# Chasing the grail

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## The search for IT systems to support value based strategic sourcing

THE SOFTWARE INDUSTRY has invested heavily in the past 10 years on developing Internet based software to support commodity procurement. Despite its critical impact on business performance, there has been a much smaller emphasis on new tools and processes to support high value, high risk procurement transactions, although the area is now attracting more attention.

Traditionally such sourcing incidents have been one-off project based events requiring a great deal of flexibility to handle specifications and evaluation largely outside day-to-day procurement activities. Sourcing for these strategic transactions was primarily process driven supported only by generic spreadsheets, email and project management software. The assessment problems common to this space are generally accepted to be too complex for a linear thinking computer model to handle and thus it is generally the project manager or procurement director who has the responsibility to determine the option with the best value and lowest risk. Given the bespoke nature of such projects, tailored sourcing tools were largely unused within this space.

That is changing, however. E-sourcing solutions had focused on cost-based strategic sourcing, but now vendors of e-sourcing solutions are looking at the potential for specialized tools to meet the broader needs of procurement professionals. This latest breed of procurement technology will likely focus on those areas of decision support and evaluation which give procurement professionals greater capacity to make an informed decision, reduce workloads by automating processes, and maintain sufficient flexibility to accommodate any sort of project or organizational process that may arise.
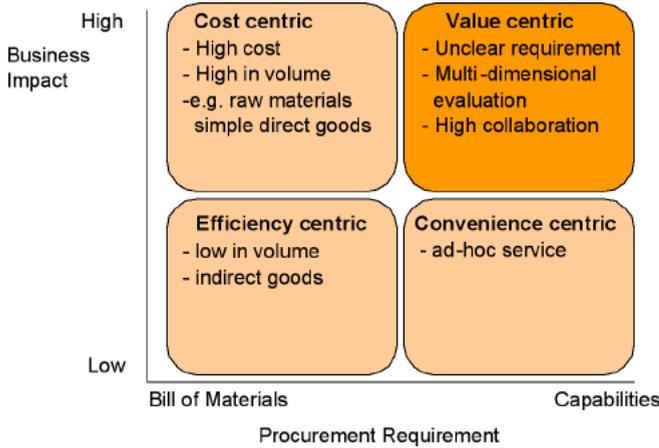
### Sourcing for value based strategic projects

In traditional sourcing terms, transactions are divided up into three broad categories on an increasing scale of complexity: direct sourcing, indirect sourcing, and services sourcing. In many cases though there is a fourth category of sourcing which involves those large scale projects within an organization which define and/or are attached to the long term strategic positioning and commitments of that firm. While strategic sourcing may broadly include activities like supply chain optimization and consolidation, this fourth category of value based strategic project (VBSP) transactions differ from other areas of strategic sourcing both in terms of their overall impact to the business and the nature of the specifications which are used to define them.

If the business impact of a transaction is thought of in terms of expenditure size, the time horizon of expected ROI, and the level of risk involved in a transaction, then this fourth category of VBSP transactions would primarily be those with a financial commitment of greater than 5M Euro and a long-term strategic commitment of 5-10 years, which cannot be easily altered or undone once a contract is awarded, and an expectation of a return on investment somewhere in the 3-10 year time frame.

From a specification standpoint, the RFx (Request for Information, Request for Proposal, Request for Quotation) used to describe an organization's strategic intent for projects involving outsourcing, infrastructure, business process reengineering, and advertising etc. is not something that lends itself well to a bill of materials format where line items adequately describe every aspect of an expected solution. While the requirements outlined in such cases must be as scientific and specific as possible, a lack of internal expertise often means that the team putting together the RFx will not be able to specify the optimal solution for the project up front. In any case, such an approach would be too prescriptive and would disallow useful innovation within the supply base. So unlike a more direct sourcing transaction

Figure 1. Procurement segments



| | | |
|---|---|---|
| **Cost centric**<br>- High cost<br>- High in volume<br>-e.g. raw materials<br>  simple direct goods | **Value centric**<br>- Unclear requirement<br>- Multi-dimensional<br>  evaluation<br>- High collaboration | |
| **Efficiency centric**<br>- low in volume<br>- indirect goods | **Convenience centric**<br>- ad-hoc service | |

High Business Impact / Low

Bill of Materials — Capabilities

Procurement Requirement

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sionals. The results of the survey question regarding those aspects of procurement on strategic projects that professionals regarded as most important indicated that securing stakeholder buy-in was a top priority, followed by the need to manage complex requirements and to remain accountable for decisions made through an audit trail.

Survey results to an open ended question regarding the top three reasons behind the success or failure of strategic projects confirmed difficulties in three major areas: projects failing because the needed collaboration from pertinent stakeholders within the project scope was not secured; poor strategy and planning; and a lack of well defined specifications.

Within the stakeholder buy-in issue, it appears that the ability to manage and work effectively with other departments throughout the procurement process was both essential and difficult given a lack of direct managerial authority and often an organizational culture which insulates pertinent departments from the procurement function. While stakeholder buy-in is often thought of in post project terms (i.e., the acceptance/adoption of a finished deliverable), the ability to manage internal suppliers such as subject matter experts for evaluation and RFx preparation purposes is equally critical, especially on projects which require such a high degree of cross functional collaboration.

In addition to this stakeholder issue, the difficulty in managing risks and requirements seems to stem from the complexity involved in these sorts of transactions where hundreds of requirements are matched by hundreds of proposal points in a many-to-many fashion. Furthermore, procurement professionals and project managers are often required to make judgements on a creative or innovative response, which adds to the

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whose requirements may specify the lowest cost for a fleet of cars with certain safety features, fuel efficiencies, colours, sizes etc., sourcing for a strategic project often leads to a request based on capabilities as opposed to a specific solution and involves broader requirements such as, "the need to provide efficient transportation to the entire workforce."

In brief, a value based strategic project as described above is one of over 5M Euro, lasting from 5-10 years with a 3-10 year ROI horizon in which a buyer is sourcing according to specific capabilities as opposed to a bill of materials or a pre-defined solution.

The ultimate goal in sourcing for such projects is most often one of finding the best possible solution from the list of bidders, while reducing the level of risk involved in pursuing an organization's strategy through a given supplier. The need to effectively source in such transactions may seem readily apparent, as it is orders of magnitude more difficult and costly to change a poor supplier

to whom you have, for example, outsourced your business processes or the engineering of an oil platform, than it is to choose a different supplier of computers or office furniture. Cost is an important factor in value based strategic sourcing as well, but given the large amount of variation likely to occur between suppliers' proposals, it is difficult to line up and compare disparate solutions simply in terms of a traditional value for money metric. In such situations, the criteria upon which proposals are evaluated must be sufficiently flexible to accommodate unique and different angles presented by the proposals. It may be helpful to consider other dimensions in such situations as expected levels of risk, supplier innovation, the likely level of stakeholder buy-in, etc.

## Important factors for value based strategic sourcing

We drafted a survey which was conducted on the issues outlined above to get the latest thinking among procurement profes-

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Figure 2. Procurement priorities



Legend: Absolutely Crucial, Very Important, Important, Nice to Have, Doesn't Matter, N/A
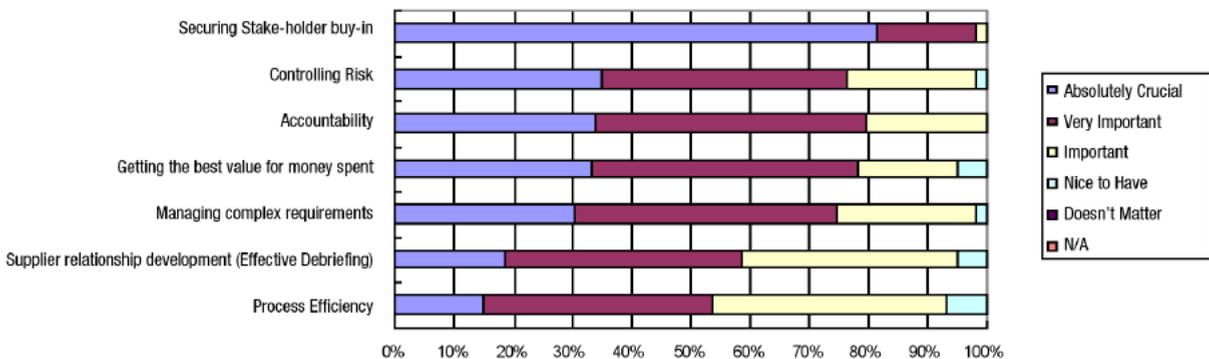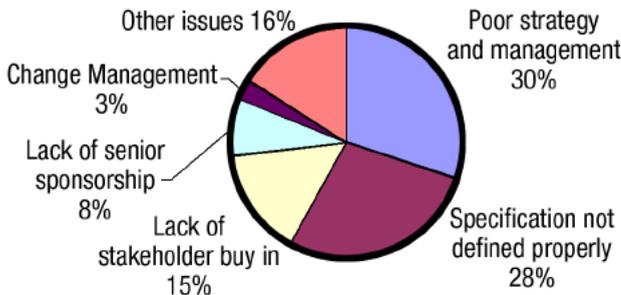
Figure 3. Procurement process failures



difficulty of keeping everything logical and linear. The ability to maintain a big picture perspective without compromising on the thoroughness of analysis in such situations is essential and the key to success is finding ways to extract the most pertinent information from the large amount of noise.

That process of extraction is often based on a cyclical dialogue between the sourcing entity and the supplier where capabilities and responses are validated through a more thorough investigation. While this process reduces potential risks and adds to the robustness of the evaluation, the manual maintenance of a spreadsheet model in such situations can become a horrendous task, involving many more iterations, links and associations than can easily be verified.

Given the need for a sound decision, it seems as though there may be room for e-sourcing technologies to take on the role of a decision support system to aid managers in this process. Let's examine whether or not these systems are potentially up to the task.

## Evolution of e-sourcing

The importance of value based strategic sourcing, or the process of finding the best supplier and securing an optimal contract on a VBSP, is increasing as organizations become more project based and the frequency and size of capital intensive projects increases. There is an industry trend for consolidation of the supply base and for the grouping of purchases into fewer more strategic deals.

The trend in technology has been developing in accordance with industry movements. In late 1990s, corporations shifted from paper-based transactions to online-based transactions to increase efficiency. In this early phase of IT systems, online catalogues were the feature of choice. After increasing supply efficiency through online procurement transactions, corporations sought more direct cost savings. This led to the second wave of procurement systems. For exam-

ple, corporations adopted reverse auction systems, through which suppliers could dynamically compete with one other on price. The procurement department could easily identify which supplier offered the cheapest price and awarded contracts accordingly. Advanced e-sourcing systems went a bit further comparing just the price, comparing

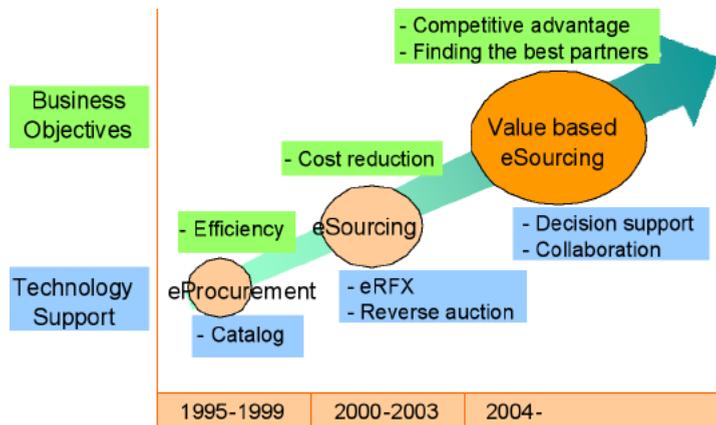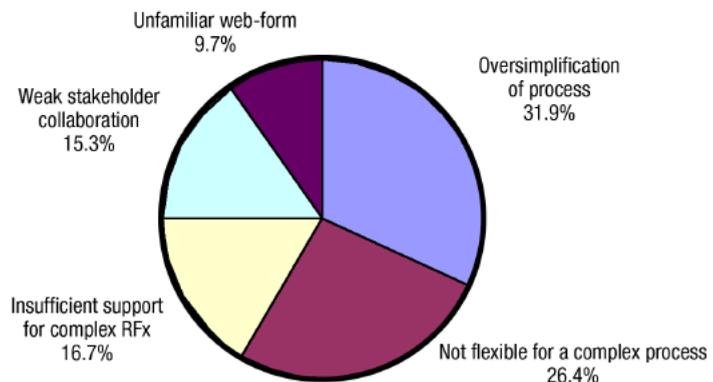Figure 4. Development of IT systems



the total cost of ownership, allowing for more flexible bidding and optimizing the overall supply chain.

However, the cost centric approach of the procurement process could hurt the relationship with suppliers and damage the long term business development of corporations. As Gartner says, "reverse auctions too narrowly focused on short-term price reduction can create the opposite effect. Worse yet, such auctions can inflict long-term structural damage to the enterprise's supply base."[1] Corporations must go beyond a cost centric approach of e-sourcing.

While e-sourcing to date has focused on a number of strategic components for dealing with direct, indirect, and some services sourcing through functionality like supply chain optimization, 'value based' e-sourcing gives a more holistic procurement analysis

Figure 5. Dissatisfaction in e-sourcing for strategic projects

and the evaluation of cost as a part of the entire evaluation. The key features of electronic systems supporting this procurement category of VBSPs are decision-making support and collaboration support. Since analysis beyond cost requires more creative, non-numeric analysis of information, unlike price analysis, systems must support the identification of the evidence embedded in different places in documents, to consolidate different evaluations by evaluators, and to manage a wider range of stakeholders. Typically, their solutions have features, such as eRFx, support for structured and collaborative evaluation process, a decision model (e.g., rule base and weighted), templates and dynamic reporting, although there are differences in the implementation.

### Technology use on value based strategic projects (VBSPs)

Seeking to understand available e-sourcing solutions to meet strategic procurement needs, procurement professionals were surveyed about their experiences in using e-sourcing with VBSPs.

Of the total respondents, less than half had ever used specific tools beyond spreadsheets and email to conduct strategic sourcing projects. Of those respondents who had used e-sourcing on long term and complex strategic projects, the specific uses were most commonly collaboration around the preparation of the RFx. Evaluation and negotiation processes were most often still conducted manually.

Reasons for not implementing e-sourcing more broadly across project processes included comments like:
- "e-sourcing tools are generally not effective in communicating complex undefined project requirements."
- "[e-sourcing] can be inflexible when a contract is particularly complex."
- "e-sourcing tends to be better aimed at ST (less than 1 year) projects with a market place with many vendors; it is by essence more tactical than strategic, although it can be used for early stages (RFI, RFP activity) for LT strategic activity."

A follow up question on perceived shortcomings of e-sourcing tools in the process of sourcing for strategic projects confirmed this view; users were generally happy with capabilities surrounding collaboration. Few people felt that e-sourcing tools were inade-quate in terms of drafting an RFx or incorporating suppliers electronically in the sourcing process. One thing that was clear from the results is that the majority of end users felt that e-sourcing solutions oversimplify the inherently complex processes involved in strategic procurement projects to the extent that they were too inflexible to be useful. This single issue accounts for over 50 percent of all dissatisfaction with the use of e-sourcing on this category of transactions. These responses seem to indicate a need for additional support from electronic tools on VBSPs.

### Solution providers

Value based strategic e-sourcing is a relatively new IT field, still in the process of becoming established as a separate segment of the market. There are a few pure play vendors. While such pure play vendors have suc-

cessfully carved out a niche in this space, the need for integration will likely lead to partnerships with larger e-sourcing and enterprise resource planning (ERP) vendors to offer a total solution across all transaction categories. For example, the UK's Office of Government awarded a framework contract for the provision of e-sourcing within government departments to BravoSolution, a leading e-sourcing vendor. As part of the overall solution, BravoSolution partnered with Commerce Decisions, a pure player vendor in the VBSP space, to provide electronic evaluation capabilities on high value transactions.

We anticipate that vendors of e-sourcing systems will build functionality to support VBSPs into their existing solutions. Some already have relevant functionality in their e-sourcing projects, although none have close to the specific functionality of the pure play vendors, especially in the area of evaluation.
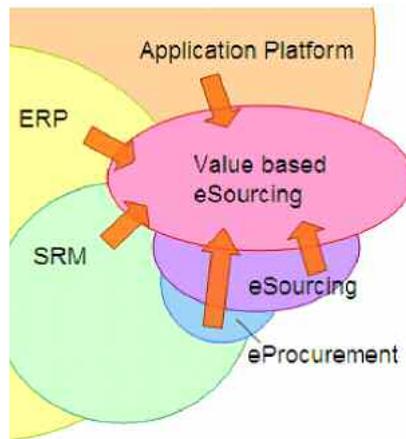
## Solution specifics

For procurement professionals looking to integrate e-sourcing support for VBSPs within their current procurement processes, we suggest the following issues as important



Figure 6. Solution providers for strategic sourcing

that no important information is overlooked which might have serious implications for an ultimate decision.

In the same vein of technology accommodating existing organizational processes, the solution should have sufficient flexibility to allow users to choose which parts of the overall process they wish to conduct. While templates currently offer some benefits of somewhat generic data analysis along with

thorough big picture analysis of the most important factors. This potentially includes the ability to automatically maintain all associations and references between relevant information (requirements, questions, answers, evidence of compliance etc.) across a cyclical process that involves constant updating as new information is gathered to verify capabilities. Automatic maintenance of audit information will also lessen the pressure on managers to maintain details, leaving more time for managing the process with regards to evaluation and resolving potential issues with suppliers. The ability to roll up supplier response data and to secure consensus across multiple dimensions of measurement will likewise ensure a more robust analysis and lessen the room for human error in the procurement process.

## Bottom line

While a relatively new field of IT systems, value based strategic sourcing's strategic importance is crucially high. To choose an IT system for value based strategic sourcing, users must look at whether a solution is designed to integrate with an already complex organization process involving a wider range of stakeholders. It is also important to review how a solution treats unqualified requirements in a collaborative environment and ultimately how much the solution improves the managerial and decision making capacity of the team it supports. ⌁

*… the solution should have sufficient flexibility to allow users [choice]…*

factors in the consideration of a vendor.

In terms of further support for stakeholder collaboration, does the technical sourcing and collaboration capabilities help to drive organizational processes forward? For example, a transparent evaluation process, where all evaluation activity is visible to supervisors in real time, will increase the level of accountability and the incentive to meet milestones on time and budget. Evaluation functionality should allow for the identification of risks as well as value scoring. Also the capacity to maintain all internal communications with regards to the project in a project specific space and to link those communications with the related procurement documents ensures

industry specifics, the ability to author and integrate project specific ideas, specifications, metrics, evaluation logic etc. will be a powerful means of working on projects which defy traditional evaluation models. For instance, when evaluating an agency for an ad campaign, or a firm for consultancy, the capacity to evaluate personal or creative judgements separately from the logical criteria of track records, size, scope, staff, etc. and then combine them later will allow for a more open and sensible decision.

Another important issue is the extent to which the VBSP sourcing solution has the ability to reduce the "noise" of the complex procurement process and facilitate a more

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[1] David Hope-Ross, "The Dark Side of Reverse Auctions: A Warning," Gartner, 2003.