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e-sourcing and better buying

The complexities of modern buying events mean they are ideally suited to the efficiencies that can be achieved through e-sourcing, yet for the uninitiated running an e-sourcing event can seem a daunting task. In this paper, Joe Critchley from e-sourcing experts Trade Extensions demystifies the subject and describes what e-tools are available to buyers in all sectors.

Before discussing the available tools it is worth defining 'sourcing' and 'sourcing event' as they are used in this paper. In simple terms, 'sourcing' is the act of contracting goods or services and this is achieved through a 'sourcing event'. Often sourcing events are referred to as auctions or tenders but the variety of sourcing methods and analytical processes now available to buyers means these classifications are less informative than they have been in the past. 'Sourcing event' is a term that encompasses all methods and processes available. Looking at the main components of a sourcing event these include lots (the items or services a buyer is looking to source); suppliers; rules and specifications; a process for suppliers to make offers; analysis of the offers collected and finally a decision making phase that ends with business awards.

As mentioned above, lots are the items which suppliers make offers to provide. The flexibility of e-sourcing tools today mean that lots are not limited to physical objects and it is possible to source services such as transport, cleaning or printing using the same techniques that could be used to source bulk chemicals or paper clips.

Now sourcing and sourcing events have been defined we can look at what objectives buyers have and how e-tools can help. Irrespective of whether e-tools are used or not, effective sourcing means allocating business to the right supplier, at the right price, for the right period of time and with the right payment terms. 'Right' in this context means different things to different buyers depending on their precise requirements but good buyers will always want to ensure the capacity and quality of their suppliers.

Effective sourcing also allows buyers to behave more strategically and achieve broader objectives. This could be a desire to manage dependence on suppliers in terms of the total number of suppliers used or the distribution of the business between suppliers. Equally it could be something not so easy to measure such as reducing environmental impact. Industry has been making great strides in reducing environmental impact and with new e-sourcing tools it is possible to reduce this impact further by collecting information that means sourcing decisions can reflect environmental factors.

Alongside the strategic options available to buyers, one major objective is nearly always a good ROI after taking into account the total cost of running the event and the savings achieved. Modern e-tools make this objective more achievable as buyers can minimise costs without compromising quality.

In achieving their objectives, buyers have another desire which is to create an efficient sourcing process. This process needs to be manageable and not use too much of the buyer's resources. It has to be fast in order to deliver the benefits quickly – an annual saving of £2m delayed by one month costs the buyer more than £150k. The process needs to be transparent – both internally and externally, fair to suppliers and well documented so any disputes can be resolved quickly. Ideally the process will be repeatable and common across regions, sectors and business units as this will make better use of buyers' resources and enable the best balance between central and local decisions.

With so many objectives and considerations sourcing has become incredibly complex which is why many buyers are using e-tools to help manage this complexity. So let's look at these e-tools in more detail.

Today's e-tools give buyers more flexibility and allow them to manage projects that would have been impossible a few years ago. To highlight the benefits e-sourcing can provide we will look at four stages of a sourcing event in detail – spend analysis, RFx, optimisation and contract management.

Spend Analysis

Spend analysis allows buyers to look at transactional data and identify opportunities for goods and services to be sourced more effectively. This sounds simple but in many organisations this data is stored in numerous databases in varying formats. To get the data in a format where it can be used can take weeks or months if done manually. E-tools are now available that automatically clean and collate the data so it can be viewed in multiple ways giving organisations greater insight into what they actually spend and which items could be sourced more effectively.

RFX

RFX is a term used to cover RFIs, RFPs, RFQs and other requests made to suppliers.

Traditionally this process can be very time consuming but e-tools make it much more efficient.

RFIs of any size can be run and it is possible to tailor them to any situation and collect information that can be used to pre-qualify suppliers or used in the analysis phase following bid collection.

For example a transport buyer may want to know what proportion of each carrier's work is carried out using their own equipment, who their main reference customers are and what discounts they can offer for shorter payment terms.

Electronic RFQs have developed as well and whereas a few years ago they were only used for relatively simple sourcing events, they are now used in numerous formats for just about anything – even entire supply chains. It is also possible to have multiple bidding rounds with different types of feedback. For example, if your sector has a few specialist suppliers you might want to run an event under sealed bid conditions but if you are buying in a very competitive environment with many suppliers, you may choose to give suppliers an indication of how their bids compare to others. 'Collaborative' bidding where suppliers can make offers for packages of lots and volume discounts is frequently used and enables suppliers to highlight the opportunities of which the buyer may otherwise be unaware.

Optimisation

Optimisation helps identify the best combination of lots and suppliers that meets the buyer's requirements and suppliers' strengths. The number of lots, suppliers and offers mean the number of potential combinations runs into millions and this type of analysis is simply impossible without e-tools.

Sophisticated scenario builders can produce optimised results in a few seconds even for extremely large projects with hundreds of suppliers and thousands of bids. The analysis can take into account supplier data (from the RFI and other sources – for example the buyer's own supplier quality scores), lot data, bid data and constraints and rules set by the buyer - for example limiting the number of suppliers or the amount of change. In addition elements other than price (for example lead time, payment terms, quality scores, incumbency) can be factored into the decision process.

Contract Management

Using e-tools for contract management allows users to access the essential elements of contracts from one location. It is also possible to allocate business directly from the e-sourcing platform and once contracts are in place they can be updated, for example, by contracting new routes during the tender term.

What E-tools Cannot Do

While technology does bring numerous benefits like the ones described it is worth recognising that it does have its limitations. E-tools will not create competition where it doesn't exist. In addition, e-tools will not magically make all suppliers entirely reliable and equally will not make every buyer an expert.

Conclusion

Ultimately, when well used, e-tools help to bring buyers and suppliers together in a very efficient and effective way. Buyers still need to know their industry; what they want to achieve and what questions to ask but using e-tools means it is possible to manage projects and achieve results which previously would have been impossible.

If you would like to discuss how you can achieve better buying using e-sourcing tools please contact Joe Critchley, Trade Extensions VP Sales and Business Development: joe.critchley@tradeext.com +44 (0)7795 804 655.

Trade Extensions

Trade Extensions (www.tradeextensions.com) sets new standards for on-line sourcing and optimisation. Its unique sourcing software helps organisations achieve their strategic buying objectives by specifying sourcing events, collecting offers and, most significantly, optimising the results. On-line sourcing projects generate millions of variables and it is the algorithm design that underpins the success of Trade Extensions' software and means solutions can be identified in seconds. Trade Extensions also provides contract management and integrated spend analysis to help organisations identify and exploit sourcing opportunities.