

The CPO's Guide to Strategic Sourcing

A 10-step guide to strategic sourcing implementation



Chapter Nine

The Strategic Sourcing Toolbox

We take computers and mobile phones for granted, but these two items are just pieces of hardware. They're nothing without software and applications. In business, ERP (enterprise resource planning) systems are the most common software solutions.

According to a 2012 Aberdeen study, about 86 percent of companies with between 100 and 1,000 employees, have already implemented this software, which supports back office core processes and streamlines front office processes. Unfortunately, when it comes to procurement, the ERP comes up short, and additional tools are needed.

The following tools are discussed in this chapter:

- 1 Spend Analysis
- 2 Requisitioning
- 3 RFX Events
- 4 Supplier Relationship Management



Introduction

Basic ERPs lack certain procurement functionalities while in more advanced ERPs these necessary functionalities can be very expensive. Therefore, in order to successfully carry out a strategic sourcing process, you need to implement additional tools. Some of these “tools” are really modified Excel spreadsheets, but others are specific SaaS solutions custom designed to meet the needs of procurement professionals and the strategic sourcing process.

Spend Analysis

A spend analysis tool is an essential part of spend management. Its goal is spend visibility, and it should allow you to aggregate, classify, and leverage spend data. In order to plan your sourcing actions, you need to have the ability to capture your starting point and then measure any improvement in your progress. Just like a CFO needs to know the company’s cost structure, the CPO needs to know the costs of goods and services, and the category manager needs to understand his category’s spend structure.

Spend analysis should answer the following questions:

- What was bought and at what price? (*list of materials and cost*)
- From whom are we buying? (*list of suppliers*)
- How much do we buy? (*volume*)
- How do we buy? (*frequency and order batch size*)

Enterprise Wide Spend Cube

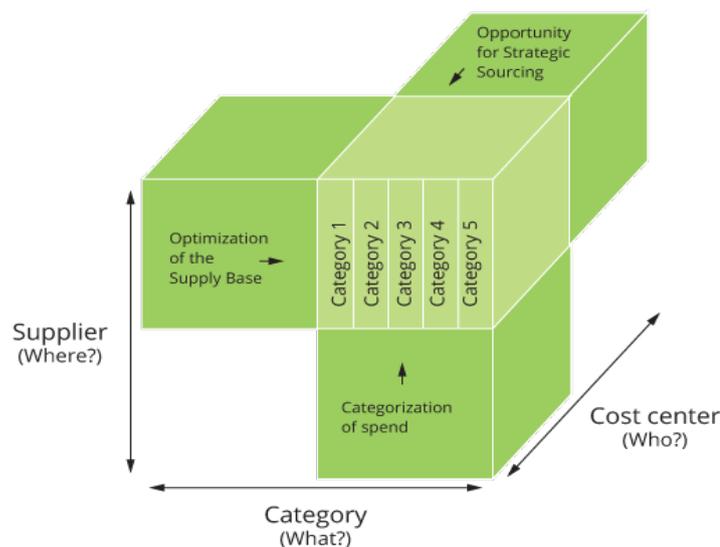


Fig.1 Spend Cube

For a more detailed reminder of how to carry out a spend analysis, refer back to Chapter 1 of this guide.

As far as tools for spend analysis go, the category manager’s best friend is Excel’s PivotTable. If you have a huge pile of data, no tool can beat it. PivotTable can be used for spend analysis since it allows you to sort and filter data in many ways and drill into the details. Ideally, PivotTable will be integrated with your company’s ERP so that you will always have access to your organization’s most recent spend data but you can live with periodic updates.

E-procurement Tools

Requisitioning

The core procurement process is called Purchase to Pay (P2P). It is mainly an internal process, and it starts with requisitioning, purchase orders, approvals, goods receipt, and invoice receipt, and ends with payment to supplier. These steps are available in most ERPs, and you might think it is adequate for managing the P2P process. But think again: not all P2P process participants are ERP users.

Requisitioning is the first step in the P2P process. Purchase requests could come from any person in the organization. Typical requesters are project managers and production engineers, but it could be any employee in any department. While they usually aren’t ERP users, they are procurement customers and you need to serve them. Email is not an efficient tool for keeping track of requisitions. In order to better serve your internal customers, it’s best to implement requisitions management software.

New requisitions		📅 This week ▼ 🗄️ See archived requisitions			
New requisitions	3	Title	Delivery date	Requester	Priority
Pending requisitions	2	New office chair	2.10.2016	Nina Trevor	<input type="button" value="SET PRIORITY"/>
Updated requisitions	2	Diesel fuel for trucks	Tomorrow	Oscar Wind	● HIGH
Assigned requisitions	2	3 laptops to new employees	2.12.2016	Hillary Milan	● LOW
Sent for approval	2				
Approved requisitions	2				
Closed requisitions	2				

Fig.2 Requisitions Management Dashboard

This type of software provides you and your stakeholders a collaborative platform to use during the initial stages of the purchasing process. Similar to helpdesk software, internal stakeholders can send their demand orders to procurement. Process compliance is a challenge that CPOs face on a daily basis. It is always easier to get on the right track from the very beginning. A requisition management solution helps CPOs change the purchasing process and track compliance.

Read more about the benefits of implementing requisitions management software:

- <http://blog.deltabid.com/why-implement-requisitions-management-software>

RFX Event Management

In this guide I have discussed RFX events quite extensively. (See Chapter 6 and Chapter 7). As far as I know, there's no ERP system capable of running RFX's. That leaves companies with only three choices for running RFX's: use email, develop an in-house solution, or purchase a license from a SaaS provider. Email is inefficient and developing in-house solutions can be extremely costly in terms of both time and money. The market is leaning towards a preference for SaaS.

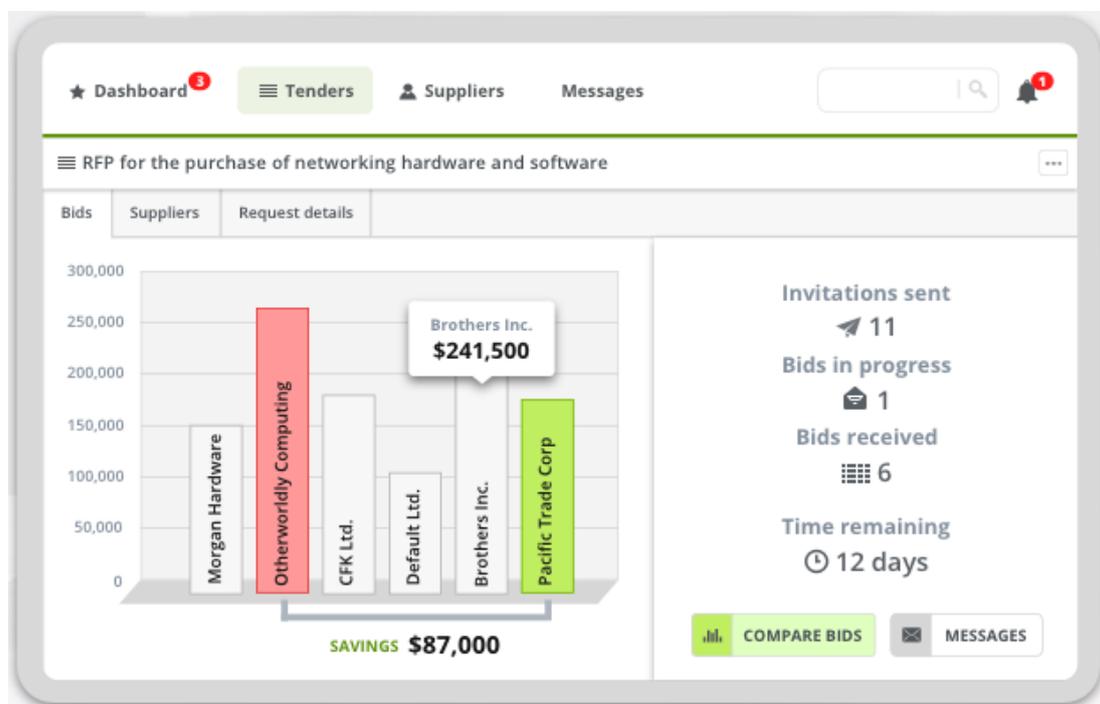


Fig.3 RFX Event Management Dashboard

E-sourcing solutions save you the additional time you need to effectively implement strategic sourcing. This type of software also lets the supplier do part of your job, such as entering basic identifying information into the system. As the buyer, you upload the supporting documents and create a pricing template. A pricing template is useful because it makes it much easier to compare bids and award a winner. In order to be more efficient, you can actually combine this step and the previous one and run the RFI and RFQ together as the same event. (I discussed this earlier in Chapter 6.)

While not recommended for all situations, it can be very useful for companies operating on a project-based model. E-procurement solutions can also help you build trust with suppliers by showing that your RFX is being run in a formal, professional manner and that you're taking steps to mitigate the risk of quote leakage and fraud.

Read more about the benefits of e-sourcing:

- <http://blog.deltabid.com/blog/benefits-of-e-sourcing/>

E-auction

An e-auction in procurement is a reverse auction in which the roles of the buyer and the seller are reversed, and the primary objective is to drive purchase prices downward. The reverse auction is one of the most efficient tools buyers can use to find a supplier with the best price. No ERP provides a reverse auction functionality, which is why many organizations are again looking to SaaS tools.

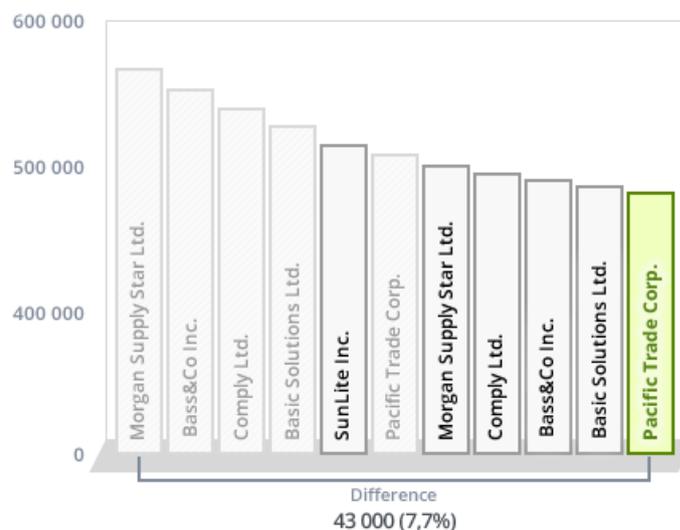


Fig.4 Reverse Auction Bid Comparison

During a reverse auction, suppliers can submit multiple offers, usually in response to competing suppliers' offers, bidding down the price of goods or services to the lowest price they are willing to receive. As competing bids are open in real time to every participating supplier, reverse auctions promote information transparency. This, coupled with the dynamic bidding process, improves the chances of reaching the fair market value of the item.

Supplier Relationship Management

There are a lot of customer relationship management (CRM) tools on the market but not many supplier relationship management (SRM) tools. I must admit that Sales and Marketing seem to be in a preferable situation compared to the rest of the company when it comes to e-tools. ERPs do not provide CRM or SRM in the standard solutions, which is why many companies implement SaaS solutions.

A supplier contract lifecycle management tool is basically an internal document repository with some advanced features. Every document added to the system should be categorized by different tags. Tags can be anything from contract, pricelist, and audit protocol to meeting memos, insurance certificates, claims, and more. A document repository should allow users to set up notifications for document expiration dates.

List of categories		HIDE CATEGORIES		Suppliers	Contacts
<input checked="" type="checkbox"/> Construction Services	10	Name	Categories	Contacts	Performance
Construction Design	3	<input type="checkbox"/>  Cathy's Canteen Catering Ltd.	Corporate Services, Recruitment, 2 more	Cathy Carpenter , Clara Cubrick	
<input checked="" type="checkbox"/> General Construction	4	<input type="checkbox"/> Donkey Western Salvage Yards, Inc	Recycling services	David Dole , Brian Timmy	
<input checked="" type="checkbox"/> Fleet and Equipment	12	<input type="checkbox"/>  Evergreen Environmental Services Ltd	Corporate Services	Norman Dope , John Sullivan	
<input checked="" type="checkbox"/> IT	38	<input checked="" type="checkbox"/>  Don No OÜ	Corporate Services	Cathy Carpenter , Clara Cubrick	
<input checked="" type="checkbox"/> Raw materials	121				
Recycling Services	3				

Fig.5 Supplier Database

A comprehensive supplier relationship management tool includes supplier contract lifecycle management tool functionality but with additional collaborative features. Collaboration should be with both internal and external stakeholders (suppliers).

Here are some examples of these collaborative features:

- **Supplier self-service portal:**

Advanced SRMs allow suppliers to input their own data into the system. For example, they can take care of supplier registration and self-qualification questionnaire results recording. They can also upload documents, such as a recent insurance policy. The SRM will notify suppliers when a document needs to be renewed. Buyers can also trigger notifications for a data update. The supplier self-service feature reduces data entry work for the buyer.

- **Activity management:**

Just like many CRM tools, an advanced SRM tool will include the option to set reminders and record supplier-related activity. The buyer can even set up reminders for a scheduled call or meeting, store email communications, and record RFQ results. The SRM can also be used to store memos and schedule future activities.

- **Supplier performance management:**

The most important feature, as well as the most complicated, is supplier performance evaluation. Some KPIs are measurable, like on-time delivery, but some may be subjective, like ease of doing business. Involve your internal stakeholders whenever you need subjective measurements. Register your KPIs in the SRM and share the results with your suppliers. Any feedback is better than no feedback.

- **Supplier reclamation management:**

Handling reclamations is not so enjoyable but quite common. As in romantic relationships, supplier relationships also have their ups and downs. Handling supplier reclamations is a process that mixes several activities but starts with registration and ends with a final decision. Advanced ERPs have this available in quality modules, but they lack collaborative features.

Summary

Many procurement people still work mainly with ERP, email, and Excel. Up until now it was the only way since ERPs did not have special procurement features. However, small software companies (DeltaBid included) realized the gap in supply and demand and now there are many solutions available specifically for CPOs and procurement specialists.

This is almost the final chapter in *The CPO's Guide to Strategic Sourcing*. When I started to writing this series of articles, I did not know if there would be much demand for them. I wrote them for new CPOs who might be starting a career at a new workplace. I wanted to help him or her with a structured step-by-step guide. Based on the feedback from readers on LinkedIn, I can say I was positively surprised, and I feel like I reached my target.

The final chapter in this guide will address a big part of the strategic sourcing process—the people. Strategic sourcing can't be successful without dedicated employees, skilled team members, and a well-managed procurement function. In the next chapter, we will be discussing the details of putting together a top-notch strategic sourcing team.

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After graduating from Tallinn University of Technology with a degree in Mechanical Engineering, Peep received a master's degree in International Business Administration from the Estonian Business School. Peep spent five years at Ericsson Estonia as logistics manager, and then worked as a supply chain manager for the Baltic States at ABB until 2015. Peep has been a board member for Estonia's Purchasing and Supply Chain Management Association Prolog since 2014, and he is currently their CEO. He is also an advisor at DeltaBid, specializing in supply chain management, strategic sourcing, and supplier relationship management.