseeable future.

With costs rising steadily and stock prices under pressure, budget management has become a struggle of a magnitude never experienced in the industry before. Today, shippers compete ferociously to win suppliers' business over other shippers, which can all change at any moment. Shippers and manufacturers are back in a stronger position than they were, but no one feels like they have control over operations or cost.

Having the ability to go back to market repeatedly can lead to better outcomes for sourcing teams, and today, buzzwords such as 'agility,' 'cost avoidance,' and 'market mitigation' abound in procurement circles. But without the necessary insights at hand, sourcing leaders are severely limited in the ways they can strategize to prevent value leakage or act nimbly in the face of disruption.

While no one could have predicted the flock of black swan events approaching just a few short years ago, resilience is no longer a nice to have in today's disruptive world. Procurement leaders need to be fluid in their sourcing processes and supported by the right technology to take control of these challenges head-on.

To cope with the chaos, the most innovative sourcing leaders are now evolving from traditional cycle-based sourcing to what Keelvar has coined "**dynamic market sourcing**," a strategy that leverages agile processes backed by automation to elevate sourcing teams out of tactical firefighting and into the role of strategic category managers.

This eBook is a condensed version of Keelvar's logistics-focused white paper. It introduces the strategy of dynamic market sourcing, which best-in-class sourcing teams are using to adapt to volatile supply chain markets, and the technology solutions being used to achieve sourcing excellence.

Why Traditional Cycle Sourcing No Longer Works

Businesses must take rapid action backed by data-driven insights to fuel their operations in the face of variable demand and shocks rippling throughout the supply chain or deal with the potential catastrophe. The challenges facing sourcing professionals are abundant, but some of the most pressing ones include:

Availability of Capacity

To make headway in a volatile market, securing and maintaining the capacity to move goods is king. But the international freight industry is chaotic and unpredictable – long gone are the days when it was abundant and shipping container prices were low.

Many teams are now struggling to cope with the finite levels of capacity that suppliers have to move their goods. Air freight rates remain under historic pressure, while ocean shipping rates are more than double what they were a year ago and are expected to remain elevated and dynamic into the year ahead. As a result, companies regularly have to readjust their supply chains to get the products they need and, in many cases, simply to move.

Cost Volatility

Cost savings were once the key performance indicator for CPOs, but procurement leaders are more frequently playing the role of bystanders when it comes to driving baseline costs for companies. But with budgets regularly set as far back as 12 months and with little choice now but to pay 2-3 times what was expected to move fewer commodities than initially planned, category managers are in a tough position as they try to meet commitments around spend and savings.

Previously, there may have been a willingness on the part of CFOs to forgive rising costs as long as revenues were increasing. But with inflation on the rise, revenues coming down, and stock prices under historical pressure, procurement teams' challenges are being worsened by negative macro-economic factors..

Dealing With Deflation

As well as inflationary pressures, companies with supply chains need to find ways to react to the challenges of operating their businesses in a deflationary environment. During a period of COVID-induced scarcity where demand for goods far outstripped supply, many took advantage of the opportunity to stretch out their prices. Those who locked in annual contracts at high prices are stuck.

Here, dynamic market sourcing allows purchasers a vehicle to drive discussions around decreasing prices without being seen as taking advantage of the market.

Rise in Unplanned Spot Buys

With little means of predicting where market turbulence will strike next, many buyers have to rely on spot bidding with suppliers to meet demand. But a fundamental problem with spot bidding is that it tends to be a very inefficient and expensive exercise that emphasizes a quick award decision to reduce risk to supply flow and the business.

It's also not uncommon that these bids are negotiated offline outside of a formal e-sourcing process and that even when data is collected, it's purely rate-focused. This becomes time-consuming for the buyers at scale, increases rogue spend with non-approved suppliers, and it's not ideal for managing and tracking spend.

Limitations of Legacy Technologies

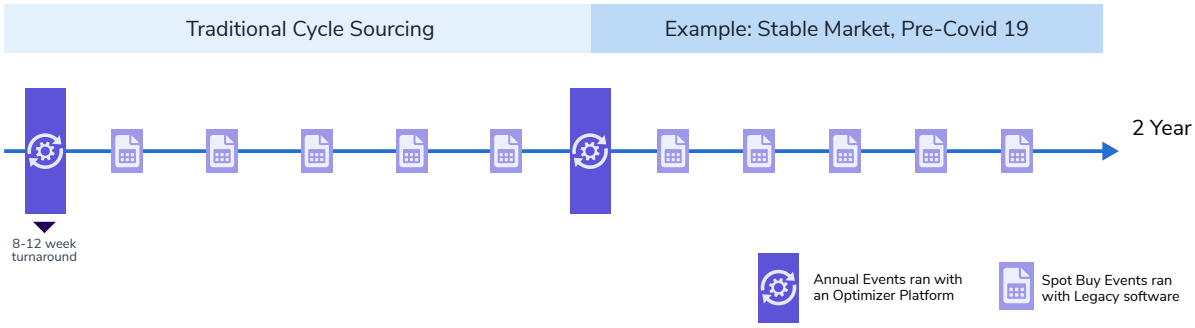
For the most part, procurement processes tend to be handled manually by teams relying on legacy technologies that limit their ability to be as reactive as the market demands buyers to be. For many companies, a basic eRFP or e-auction product will be their first port of call.

The old faithful to use is Microsoft Excel. Although a great and much relied on technology, it misses out on price compression and volume functionalities other products on the market have. There is a massive administrative burden that also comes with sending out, collecting, cleansing, and comparing across dozens or hundreds of bidders. The other big challenge with Excel is it requires an MS-Solver blackbelt to run scenario examples to find the best options.

Unfortunately, most sourcing functions are so focused on reactionary measures that one of the most effective ways to save money and meet these and other challenges – upgrading their technology to an optimization-powered solution – typically passes them by.

Many are continuing to operate using traditional cycle sourcing that was better suited to more stable and pre-COVID markets when rates tended to be fixed for up to two years and there was plenty of capacity. This strategy is characterized by having repeatable large annual events with off-cycle events to fill any gaps throughout the year as needed to be reactive to demand changes:

Traditional Cycle Sourcing



With traditional cycle sourcing, each event also brings its share of repetitive manual work that can be tedious and detailed, including selecting and inviting suppliers, collecting and cleansing data, and staying on top of supplier bids.

Using older technology, a typical event set-up in traditional cycle sourcing could take up to two months, with an additional month to deploy new rates across systems. Here, the speed of deploying events and results becomes less critical because they are fixed for long periods of time.

With traditional cycle sourcing, teams tend to follow one of two strategies:

Reactive Sourcing Strategy:

- The sourcing team responds to current volatile conditions using traditional processes from stable (Pre-COVID) markets.
- Annual events leverage technology, but off-cycle events are typically manual with Excel and Emails.
- Sourcing events are high effort and have limited repeatability.
- This process typically lags the sourcing cycle needed for today's volatile market.
- Usually, this approach focuses on lower risks at higher costs.

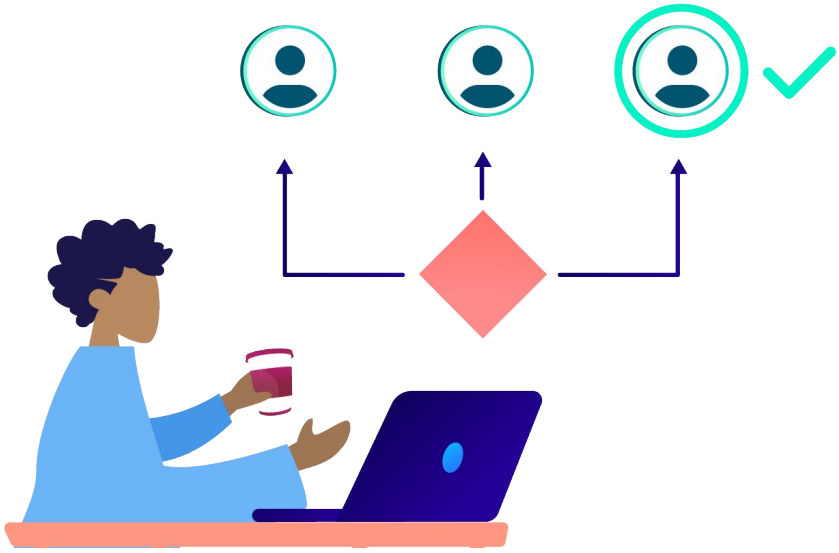
Responsive Sourcing Strategy:

- The team sources high-impact lanes and fills required gaps, adjusting to the new norm.
- Both annual and off-cycle events leverage technology when possible.
- Sourcing is medium to high effort and events are somewhat repeatable.
- The process is tactical and follows a traditional sourcing model, but it is slow and difficult to maintain at the market's pace.
- This approach strikes a better balance between managing risk and costs but leaves room for improvement.

Why It's Time To Evolve Your Sourcing Strategy

The need for speed in sourcing has never been greater. But traditional cycle sourcing is insufficient for sourcing teams looking to become leaders in a volatile market. Firefighting issues that emerge almost daily is leaving teams drowning in work and with little time for strategic tasks – particularly if they are still heavily relying on Excel spreadsheets and offline practices.

Leaders in the space are actively seeking out technology solutions that enable them to shift away from traditional cycle sourcing to dynamic market sourcing that allows for true sourcing excellence to occur by managing risk effectively, learning from earlier efforts, and exceeding business goals.



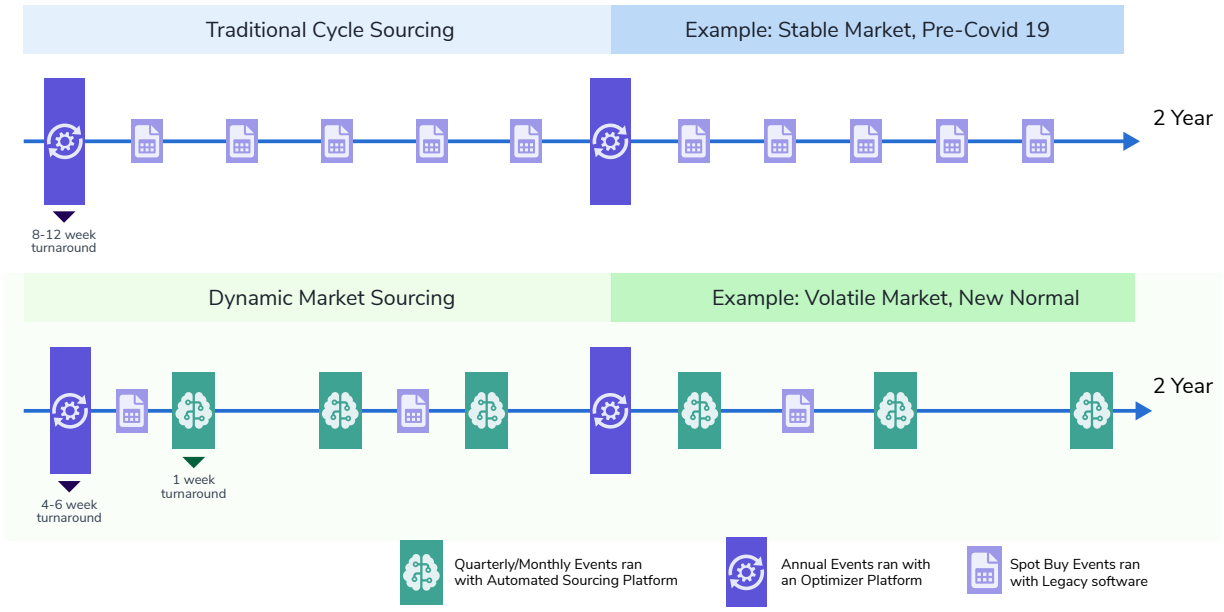
Excellence Defined: Dynamic Market Sourcing

The ability to respond rapidly but appropriately to volatility in the market has been key to the survival of companies with supply chains. For sourcing teams to go a step further and enable their businesses to thrive, they need to be prepared in the sense that if the market changes fast, they have the plans in place to respond to it and limit risk.

As noted earlier, in this new normal, many suppliers are at capacity and unwilling to hold rates for one year – meaning more buyers are having to rely on more frequent spot bidding to meet demand. The savviest of these have moved into dynamic mini-bid monthly/quarterly cycles with adjustments made throughout the year to accommodate fluctuations in capacity or material scarcity. This move has been called a sourcing "refresh," allowing for a fair and transparent process to run events at the cycle needed to lock in rate and capacity.

Industry leaders have been responding to the volatility by shifting from traditional to dynamic market sourcing practices. Implementing dynamic refreshes as needed means that the process has also improved CFO reporting from annual based on old rates to more current rates at each refresh. The annual events remain in place to align business requirements, while off-cycle events are used to fill gaps and confirm market rates:

Traditional Cycle Sourcing vs. Dynamic Market Sourcing



Keelvar customers following dynamic market sourcing are outperforming the competition to get better rates and capacity with carriers – read a logistics-focused case study example here.

Traditional Cycle Sourcing vs. Dynamic Market Sourcing

• Annual events include all known lanes and prices fixed for 1-2 years.	• Annual events remain to help align business requirements and network changes, with rates sometimes fixed for less than 120 days.
• Annual and spot buys are not always in sync with annual buying business rules but are typically new requirements.	• Annual and quarterly/monthly tenders now are normalized and standardized to help manage rate cards and routing guides. This improves communication effectiveness with carriers by allowing normalized processes to handle and validate rate negotiations.
• Pricing becomes rapidly stale, and routing guides erode through the year.	• Price and/or capacity are highly dynamic.
• Speed to deploy events and results are less critical because they are fixed for long periods, and carriers work with extensions.	• Rapid sourcing allows for quicker testing of new suppliers, and continuous right sizing to stay with market conditions or seasonality.
• Older technologies make it harder to adhere to common rate and award structures, and event set-up requires 1-2 months and an additional month to deploy new rates across systems.	• Agile processes allow for better event-to-event standardization and time to market with rapid cycles.
• Long cycle time prevents rapid actions.	• Constant ability to evaluate the market.
• Follows a Reactive or Responsive Sourcing Strategy.	• Follows a Resourceful Sourcing Strategy.

Dynamic market sourcing follows a **Resourceful Sourcing Strategy** to manage risk, which is characterized by:

- Annual and off-cycle events are all part of a single-threaded collaborative sourcing process.
- Sourcing events are low effort, highly repeatable, standardized, and normalized.
- The refresh cycle frequency is adjusted to stay current with market changes or expiring rates, allowing for competitive market rates and robust capacity options.

The key differentiation between the older and newer technologies used across the three sourcing strategies mentioned (reactive, responsive, and resourceful) is the ability to take control of the market, and use sourcing data to manage commitment to budget and services better.

Using Tech To Stop Reacting & Take Back Control

In the coming years, more teams will need to restructure, evolve procedures, and reposition their role from a cost-saver to a value-driver in order to meet ambitious targets and achieve sourcing excellence. But using archaic, old-school technology to manage large RFP projects can take hundreds of hours of productivity from your team that would be much better spent elsewhere.

Businesses increasingly rely on rapid, data-driven insights to fuel their operations in the face of variable demand and shocks. The sourcing teams managing their supply chains need the right technology in place to keep up with the pace of changing business conditions and ensure they remain in the driver's seat of their costs and services.

Implementing an intelligent eSourcing solution with optimization and automation can help them switch from cycle-based to market-based sourcing, which will free up their time, elevate their quality of work, and improve their bottom line.

For example, sourcing technology should allow for real-time traffic light and/or textual bid feedback. Systematically generated bid feedback can be formula-based and include data such as benchmark rates, historic rates, and median bid values to provide suppliers with directional price and non-price guidance (e.g., transit time). It is not uncommon for this single feature to drive 3% additional price compression and make significant service level improvements.

The good news is that optimization and intelligent automation solutions, such as those offered by Keelvar, have the power to deliver these results. Using our technology as spends become more frequent, your sourcing team and your suppliers can benefit from:

Greater Compliance and Transparency

Having access to market intelligence, either via benchmarking or through an RFP, on your specific networks allows you to more easily identify unwarranted price increases from suppliers and reduce budget leakage outside the procurement team's control.

By keeping a monthly or quarterly cadence, your team can also constantly rationalize your supplier base, reduce rogue spend, and better manage strategic partners.

Speed and Control of Sourcing Processes

If the thought of running RFPs every month is leaving you nervous because of memories of how painful it is to build, configure, and launch RFPs in eSourcing tools you've used in the past, find comfort in the fact that building and launching an RFP in Keelvar is as simple as dragging and dropping your Excel Bid sheet in Keelvar's tool – or copying over data from a previous event – and it's ready to go.

With sourcing needs changing rapidly, tools such as Keelvar's solution turns months into days or weeks. Our Sourcing Optimizer enables you to adjust your strategy and keep up with the availability of capacity and the number of suppliers you need to capture it.

Build a Comprehensive Picture of Your Network

It's difficult to fully understand how your supply chain performs amid so much volatility. Through Keelvar's software, you can optimize your network to reduce risk around sourcing from alternate or closer locations and discover cost-saving or cost-avoidance opportunities.

Uncover Cost-Saving Opportunities

Costs have spiraled out of control, and disruptions with the potential to derail budget plans are everywhere. However, buyers using Keelvar's solutions can discover new opportunities and innovations to drive competitive bidding, even within volatile markets. Features also allow suppliers to offer non-price bid considerations, such as capacity, alternative items, favorable terms, discount packages, and service commitments.

Supplier Evaluation

Finding suitable suppliers continues to be a big problem for sourcing teams, and the chances are you're already missing out on those in the market that could offer you better prices.

By moving to a more regular, dynamic sourcing cadence, you can test and onboard new suppliers throughout the year to see if they work for you before expanding your business with them during your annual or next large RFP.

Summary

In a market where inflation is accelerating but some prices are counter-intuitively deflating, procurement leaders are left wondering what the best strategy to empower their sourcing teams should be. Recent volatility has been a wake-up call for many that strategic sourcing has endured poor systems for managing bid events for too long; manually driven sourcing processes require too much back-and-forth communication and too much data checking and corrections to be executed swiftly enough to achieve the best results.

A dynamic market sourcing strategy can drive significant advantages because it not only allows best-in-class teams to improve their speed of execution, it also unlocks time for them to focus on strategic priorities that get overlooked when firefighting essential operational activities. By using the right sourcing technology, you can significantly lighten the workload of your team and drive higher standards – particularly if optimization is baked into the tool.

Keelvar's Solution

Keelvar's Sourcing Optimization and Intelligent Automation solutions are being used by our global clients to navigate complex and volatile markets so that they can get back to strategically managing their categories. But with procurement becoming more streamlined, the actual value of any new e-sourcing solution is how effectively it is adopted, managed, and deployed by your team.

If you expect to struggle to find the time to learn the technical side of our products, Keelvar's Professional Services team is on hand to provide an initial boost of support to help build a strategic platform that will elevate your business from market challenges. Meanwhile, your people can focus on being strategic, creative, and making those final award decisions to achieve excellence.

Request a conversation with our team today if you want to learn more about making Keelvar's solutions work for you.

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**