The 12 Days of X-Emplification

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The 12 Days of X-emplification: Prologue

In the spirit of giving, and in the spirit of Questions to Ask your Optimization Vendor, the doctor exposes the elephants in the room (Part II), and the doctor goes mental, I'm going to give you twelve posts on twelve different sourcing and procurement technologies and services that expound upon the questions you should be asking, the answers you should be expecting, and, most importantly, why, so that when you set about choosing a technology to help you with your sourcing and procurement challenges, you choose the right one.

Now, I know that Procuri and some other vendors put out a series of RFP template documents, that include The Sourcing RFP Template, The Supplier Management RFP Template, The Contract Management RFP Template, and The Spend Analysis RFP Template and that some of you might think that these posts are therefore unnecessary, but I assure you that the opposite is true. The problem with these RFP Templates is that they were written from a feature perspective, and were designed to make the sponsors look good (whether the sponsors want to admit it or not). The reality of the situation is that the number of features a product offers is irrelevant if it doesn't support the key processes you need it to support to add value to your business. In other words, a product with only 100 features could be many times better than a product with over 1000 features if the product with 100 features supports the ten functions you need to support and enable your best-practice based business processes. For example, it doesn't matter if a spend analysis package comes with 100 reports out of the box if you can't build a template for the one report your boss demands to see every week.

Thus, when it comes to the technologies you use, or should use, every day, I think it's time that you as a buyer knew the questions you should be asking, and not necessarily the questions the vendors want to ask. Then you'll be in better shape to select the right technologies to meet your needs.

Before the series gets started, I have a couple of things to take care of.

First of all, please understand that just because the templates I called out above (and those like them) are not appropriate templates for you to be using in your efforts to find the right product for you, this does not necessarily imply that the solutions offered by those same vendors are not appropriate for your needs. The solutions might be appropriate, and they might not. But unless you ask the right questions, how will you know?

Secondly, if you thought my blogologues were hard hitting as of late, and even a little scathing, as they used to say, you ain't seen nothing yet. Although I'm not going to discuss specific vendors with respect to the technologies in the 12 posts that follow, I can guarantee that for any given post, there are going to be a number of vendors who are not going to be too happy after reading it - because their solution, whose last major update was five plus years ago, not only doesn't cut it, it doesn't even come close!
The 12 Days of X-emplification:

Day 1 - RFx & e-Auction

So, I bet you're all wondering - what's to x-emplify? I'm sure you're saying that it's just RFx and e-Auction ... it's been around for 10 years ... and it's pretty self explanatory. My answer to that is that you'd think it should be, but given the wide range of capabilities that exist in the various products out there, as well as the even broader range of sales pitches, I'd argue that RFx and e-Auction are still not well understood.

To help you understand what RFx and e-Auction is, isn't, and should be - in addition to my various posts on RFx and e-Auctions, my guest contributions to the topics over on the e-Sourcing Forum (RFx and e-Auctions), and my contributions to the wiki-papers (RFx and e-Auctions), I'm going to point out some questions for each technology that you should be asking, as well as the answers you should be hearing, to help you cut through the sizzle and get to the steak.

e-RFx

0. Do I really need e-RFx at all? I'll probably take a lot of heat from everyone in the e-RFX business for this, friend and foe alike, but if all you're looking for is some basic information, or an occasional quote on office supplies, sometimes all you need is a free-form questionnaire or spreadsheet that's mailed directly to recipients. It's always interesting to see how suppliers respond to free-form questions -- do they use marketing B.S., or do they have something useful and informative to say? Do they answer your questions honestly, or try to side-step them like your average politician or stereotypical used car salesman?

If you don't really know much about the space, supplier, or type of product that you're investigating, how can you ask anything but open-ended questions, anyway?

1. How much flexibility do I have in form definition?
Let's face it - large template libraries are great ONLY if they offer the templates you need for the categories and commodities you need to source. You need to be able to create your own forms, from scratch, and have all of the form elements you need at your immediate disposal. You also need to be able to control and validate the data that gets entered into the form so that you can automatically compute scores on scorecards and identify important differences between respondents. You need more than free-form text-boxes - you need text boxes, check boxes, radio buttons, and tables (for starters), and you need the ability to define checks not only on individual elements but across elements and across rows and columns of tables.
If you're building a weighting function, the weights should add up to a pre-specified number, like 100. If you're asking the vendor to enter a delivery time, it should between 1 day and the maximum amount of time you can allow, like 60 days. "Next month" should not be an allowable response. If you're sending out a survey to your internal departments to determine an order of priority between 10 sourcing projects, you should be able to enforce that each priority number between 1 and 10 is used only once. (Otherwise, they might all be ones and twos, and that won't help you.)

Furthermore, it should be really easy to create such a form, re-organize the questions, create sub-sections (or pages), and enable or disable sections by vendors. (If you're creating a general purpose vendor qualification form, you might not care about the "technical infrastructure" of your office supplies vendor.)

1a. Can I build advanced sourcing grids?

After 10 or more years of RFx software development, you'd think that this question would be a no-brainer. You'd be wrong. There are deep differences in the way that different e-RFX products build grids, and there are deep limitations in many of them as to how big the grids can get, and how manageable/unmanageable the process may be. Every sourcing consultant worth his or her salt has recent horror stories of users unable to build the grids that they needed, period.

So don't believe anyone who claims that "all of the sourcing vendors in this very-long list have 'good' RFx platforms." They all have RFx platforms, but you will often find that there are profound differences between them and that many may not be suited to your needs.

2. Can the forms be completed by the vendors off-line?

Let's face it - if you're diligent about supplier and product qualification, and quality, you'll be collecting a lot of information. Information that the individual assigned to complete the form is not likely to have at her fingertips, information that might take a long time to collect, and information that might take a long time to input. The individual should have the option of completing the form off-line, at her convenience, wherever she is - on the shop floor, on an airplane, or at the wifi-less beach.

Also, in this situation it is beneficial if the vendor can designate multiple individuals to handle multiple sections of the RFx, and if each individual can access, and complete, only their sections off-line.
3. Are the forms secure and uniquely identified?

Let's face it, if you're going to allow off-line completion, you want to make sure that the forms that are uploaded were actually filled out by the intending party. (Otherwise, their competition could fill out the forms and answer "no" to all the required regulation compliance questions, causing you to immediately disqualify what could be your best new vendor.) Furthermore, if your vendor doesn't have unique identification built in, then you're going to have to come up with your own unique identification method to insure that attachments don't overwrite each other when a vendor uploads their form, or, even worse, that the different users who upload the forms that contain just their sections filled out do not overwrite the filled out sections completed by other users with blank data.

I'm going to tell you right now - point blank - that most RFX vendors don't have this capability - and that they'll probably try to skirt the issue by pointing out that "their user authentication algorithm insures that only designated supplier representatives can log in to the system and access their forms, and this will imply that only they will have access to the forms, and that since they will be uploading the forms through their login, the form is automatically identified" except they'll use significantly more words while blowing though the well-practiced demo at breakneck speed in an attempt to woo you with their sizzle in an attempt to leave you too stunned to realize that this most of what they are saying is BS.

The answer you want to hear is: **Yes. We use built in DEC/RSA 256-bit or better encryption combined with a unique secure digital id that uniquely identifies the form instance by user, by supplier, by buyer, and by original template instance id.** And you want to hear this within three seconds of asking your question, delivered in a confident tone with eye-contact and no squirming. Otherwise, what the vendor has doesn't even come close and they're trying the above weasel-tactic.

Why is all that identification important? If it was just by supplier and form template and user id, then if the supplier serviced multiple buyers through the same on-demand platform, the form could be uploaded to a different buyer! If it was just by buyer and supplier and form template, then each user's upload could overwrite the previous user's upload when multiple users are filling out a form on behalf of a supplier! If it was just by buyer and user and supplier, then you wouldn't know what template to attach it to if the user had mistakenly created two forms with the same name (but in two different projects)! And of course, if it was just by buyer, supplier representative, and form template id, then if the supplier representative was actually an employee of a 3PL working on behalf of the supplier, the data could be attached to the wrong project and exposed to other suppliers!
4. How easy is it to export the response grids for analysis? To Excel? To Access? To an OLAP analysis tool?

Automated scoring mechanisms are usually not good enough to select a vendor, and they often eliminate vendors that ought not to be eliminated. How can you write a fair scoring algorithm for a space you don't know that well? You could be building in your own uninformed bias, or (worse) that of a vendor who has "helpfully" provided you with an RFP template! (And I think you know what I think about some of those templates!)

In fact, your analysts will want to pull the data into their own tools. These could be just about anything, from Excel models to Access databases to OLAP analysis tools. The ease with which data can be moved out of the RFx tool and into desktop analysis tools is an extremely important consideration. Sure, e-sourcing vendors will tell you that all the analysis can be done within the tool. And in some cases they're right. But don't limit your flexibility, because what if they're wrong? And furthermore, what if you just don't have enough hours in the day to learn somebody's custom tools set? That can be a big investment in time and effort, especially if you only run one event a quarter. You could forget everything you learned, and have to re-learn it all over again each and every time. Sometimes it's better to forget about the vendor's tools, and just dump the data to a product you know.

e-Auction

1. Can I define my own bid type?

Let's face it - not every bid is as simple as a price per unit - especially since you should be taking landed cost into account. Furthermore, this is more than just allowing a user to define a unit bid and a freight bid per unit - it's also allowing the user to define a fixed processing cost per unit while the application automatically factors in an expected value for a variable fuel cost and it is defining your own adjustment that corresponds to the various utilization costs associated with different products from different vendors. For example, if you're in food service, each type of sauce packaging implies a different amount of waste - metal cans and plastic bags and lined box-board have different "stick" factors, and the easiness of "scraping" or "draining" the contents from the package often varies by package design (such as cube vs. cylinder vs. tetrahedron).

2. Can the tool support complex formulas, splits, and cross-lot rankings?

Building on question one, not only do you want the be able to support bids based on complex formulas, but you also want to be able to rank bidders based on their individual bids on different lots and based on their entire package bids. A supplier might bid 100K for lot 1, 200K for lot 2, 300K for lot 3, and 400K for lot 4, but be willing to bid 900K for all four lots (equal to a 10% discount if they get everything). Without complex formulas and cross-lot rankings, the supplier couldn't enter entire package bids or discounts, and you will not be able to capture the full value available to you through the auction.
3. Does the tool integrate with an optimization solution?

Complex formulas and cross-lot rankings are a good start to getting the lowest bids, but they do not capture all of the complexity associated with a sourcing scenario, and, thus, do not guarantee that the outcome of the auction will be an allocation that optimizes your total cost of ownership. Simply put, a dual-source strategy is preferable to a single-source strategy from a risk management perspective. A given supplier might be willing to make considerable infrastructure improvement investments if they get the business, resulting in year-over-year cost reductions that could, over a three year time-frame, significantly undercut the lowest bid another supplier is willing to give you today.

The reality is that most auction tools don't support real-time optimization, and most of those that do support real-time "optimization" don't support it very well, but that's okay. The point is do they integrate with an optimization solution - since any high-value scenario on strategic categories or commodities should involve a separate optimization step where you run multiple what-if scenarios to understand what your business rules are costing you, what risks the lowest-cost solutions are exposing you to, and what the most valuable award is when you balance cost and risk. Thus, you should be able to easily import the results of the auction that you use to collect the initial bids, as well as easily create rules that guarantee the winner(s) of the auction receive a minimum amount of the award. (Remember your auction etiquette - if you don't award to the winning supplier(s), you'll damage your reputation. If you're going to use auctions to collect bids for optimization, you should be willing to guarantee a minimum award to the winning suppliers. And if you properly define the bids and rankings, with an appropriate multi-source strategy, this shouldn't be a problem. If you have a special situation where you think it might be, then use a multi-round sealed-bid auction instead of an open auction.)
The 12 Days of X-emplification:

Day 2 - Spend Analysis

As you have probably figured out by the large number of postings to date on spend analysis, a strong understanding of the data behind spending is pivotal to the proper identification and management of your spend initiatives. Here are some key questions to ask, and answers you should be expecting.

1. How much flexibility do I have in spend cube creation?

Spend analysis is more than just one A/P level spend cube. It's many cubes. It's multiple cubes by supplier by commodity for contract compliance. It's cubes for purposes outside "normal" spend analysis. For example, this could include an analysis of transactional data not necessarily related to spend per se, such as cell phone usage patterns or help desk support calls, but any data where an improved understanding can lead to process improvements which impact organizational spend. It's cubes for throw-away analysis, cubes that are derivative of other cubes, and so on.

So, you need to be able to build your own cubes, modify your own cubes, and, in many cases, map your own cubes*. This needs to be easy and fast, so that your analysts spend their time analyzing the data, not wrestling with the data for days or weeks before the analysis can even be started.

* The exception is when you know the data has been properly mapped by an expert in the data source you are using. However, this is not the normal situation at most companies, especially in commodity and indirect spend, and you will find that you have to do mapping the majority of the time.

2. How should I deploy spend analysis?

It doesn't make sense to share a spend cube between your analysts, unless you want to set up a UFC Grudge Match in the hallway to decide who gets to implement his/her changes next. Unlike the central data warehouse, analysis cubes need to be private, not public (although sharing public cubes can be useful for casual informational purposes). The popular notion of a central data warehouse as the basic ingredient for detailed data analysis is wrong, and that's why there's so much unhappiness among data analysts with both BI systems and with the majority of spend analysis systems today.
3. What if I am resource constrained, and I need to outsource spend cube services?

Make sure that if you outsource cube development to the vendor, or a third party that works with the vendor, you can do it in such a way that your own people get trained along the way, so they can take over at any time. With the exception of the more complex direct spend categories, which require complex bill of materials and engineering-specific knowledge to properly map, most spend isn't that hard to map, and this is especially true in the purchase of commodities. Furthermore, you need to make sure there's more than one source for services with the spend analysis system you select. This is not only because you might want to throw the services business out to bid, but because you don't want to be waiting on a resource constrained vendor every time you have spend to map and need help. (Let's face it, just because you should be able to do mapping on your own, this doesn't mean you'll have the skills or insight to be able to do it the first time without some help.)

4. How much reporting flexibility do I have?

Reporting is where the rubber meets the road, and despite marketing noise to the contrary, no set of static reports will get you past the first corner. If your analysts are downloading transactions to their desktops in order to construct a report or conduct an analysis, that should be the first clue that your spend "analysis" system isn't an "analysis" system at all.

It should be possible for your analysts to construct new reports and models easily and quickly, and they shouldn't have to be IT experts. After all, that's the whole point of spend analysis!

5. What should I know about data cleansing?

Cleansing is a term that involves "classifying" like items together (for example, multiple entries of "IBM" in the vendor master) and "mapping" spending to a useful sourcing commodity hierarchy. Classification is mostly the elimination of redundant vendor entries, although when collecting spend from multiple sources, it can include the creation of over-arching General Ledger and Cost Center categories. The spend analysis vendor should provide hierarchy classification tools that make the classification process simple.

Some spend analysis vendors make a big deal about classification, but 95-97% of the problem is redundant entries, not issues such as "Lotus" being owned by "IBM." You'll find that in most cases your own commodity managers are well aware of who owns whom, and don't need any help in this area; but if you're still doubtful, there are third party vendors who will create a who-owns-whom hierarchy out of your Vendor Master for $0.10 to $0.15 per line item.
Spend analysis vendors also make a big deal about mapping, but that process is also straightforward in the majority of commodity and indirect spend categories. (Direct spend categories, where you have to create hierarchical bill of materials that allow you to determine the impacts of raw material or labor cost increases and to perform make-vs-buy analysis, can be quite involved, but unless you are a manufacturing organization, this is not the norm.)

Make sure your spend analysis system supports an overlay-type mapping scheme that allows you to prioritize mapping rules or mapping rule groups in a reasonable way. Prioritizing rules is important, because it allows you to apply basic engineering principles (the famous 80-20 rule) to mapping your spending. The idea is to organize your rules such that each successive rule group maps more and more specifically, but also so that each successive rule group can focus on a smaller and smaller number of transactions. Using simple techniques that are widely published and well known, you can be up and running with a 90% spending map in just a few days. (And this is usually more than enough to allow you to perform initial analysis to find key categories to focus on as part of your first set of spend management initiatives after acquiring a real spend analysis system.)

You should also ensure that the vendor provides a way to map free-form text descriptions. These can be helpful in cases where there is little or no useful information in terms of supplier or GL coding in commodity and indirect categories or missing engineering classification codes in direct categories.

6. Does the tool support derived and ranged dimensions?

A good tool will not only support various time periods, such as day, week, month, quarter, and year, and time period - over - time period analyses, such as month-over-month, quarter-over-quarter, and year-over-year analyses, but will also support other types of ranged dimensions, such as spend size (that will allow you to bucket your suppliers for a commodity into small, medium, and large spending buckets by dollar volume) and risk level (that will allow you to group your suppliers into low, medium, and high risk buckets based on derived risk factors).
7. Can the user fix any set of filters they choose while pivoting and drilling down into reports?

This might not sound that important, but when trying to figure out why a certain spend category is 2M over last year, when an initiative expected to reduce costs by 10% was undertaken, can be difficult if you can't find the key source of the problem. For example, let's say you, as the telecommunications sourcing professional at a large national organization with hundreds of locations, decided to switch long distance carriers. If all divisions and business units implemented the change, then costs should be less, not more (unless everyone is calling significantly more than expected). However, let's say that IT and HR didn't switch at ten of your largest locations. With a dozen divisions, and hundreds of locations, it could be difficult to determine this unless you can drill into the data, fixing divisions and units at each step, and find out that 30 intersections of division and business unit are spending more than last year. Then, drilling into each you find that 15 of these are still paying, and thus using, the wrong carrier. However, if you can't fix multiple dimensions, or apply filters that achieve the same effect, you might only be able to figure out that IT is spending more - and then you might have to call 50 locations to figure out which ones haven't switched. Flexibility in the analysis and reports is key!

8. What if I have multiple accounting systems?

This is actually excellent news, because you are likely to have huge opportunities for savings, given that those systems probably haven't been combined in any reasonable way before for spend and procurement analysis.

The key for spend analysis is to ensure that the vendor provides an effective tool for translating (the "T" in the "ETL" acronym) files from one format to another. As with the other spend analysis system tools, this tool must also be accessible to, and usable by, your business analysts. You should never let yourself be at the mercy of IT or a spend analysis vendor when trying to analyze new data sources, or when merging new data sources into an existing cube.

With independence comes power; and ensuring that your analysts can control their own data processing and reporting is the key to spend analysis success. This brings us to our last question.

9. How easy is it to get data in and out of the system?

Importing data should be a piece of cake. It should simply be a matter of pointing the system at the appropriate file or URL connection, specifying the dimensions of the records to import, and pressing "import" to get the data in. Then, as pointed out in the last question, transformation and mapping should be easy for even a junior business analyst.

In addition, since the goal of spend analysis is to identify spend reduction projects, it should be easy to get the data out that you need to not only create a spend project in your sourcing system, and track historical costs, but justify the project's creation.
The 12 Days of X-emplification:

Day 3 - Optimization

As I highlighted in Questions to Ask your Optimization Vendor, not all optimization vendors are equal ... and, more importantly, not all vendors that claim to have decision optimization even have it! Thus, not only is it important to know what to look for when searching for a true strategic sourcing decision optimization, it's also vital to know what to ask and what answer you want to hear.

In this post I'm going to cover five key questions that you should ask of every vendor you are considering. Some of these overlap the questions I x-emplified in my previous post (which you should re-read), and a few of them are new. Of all of the topics I am covering, this is probably one of the least understood - and since this is one of the few technologies with the capability to allow you to reduce your spend year-over-year when properly applied - this situation has to change.

1. Does the application satisfy the four pillars of strategic sourcing decision optimization?

As outlined in the Strategic Sourcing Decision Optimization wiki-paper, the four pillars of strategic sourcing decision optimization are:

- **Sound & Complete Solid Mathematical Foundations**
  - such as simplex algorithms and branch-and-bound;
  - many simulation and heuristic algorithms do not guarantee analysis of every possible solution (sub)space given enough time, and, thus, are not complete in mathematical terms
- **True Cost Modeling**
  - many bidders bid tiered bids, discounts, and fixed cost components - the model must be capable of supporting each of these bid types
- **Sophisticated Constraint Analysis**
  - At a minimum, the model must be able to support reasonably generic and flexible constraints in each of the following four categories
    - **Capacity / Limit**
      - allowing an award of 200K units to a supplier who can only supply 100K units does not make for a valid model
    - **Basic Allocation**
      - you should be able to specify that a supplier receives a certain amount of the business, and that business is split between two or more suppliers in feasible percentage ranges
o **Risk Mitigation**
   Let's face it - supply chains today are all about risk management, and you should be able to force multiple suppliers, geographies, lanes, etc. to mitigate those risks without specifying specific suppliers, geographies, lanes, etc. to take advantage of the full power of decision optimization

o **Qualitative**
   A good model considers quality, defect rates, waste, on-time delivery, etc.

   • *What-if Capability*
     The strength of decision optimization lies in what-if analysis. Keep reading.

2. **Does the application support the creation and comparison of multiple what-if scenarios?**

   The true power of decision optimization does not lie in the ability to find a solution to one model, but the ability to create different models that represent different eventualities (as this will allow you to hone in on a robust and realistic solution), to create different models off a base model plus or minus one or more constraints (as this will help you figure out how much a business rule or network design constraint is really costing you), and to create models under different pricing scenarios (to find out what would happen if preferred suppliers decreased prices or increased supply availability).

3. **Does the application automatically identify the most constraining and costly constraints?**

   Let's face it, not every constraint has a significant impact on the optimal solution, if it even has an impact at all. Restricting the highest cost supplier to 30% of the total award is unnecessary if the supplier is not going to get any award. However, restricting the lowest cost supplier to 20% of the award could be the most restrictive constraint in the scenario, as the supplier would get 80% of the award otherwise.

   The solution should identify, in order of decreasing impact, which constraints are having the greatest effect on the optimal solution and, at the very least, provide a range estimate of how much the constraint is costing you in the model. Determining the constraints that significantly impact a scenario can be done deterministically - they are at their bounds. Determining the constraints that impact a scenario moderately can be done through a deterministic comparison with the optimal solution to the "unconstrained model" (where only supplier capacities, demands, and cost constraints are included). The rest of the constraints then impact the model slightly or not at all. Calculations that take into account the differences between the optimal solution to the model and the optimal solution to the unconstrained model can be used to provide a reasonable estimate of the cost of any particular constraint. Furthermore, an exact cost associated with the removal with any constraint subset can be determined by optimizing the modified model. This brings us to ...
4. Does the application support the automatic creation and solution of relaxed and perturbed scenarios?

After the constraints with the most significant impact, particularly from a cost (or risk) perspective have been identified, it's only logical that you want to know not only how much they are costing you, but how much a relaxation (as opposed to a removal) of the constraint would save you. For example, if you allocated 30% of an award to a new vendor vs. 20%, what would you save? The reality is that you really want to understand not just the cost, but the "cost per unit" of the constraint. If you have allocation splits, you want to know the effect of minor and moderate changes to the splits. If you have limit constraints, you want to know how much you could save with increased capacity (and, thus, whether the company should be making an investment into new technology or more production lines or entering into a strategic partnership with a key supplier to lock up more capacity). If you have qualitative constraints, could you save more if vendors increased their quality by 10% across the board (which is equivalent to allowing a 10% decrease in quality level in the model)?

For each constraint type, it's pretty easy to come up with a standard set of "perturbations" that you would want to analyze using what-if analysis. The application should support standard perturbation templates that you can use to set up an over lunch (or overnight) run against a well-formed what-if scenario that would generate a variance report that would tell you not only what constraint relaxations would save you the most, but how much a per unit perturbation against the constraint would save you and let you hone in on an award allocation that will have the lowest total cost of ownership over the life of the contract - and not just on the day you run the what-if scenario.

5. Does the application support make-vs-buy and arbitrary product substitution?

If you're only sourcing indirect, you might not care about make-vs-buy, but you should care about product substitution. Let's say you're a major player in the food service industry who caters to the average Joe’s love of pizza. Since few pizzas are made without tomato sauce, you're going to need a lot of it. But guess what - if you ask a supplier for "sauce" they're going to say "how much", "what type of packaging", and "refrigerated or frozen"? Chances are there are 10 different "products" for you to choose from. And it's not as easy as just saying "whatever is cheapest" or "I'm standardizing on form factor 27" because "whatever is cheapest" will vary by production plant (some types of packaging will be cheaper in some countries than others, some plants have newer technology for certain kinds of packaging, and packaging weights and volumes determine shipping costs). Furthermore, the availability of products is probably going to vary across locations. The way to get the lowest cost is to allow a supplier to bid ALL products that can meet your needs (and, of course, account for any variances in processing costs through adjustments). Thus, you want your strategic sourcing decision optimization solution to support arbitrary product substitution.
However, if you're sourcing direct, you're really going to want make-vs-buy analysis. Let's go back to Mr. Martyn's automotive seat example. Do you source the seat? Do you source seat components and assemble them? If so, how do you define a "component"? Or do you source all the raw parts and assemble them? The reality is that even in this simple problem, you have over 1000 different options. Thus, creating a model where you source the finished components, creating a model where you source specific sub-components, and creating a model where you source all the parts, and doing a comparison report on their optimal solutions just doesn't cut it. You might find that you save 10% by sourcing the components and having a third party assemble them, but who's to say that there isn't a different configuration of components that would let you save 20%? If you gave your suppliers the flexibility to choose their own components and the third party assemblers the opportunity to bid on the components they think they could assemble into the final product most cost effectively, who knows what innovation they might identify? In a make-vs-buy scenario, you can't assume you know what the proper subset of models to analyze is. You really need to analyze ALL the options available to you.
The 12 Days of X-emplification:

Day 4 - Contract Management

Contract Management is important. If you don't acquire the goods and services at the negotiated prices, what was the point in spending all of that time coming up with the best award and negotiating the contract? However, as a colleague of mine once remarked, most of the "contract management" solutions on the market today don't do more than what I could do with a Microsoft Access database and a high-school programmer, which is, quite frankly, not much!

Thus, in order to help you separate the wheat from the chaff, here are some basic questions that you should be asking of every vendor that tries to sell you a contract management solution, and an enterprise contract management solution in particular (where questions 3, 5, and 7 become particularly important). The fact of the matter is, if they don't even pass this sniff test, you might just be better off downloading a free open-source document management system and using that - because a(n enterprise) contract management solution that doesn't support a reasonable amount of inherently useful features isn't any better than the electronic filing cabinet that you can find in at least a dozen free open-source document management solutions.

1. Does it allow you to define your own meta-data dimensions?

If the only meta-data the system supports is contract name, uniquely generated system id, supplier, effective date, and termination date - that's not very useful. You also want to capture evergreen renewal dates, resource dates appropriate to the commodities being sourced, the goods and services covered by the contracts, the agreed upon rates, diversity information, compliance information, and a flag on any special conditions that are not standard among your contracts.
2. How easy is it to export the meta-data, or any desired subset, in a standard format recognized by any decent modern e-procurement, EIPP, or e-payment platform?

As I indicated above, the whole point of contract management is to make sure that spend is against contracts AT contracted rates. The only way this is going to happen in practice is if your e-procurement, EIPP, or e-payment system knows what the rates are and includes them as part of it's n-way match algorithm that determines whether or not an invoice should be (automatically) paid as-is. The reality is that no one in AP is going to look-up and enter the rate for each item before an invoice is paid, because chances are they don't even know where the contract is, or even what contract it's covered under. In reality, if engineering or production indicates the goods were received, the invoice is marked for payment. And if the invoice is at a rate 10% over what was agreed upon, there goes another chunk of the realized savings that your bonus is based on. Therefore, it's critical that the content management system can export, on a regular basis, current contracted rates for goods and services which can be imported into the relevant systems in an automated batch fashion, and approved by the appropriate administrators with a single click. Then the n-way match will happen against valid contract data, and you can be sure that everything bought on contract is bought at the contracted rate - allowing for significantly more realized savings (than the industry average of 30% to 40% reported by many of the analyst firms).

3. Does it support free text search? And does the free text search work?

You can't meta-data everything, and even if you could, you wouldn't want to. The only data that should be in meta-data is identifying information, agreed upon prices, important dates, diversity, compliance, and "special clause" flags that allow for quick identification of the right contract under targeted searches and easy export of the data needed by e-Procurement and Spend Analysis systems. Thus, when a particular question arises whether or not a certain service is covered under a contract, or a special case is covered by a 150-page contract*, you want to be able to perform a simple search on the contract text that will take you to the relevant subsection and clause. This requires a free text search - that works. It needs to be "smart". For example, if you search for screw, you don't want results that include "screwdriver", and if you search for "tire", results on "tireless" are even less useful!

Furthermore, it should work on contracts not natively created in the tool. These days, it's going to be in a standard office document format, RTF, HTML / XML, or PDF - and since lots of free libraries exist for searching and indexing such content, there's no excuse for the vendor not to be including this capability! (If the vendor is stoned enough to say that's not true - that no one makes available such extensive functionality for free, just point out that Open Office is free across multiple platforms and it supports all those file formats, and many more!)
I'm not saying your contracts should be 150 pages (in fact, I would say that they probably shouldn't even be 15), but the reality is that many corporations have contracts this big (or bigger) because many lawyers appear to believe that their worth is measured on how complex and convoluted the contracts they draft are!

4. Does it support proactive alerts - on contracts NOT composed using the standard templates or built-in functionality?

Let's face it, alerts are only useful if you can define alerts on every contract and, moreover, define them for every event you need to be alerted to. Once you install a system with "alerts", users will quickly fall into the mindset that everything is fine unless they get an alert, so if you can't program every event they need to monitor into the system, the installation of such a system will result in a large number of balls being dropped in the short term. Even worse, you might not notice that the ball has been dropped until something catastrophic happens. (Like an automatic evergreen renewal with a vendor who is not REACH compliant!)

5. Does it support buy-side and sell-side contracts?

From an enterprise perspective, a contract management solution that only manages half of your contracts isn't much of a solution! This is another reason why you need flexible user defined meta-data - sales is likely going to be interested in different data than procurement is.

6. Is it easily accessible and usable by everyone in the organization?

If only a few users have access to it, it isn't even as useful as a central filing cabinet. At least then all of the personnel could theoretically walk to the cabinet, find the contract, and if they need a copy, make a copy on the local photocopier and put the original contract back. Let's face it - it's not just procurement that needs access to an average contract over its life span - it's legal, research and development, engineering and production, accounts payable, and business analytics, among others.

This means that you should be wary of any solution that is sold "per seat", because you're going to need a lot more seats than you have buyers in procurement.

Furthermore, it needs to be easy to use. Just because IT and Procurement might be power users, doesn't mean accounts payable or legal is. (After all, e-mail might still be new to them. ;-) ) If the primary navigation isn't a dumbed-down GUI, chances are it won't get used. (And again, I refer you to the free open source document management solutions if you want a solution that probably won't get used.)
7. Does it support the creation and management of initiatives such as risk management and IP-based revenue generation around your contracts?

And now for the painful reality check - everything I've described so far can be accomplished by a high-school programmer with Microsoft Access and a few open source libraries. There's nothing special or hard about the basic requirements that we have covered to this point. That's why this last point is so important. If it doesn't have built-in project management, or integrate with a project management tool, and enable you to undertake initiatives with respect to your contracts, it's not a very sophisticated solution.

Although it is true that any solution that satisfies the requirements implied by the last six questions is useful, and probably a lot better than what many of you have today, it's important to remember that such a solution is not a very sophisticated solution. Contract Management is another area where the vendors have been primarily selling sizzle and not steak for a long time now. Thus, even though the solution you need is a lot more than what most vendors are currently offering, it's not a sophisticated solution and not one you should be paying more than five figures for (as you can get open source content and document management solutions that come pretty close for free).

Of course, even integration with project management isn't that hard to do at the level I'm suggesting, but it is a step or two above trivial and hence justifies the foundations of a true enterprise contract management solution, whatever that shapes up to be.

8. How hard is it to get the data AND contracts out of the solution?

From a procurement perspective, a contract is only useful if you're complying with it to realize the negotiated savings. If you can not easily export the data you need to check, and enforce compliance, in a format that is compatible with the ERP, e-Procurement, and / or e-Payment systems you use, it's not that useful.

In addition, there might come a day when you have to change systems. Maybe a better system comes along, maybe it's an equivalent system that costs significantly less, or maybe the current provider stops supporting the system. If there's no simple way to export ALL of the data and attachments into a logical file and directory structure, chances are that the only way you'll be able to get data into the new system is to manually enter ALL of it again. If you're a large organization, this is one project you never want to have to undertake - especially since it should not be necessary with today's technology!
The 12 Days of X-emplification:

Day 5 - e-Procurement

e-Procurement is simply the automation of the basic procurement cycle using information technology and the internet. This cycle starts with a requisition, may or may not require an authorization, and centers around the creation, transmission, and fulfillment of a purchase order. Thus, it also involves goods receipts, reconciliation, payment, tax reclamation, and analysis.

Since e-Procurement is, or at least should be, very straightforward, and since the e-Procurement Wiki spends a lot of time defining the procurement cycle, necessary core capabilities, and important features, we're just going to talk about the functionality that differentiates a true e-Procurement solution from a set of tools that don't really provide you the value that e-Procurement is supposed to promise you. Thus, compared to many of the posts in this series, this post will be short and sweet.

1. Does it support requisitions, orders, goods receipts, invoices, and m-way matching in an integrated fashion?

You don't just want two way matching, or even 3-way matching - you want m-way matching that gives you the ability to match all of the data in the system that relates to a given purchase order. Before the purchase order is issued, you want to make sure it matches the requisition that was authorized. Before an invoice is paid, you want to make sure that it is for the items in the purchase order, that were received and annotated in the goods receipt, at the rates agreed to in the contract, and at the rates in the current price list if the contract rate is defined as a discount off of a catalogue or market price. Thus, even 3-way invoice to purchase order, goods receipt, and contract might not even be enough functionality for every buy! And anything less definitely will not cut it!

2. Does it integrate with a modern supply network offering that lets you and your suppliers manage your catalogue and pricing as appropriate?

Let's face it - the whole point of e-Procurement is that it's supposed to make the process of buying easy! If you have to use a separate application to find what you need, and then manually enter that information into your e-Procurement application, that's not easy. Moreover, the "compliance" and "decreased maverick spend" many vendors promise will never materialize, because you can't even be sure the purchase order is correct since human error can creep in at the requisition stage. (The buyer can get the product identifier wrong, the product wrong, or even the price wrong. And if a vendor gets a purchase order with an approved purchase price that is higher than what's in the contract, do you really think they are going to point that out?)
3. Does it integrate with your payment system and allow payments to be correlated to invoices?

A lot of the e-Procurement solutions out there don't do e-Payment, and that's fine, as long as they recognize that it's not an e-Procurement solution if it doesn't recognize payments! Simply noting that an invoice is paid is not only not very useful (especially if the supplier disputes the fact), but probably not in compliance with good accounting practice or Sarbanes Oxley. At least one system has to track complete payment information and correlate that to invoices in your enterprise, and I don't know about you, but I thought that was procurement, and, hence, that the capability belongs in an e-Procurement application!
The 12 Days of X-emplification:

Day 6 - Supplier Networks & Catalogue Management

A number of vendors have a number of representatives whose sole job is to pound on your door and tell you about all the advantages of a supplier network - advantages that, as a few of you have unfortunately realized, never materialize unless you have the right network with the right suppliers participating. And even then, the high fees associated with some of these networks, which are often hidden and don't show themselves until after you've sunk a significant investment into the project, should make anyone question how valuable they really are.

The negativity out of the way, implemented properly, a supplier network can provide you with a host of benefits with respect to multiple aspects of supplier management - relationship, performance, and information (to name a few) - that are simply unattainable by any other technology on the e-Sourcing and e-Procurement marketplace today ... but only if it's done right. The reality is that when it comes to supplier networks, we are often holding the sharpest double-edged sword of them all. If it's done right, it can slice though inefficiencies and costs like a hot knife through warm butter; but if it's done wrong, you stand to lose a lot more than just your investment - your productivity, key suppliers, and even brand reputation can vanish faster than the last drops of dew on a hot spring day!

That's why the questions posed below are so important. If you don't understand why you need to ask them, and the reasons the desired responses are so critical, you could end up selecting a supplier network or catalogue management solution that is entirely wrong for you and your organization. Since this could actually move you significantly backwards on the innovation curve, I think it's critical that you cut through the buzz and hone in on the real benefits as quickly as possible when making your assessments.

1. Does the supplier network / catalogue solution support integration with your suppliers' current web-catalogue solution? And what's involved?

Most suppliers today already have electronic catalogues, despite the myth that some vendors might be propagating. After all, do you really think they manage their price lists using paper-based general ledgers? They manage it using databases, and most of them make their standard pricing available over the web. The less sophisticated will use flat files, which can be downloaded through batch processes over FTP by clients on a regular, if not daily, basis. The more sophisticated will have a full website with client login and dedicated pricing. Thus, when a vendor says most suppliers don't have a catalogue, what the vendor means is that most suppliers don't have a catalogue in their (proprietary) format.
However, data transformation is not nearly as difficult as most people will make it out to be - after all, even Excel supports multiple file formats, and your average analyst is quite adept at successfully importing any text-based flat file format. Plus, most of the bigger vendors will support a standard such as EDI (if they're old school) or XML (if they have accepted that the times they are a-changing'), so how hard should it really be to load a catalogue into a supplier network?

The correct answer is - it shouldn't. It should be a 5 minute exercise. If your potential technology vendor says it takes on average a day to a week to enable a supplier and add a catalogue, they don't have a modern supplier network. A modern supplier network uses the network that's already in place - the world wide web and the internet on which it is based - and connects to supplier catalogues in their native format. This makes integration as simple as entering the URL to the supplier catalog, specifying the connection protocol, selecting the default file or data record format, and entering the information required (such as user name and password) to meet the security requirements. This should literally be a 5-minute task if the connection protocol, file format, and security protocols are all based on accepted standards. If there are slight modifications of the standard, it should simply be matter of selecting the closest configuration and specifying the necessary changes - a task that should only take a few hours if the application makes use of modern agent technology and business process management.

* As much as I may hate to admit it, Microsoft Access is a database. A rudimentary one, but a database nonetheless.

2. Does the supplier network / catalogue solution support the integration of multiple catalogues into one coherent view?

Not only should it be trivial to add a supplier's pre-existing catalogue to the network, or enable them to create a catalogue in any format they choose, but it should also be trivial to browse all of the catalogues simultaneously in one coherent view. After all, would Amazon be as popular as it was today if you had to go to one page to search for books, another to search for DVDs, and another to search for CDs? And then make each purchase separately? How popular would e-Bay be if you had to go to eBayCDs to buy and sell CDs, eBayClocks to buy and sell clocks, and eBayBeanieBabies to buy and sell beanie babies? And more importantly, what if you could only search one seller at a time?

The power of a catalogue application rests in its ability to reduce complexity - not in its ability to create it! If you need to buy handhelds, chances are you can buy them from your electronics vendors, your office supplies vendors, and your cell phone carriers. Do you really want to search all three catalogues separately for the best deal? No! You want to be able to do one search across all catalogues and have all of the results compared side-by-side in one consistent view. Consumer comparison web-sites have been doing this for close to a decade - so why shouldn't your "enterprise" product do it - and do it better? After all, you're paying for the enterprise supplier network* - so you benefit from it!
* If it's *supplier funded*, then you're paying even more! And don't let any snake oil salesman convince you otherwise. After all, if I have to fork over 1% of all transaction costs in "network fees", then I'm going to have to raise my best price by 1% to cover that. Let's say you buy $10M worth of goods from me through the network. That says it's costing me $100,000 to serve you. That says I have to charge you $100,000 more to cover that cost of doing business. That says the cost of doing business through the network with me alone costs you $100,000! If you have a network, you probably have at least your top 20 suppliers in it. Let's say you do a total of $250M of business through the network. Since every supplier pays the same fee, this network is costing you $2.5M a year ... for what is nothing more than a catalogue! To put this in perspective, you could have a small team of call center workers in India maintain the different vendor catalogues for you manually for about 1/10th of that. That's why the following question is probably the most important question of all!

3. Is it expensive for suppliers to use the supplier network / catalogue management solution?

The answer you want to hear is "*No - it doesn't cost suppliers anything to use our network. There are no fees for vendors, and since we can integrate with all of the following standard protocols and data formats, you can link to the catalogue that your average supplier, who has upgraded their technology in the last five to seven years, already has in place with virtually no effort on your part or theirs. And if they don't have a catalogue, they can use these tools to build one either locally on their machine, for upload in a standard file format, or over the web through an easy to use GUI." This is because just about any other answer costs your supplier money, which, one way or another, will cost you.

If it's costly for the supplier, either in terms of dollars or resources, one of two things are going to happen. The supplier is going to refuse to join the network, which is going to prevent you from realizing the benefits that you hoped to realize by selecting the network, or the supplier is going to factor in the cost of doing business with you through the network. (And if you have a contract in place that fixes prices for the mid-term, then the costs of using the network go up even more, since the supplier will have to increase their prices even more when the current contract expires to make up for the losses they are going to take in the near-term!)

The reality is that, unlike BI and other e-Procurement technologies where you only need to capture the 20% of suppliers who constitute 80% of the business in order to see a return, supplier network technologies are only beneficial if you have at least 80% of your suppliers enabled because *most of your time is spent dealing with suppliers who are not enabled!* If a supplier is enabled in your technology, then most of the transactions are automated and time is only spent dealing with exceptions. If a supplier is not enabled, then every transaction requires a time-consuming interaction. So adoption better be a no-brainer for your supplier community if you want your network to be a success.
4. How did you amass all of the suppliers currently in your network?

There's at least one vendor whose primary selling point appears to be the number of suppliers in its network. The question is, how did they get all those suppliers to sign up, are the conditions for joining and the costs of membership the same today as they were when these suppliers first joined, and are the conditions for joining and costs of membership applicable to the business environment today?

If the network was almost free in the past, and conditions for membership rather lax, as that can be enticing to a large number of suppliers looking for a new market (as the cost of trying the network out is low and the risks nominal), that can explain a significant membership gain in a short time-frame. However, if after a certain membership size was met, the network all of a sudden introduced a five figure annual membership fee and a transaction cost of 0.5% or more, chances are good that not only did the rate of membership increase start declining rapidly, but that you're going to have a hard time convincing all but your largest volume suppliers, who are not already in the network, to join.

5. Does it allow for override pricing based on business rules?

It might be the case that it's easy for your supplier to maintain one catalogue with standard pricing, but hard to maintain instances with customized pricing for each client they interact with. (Especially if they are using older technology or are lacking in modern technical competence.) Therefore, it should be trivial for a user to go in and define contract pricing for, or price modifications on, each item or service that is covered under a contract. Furthermore, the user should be able to do it at the item, category, or catalogue level. Maybe you just have a simple 10% off everything deal. Then the user should be able to create just one rule and have it take effect each time pricing data is retrieved.

6. Can the solution be integrated into your current e-Procurement platform?

As I indicated in a previous post, the value of e-Procurement lies in its ability to integrate requisitions with invoices with contracts and make sure that each buy against a contract is paid at the contracted rate and that each buy that is not against a contract (but should be) is flagged and brought to the attention of the appropriate manager. Thus, it's critical that your supply network solution provide a simple mechanism for getting requisitions out of the network and into your e-Procurement platform.
The 12 Days of X-emplification:

Day 7 - GPOs & Marketplaces

Little GPO, you're really lookin' fine
Three staplers and a printer only $389!
"GPO" by Dot and the 'Riba Brothers

If this is all you're looking for in a GPO, then you're looking for the wrong thing. It's not selection or price, it's service. Furthermore, the fact of the matter is that it doesn't matter how much volume the GPO has or how good they claim to be, you're still not going to save a fortune on office supplies!

If you're looking for a GPO or a Marketplace, you're looking for an organization that can not only help you with greater volume leverage, but for an organization that can help you with better processes, best practices, and supply risk. Of course, you can't just select a GPO on these factors alone, which is why I bring you seven questions you should be asking each and every GPO that you are considering as a potential business partner.

1. Are you a for-profit enterprise?

Non-profit consortiums might sound like a good thing, especially if you're in the public sector, but let's face it - unless we're already filthy rich, most of us are in business to make money, so just how driven is the non-profit going to be if the income opportunity for each of its employees, including senior management, are capped? In a for-profit enterprise, even if the buyers aren't driven to make money, the shareholders definitely are and you can be sure they're going to be making sure that each and every employee is doing their best to deliver value - the key to attracting and retaining your business.

2. How are you compensated?

There are multiple compensation models - including variants of buyer pays, everyone pays, and supplier pays - but some of these are dangerous. The most dangerous is, as you can probably guess from yesterday's post on supplier networks and catalogs, supplier pays. You don't want a GPO that provides suppliers an opportunity to bid on the provision that they have to pay a percentage of their award to the GPO, because it's likely that the only suppliers who are going to be attracted to the GPO's RFXs are those that are desperate - and that's not the kind of supplier you want to be doing business with.
You want a consortium where all costs are born by the members, and preferably one that works on a fixed cost model (unless you expect the savings to be so significant that the percentage of the savings is acceptable for the next few years) with incentives if they exceed a performance baseline (then they get a percentage of additional savings beyond the baseline as a bonus). The reason you want incentives is you want them to perform above and beyond what your in-house team can do. (If you just gave them a percentage of all savings, the incentive to perform is not as great.)

3. Are you vertically or horizontally focused?

Although there's no wrong answer from a GPO's perspective, there could be a wrong answer depending on what you're looking for. If the GPO is horizontally focused on getting all of its customers the best deals on telecommunications, legal services, and marketing services but you just want a better deal on your chicken, french fries, and cups and lids, then it's the wrong GPO for you. Similarly, if they are ultimately focused on servicing the food-service and retail industries but you're in the automotive industry, then it is again the wrong GPO for you.

4. What economies of scale, process, and information do you provide?

You want more than volume leverage. After all, if you're buying a lot, the quote difference between buying a lot and buying five times that from most suppliers isn't much. And if you're not buying a lot, then you're not going to get much in the way of savings - so there's not a lot of point in spending a lot of effort on the category. The real savings is going to come if it allows you to achieve economies of scale (they can do a lot of categories you're willing to outsource), process (they can help you in categories you want, or need, to keep control of), and information (on the market trends for the categories important to you).

5. How do you protect my confidential information?

Unless you're just using them for office supplies, telecommunications, and temp labor services, chances are you're going to have to share some confidential information with them above and beyond basic demand requirements to get what you need. You need to make sure that this information is protected from your competition and the marketplace at large. You want to know that they have measures to safeguard that information, which include physical, process, network, and communication security measures.
6. How much control do I have over requirements and decisions?

You want the ability to insure that you are not tied to a contract unless you have approved the project requirements, the potential supplier pool, and the communications issued at each stage of the sourcing process. A good GPO knows that the deal, as well as its bonus, gets better as volume is aggregated, and such a GPO will be aggressive in its attempt to identify and amalgamate as much demand as possible across its subscribers. You have to be sure that they aren't too aggressive and don't leave out key requirements in their effort to aggregate demand.

7. Do I buy through my e-Procurement system or yours? How do I integrate my system with yours?

If you have to buy through their system, you want to make sure that it meets your needs and that it's easy to get your transaction data back into your ERP, e-Payment, and spend analysis systems. If you buy through your system, you want to make sure it's easy to do so at the contracted rate and easy to provide the GPO with the information they need to track project success.
The 12 Days of X-emplification:

Day 8 - Market Intelligence

Market Intelligence is defined as information relevant to a company's markets, gathered and analyzed specifically for the purpose of accurate and confident decision making in determining market opportunity, market penetration strategy, and new market development metrics on Wikipedia. For our purposes, it is essentially the information you need to make the right buy from the right supplier at the right time.

Before we get to the questions, I should point out that as we move away from technology into services, the number of questions with one right answer drop dramatically and it boils down to not whether the answer is right, but whether the answer is right for you. Thus, before you select a service, it's important to know what you need so you will be able to properly identify what it is that you are looking for.

1. Does the firm undertake its own benchmarking - and how extensive is it?

Benchmarking is defined by Wikipedia as a process in which an organization evaluates various aspects of a set of processes in relation to best practice, usually within their own sector. In the context of a market intelligence firm, benchmarking is the process of not only tracking changes in raw material prices, but also tracking how well your projections have tracked over time. This allows the firm to continually improve their data collection and forecasting methods, which in turn allows them to continue to provide you with better intelligence over time.

If the market intelligence firm isn't benchmarking their performance over time, then what value is their data providing you versus projections you can read in your average industry publication?

2. Does the firm track supplier financial performance over time?

You don't just want intelligence on the raw materials and components that you buy, you also want intelligence on the suppliers that provide them. You don't want to award a contract to a new supplier only to find that they go out of business three months later. Nor do you want to continuing doing business with a supplier when their performance is dropping.
3. Does the firm have commodity and category specific intelligence?

If you're just looking for current pricing trends, then any data source will do. But if you're looking for an understanding of why those trends came about, whether or not they're likely to persist, and what changes in the marketplace could bring about a rapid change, you need to go to experts. Furthermore, if you're basing your sourcing decisions on key categories on this intelligence, you better make sure you have the best.

4. Does the firm keep track of changes in industry regulations, supply, and demand that could cause all of their projections to be considerably off? And provide me with that data on a timely basis?

You're looking for intelligence that tells you not only how things are, but how they are expected to be, at least in the short term. These projections are going to be based on certain assumptions. If changes in the industry or environment nullify those assumptions, chances are prices are going to change - maybe even dramatically. You want a market intelligence firm that tracks all of the relevant industry regulations, environmental conditions, and supply availability information and notifies you if something changes so that you can re-analyze the situation and, if necessary, take appropriate action.

5. Does the firm have models that break down cost components and explain discrepancies?

If the price of a commodity increases by 5%, there's a reason. Typically, it's because either the costs of one or more component raw materials have increased, or the cost of labor has increased. Without appropriate cost models, the firm supplying the market intelligence will not be able to explain why. Furthermore, you will not be able to model what the impact is of copper going up 5% if you don't know how much the cost of copper is contributing to each of the commodities that you buy.


Most market intelligence will include pricing trends. However, in order for you to make good sourcing decisions, you also need to be aware of significant market trends. But if you really want to get the most from your market intelligence firm, you also want them to report on best practices being employed throughout the industry that you can use to improve your sourcing efforts.

7. How current is the intelligence?

In order for the intelligence to be useful, it has to be recent. If you're engaging a market intelligence firm to help you track prices and trends on raw materials, commodities, and services that are critical to your organization, you want to know that the firm is redoing their category and commodity reports at least yearly, providing market updates at least quarterly, sending you important alerts at least monthly, and tracking relevant data daily.
8. Which audience is the intelligence focused on? Corporate Research? Financial Analysts? Sourcing Professionals?

Although all types of market intelligence is important, as a sourcing professional you need intelligence relevant to you. Make sure the reports that the firm produces are for sourcing professionals first and research analysts second.

9. Is raw data access available?

Maybe a report includes the analyses you want to see, and maybe it doesn't. But if you can access the raw data and the cost models, you can do your own forecasting and analyses based on different what-if scenarios and see how much a potential award could save you, or cost you, if certain changes happened in the marketplace.

10. Does the provider offer custom research?

Most market research firms have a set of raw material, commodity, and service categories that they track by default. Although these raw material, commodity, and service categories may be sufficient for your initial needs, the situation could change in the future. Unless you want to build relationships with multiple market intelligence firms, and pay the premium that is associated with retaining multiple firms, you might want to select a firm up-front that will produce custom research on an as-needed basis.
The 12 Days of X-emplification:

Day 9 - Strategic Sourcing Services

Tactical procurement doesn't cut it anymore. It doesn't even come close. You need to source strategically, and if you're not sure how to do that, you need to get help. There's nothing wrong with asking for help from someone better than you (as long as you make the effort to learn from them so that you will eventually become reasonably self-sufficient), but you better make sure they are better and more experienced in the categories you're handing over before you sign the contract. After all, just because a firm has been in the strategic sourcing business for ten years, it doesn't mean they've ever sourced the categories you're looking for (especially if they specialized in automotive categories and you're in retail), nor does it mean that the people who will be assigned to your project are those with the most experience in the categories you need the most help with. Thus, it's doubly important to ask the right questions, and get the right commitments, before selecting a services provider to help you with your strategic sourcing projects.

1. What experience do the consultants who will be performing the work have?

Every decent size consulting firm (including boutiques) has their standard pitch deck which will read something like "hundreds (or thousands) of years of strategic sourcing support ... ten (or twenty) plus years per sourcing consultant ... average 10 - 15% savings across all categories ... average 20 - 35% savings in these categories relevant to your vertical ... etc.". What's important is how much experience the consultants who will be performing the work have in general, how much they have in the categories they will be sourcing, and what results they expect to get. Be sure to get resumes of the consultants who will actually be performing the work, and to reserve the right to reject changes in the roster if they are not available at the project start date. Otherwise, you might find that you're baited with the grey-beard but on the day the project starts you end up with a clean-shaven MBA straight out of school. He might be the smartest MBA you'll ever meet, but unless the grey-beard is also on the project imparting his wisdom, whether or not he succeeds may ultimately depend on his luck. (Given what some of these firms charge per day, you don't want your success to come down to luck!)

2. What implemented savings have they achieved? Which customers can you call to back this up?

A negotiated savings of 25% is just that - a negotiated savings. How much of the projected savings was the customer actually able to implement? If the customer was only able to implement 10%, then it's really only a 10% savings. The firm you want is the one that tracks implemented savings and isn't afraid to give you some customer references you can call to verify the numbers they give you.
3. How does their approach differ from everyone else's? Does their answer set off the bullshit detector?

There's a number of good answers here. The point of this question is to establish their credibility. The fact of the matter may be that their approach is the same approach used by the big guys, like AT Kearney or EDS, or the boutiques, like Denali and Archstone, and that's ok. Most of the strategic sourcing approaches out there are similar, and, more-or-less, equally correct. What it usually boils down to when selecting between these firms is their experience, their ability to execute, and their willingness to work with you. Thus, it's okay if they use the same approach, as long as they are willing to be up-front about it (and be able to explain why they think it is the right approach).

To be honest, you probably don't want an answer that's completely different from the answer everyone else is giving you. The standard approaches have been working quite well for a while now, and though I believe that constant innovation is critical to continued success, when it comes to services, sometimes the best route is incremental improvement. After all, most organizations are resistant to change and if the approach is too radical, it could scare off some suppliers - and since you never know who the right suppliers are for you until you go through the process, this usually isn't a good thing.

4. Do they use their own platform, a third party platform, or your platform? If they plan to use your platform, how do plan to do better than you did? If they plan to use a different platform, why is it more appropriate?

Each of these answers is acceptable, as long as the platform supports the appropriate processes, they understand how to maximize the effectiveness of the platform, and how to get you the data you need when the project is over as well as how to import the data they need. If they use your platform, then you don't have to worry about getting the data export from someone else's platform into yours. If they use their platform or a third party platform, then you need to make sure they have a plan for exporting the data in a format that you can archive it for future reference (and comparison purposes when you resource the category when the contract expires). If they use a third party platform, be sure to place extra emphasis on their responsibility to insure that your confidential information is protected.

5. How flexible is the organization in providing sourcing support?

When it comes to sourcing, especially where complex categories are required, it's not always possible to keep to the fixed schedule you outlined before the project started. Sometimes you need to escalate the project priority and start it early, and sometimes you need to delay the project. During the project, you might have to shorten or extend phases due to unexpected occurrences in the external environment such as natural disasters, demand spikes, or supply shortages. The service provider should have the flexibility to accommodate sudden and unexpected changes during the project as well as the flexibility to take on additional projects as the need arises.
The 12 Days of X-EMPLIFICATION:

Day 10 - Trade Data Management

Trade Data Management is a broad topic, and means different things to different people. As far as I'm concerned, Trade Data Management is the process of tracking all of the data that you need to manage the global trade cycle, as defined in the Global Trade Primer on the e-Sourcing Wiki.

Global Trade is quite involved. It encompasses supplier selection and management, e-Procurement, transportation, import & export, government organizations, third parties, and a host of regulations depending on where you're shipping from, where you're shipping to, and where you're passing through in between. However, since most shops already have e-Sourcing, e-Procurement, Supplier Management (SRM/SPM/SIM), and logistics solutions, when they look for a global trade management solution, they are specifically looking for a solution that can capture all of the data they need to produce the documentation needed by each organization that they interact with (government, carriers, and other third parties), produce those documents for them, and automatically submit electronic versions of the documents to those systems capable of receiving the documents automatically. Secondarily, they want a system that can help them with export classification, tax calculations, and regulatory requirement identification. Thus, we will specifically focus on those requirements in the questions that follow.

1. Does the vendor they have a software based solution, a blended software and services solution, or is it entirely services?

Although the first two choices can be equally adequate, be wary of a services only solution. Not only do you need to produce a lot of documents when trading internationally, but you need to have those documents submitted in a timely fashion, especially to government agencies that can stop, confiscate, and even destroy your goods if you don't follow the rules. How fast can a purely services company turn these documents around, especially given the sometimes dynamic and unpredictable nature of global trade?
2. Does it address import and export classification (ETS) and corresponding tax rates (HTS)?

Let's face it - import and export codes can be bewildering. Without the right expertise, you might find that your product apparently fits the requirements of three or four different codes, especially if there have been recent changes in the country you're importing into or exporting from. However, given that each code might require different documentation requirements, and, more importantly, that each code might be associated with a different tax rate, it's critical that you select the right one. Unless you have an expert on staff, you want a service provider that can provide you with that expertise.

3. Can it produce the documentation required by government agencies? Can it submit those documents directly into existing systems?

It's one thing to track all of the data, it's another thing to create the forms - automatically. You want a partner that not only tracks the data you need for every form you might need in the global trade cycle, but that automatically creates those forms for you and, when possible, electronically submits those forms to the appropriate government agencies. For example, those companies operating in the US need to submit their manifests to ACE before the truck reaches the border.

4. Does the solution support appropriate performance metrics?

It's not just the services offered, but how effective those services are. You want a company that tracks its performance by customer and globally and makes a continual effort to improve its performance over time. Completeness, on-time delivery, cycle time reductions, and other meaningful metrics need to be tracked and available to you at all times.

5. Does it support all available transportation methods adequately?

If you're global, chances are you're shipping by land, sea, and air and using multiple carriers and methods for each transportation method. For example, you might have your own trucks for local shipments between a warehouse and your retail location, a 3PL for shipment from a supplier to your warehouses, and an agreement with Fedex for customers who shop on-line for home-delivery. You want a partner who is adept at managing all transportation methods that are available to you.

6. Does it support regulatory data requirements such as RoHS, REACH, WEE?

Let's face it - it's not just customs and associated regulations you have to comply with when trading globally, it's also a slew of regulations that govern the safety and material content of your products. You want a service provider that can track all of the data required to produce the necessary documentation to show that you are in compliance with each regulatory code that can be applied to your products.
7. Does it support your vendors and partners?

If you use a 3PL, you want them to be able to access the system to print off the documents you need, and if you use contract manufacturers, you want them to be able to input the data required to demonstrate that you are in compliance with the appropriate regulations. Thus, it needs to be a web-based system that is accessible to those who need access.

8. Does it integrate with your visibility solution?

Hopefully you've realized that if you're not tracking what's going on in your supply chain, then you're just asking for a major disruption, given that the average company is now experiencing at least one major disruption a year. (Furthermore, the frequency of disruptions to those companies not actively engage in supply chain monitoring and risk management is expected to increase significantly over the next decade.) If you have, then you're in the process of implementing a visibility solution that lets you track the status of each order and alerts you when something does not ship or arrive at the expected time. For this type of system to be useful, it needs to track all of your supply chain data - and this includes the document submissions and information requests managed through your trade data management system. So make sure it can implement with the visibility solution you have, or the one you plan to implement (if you haven't started yet).
The 12 Days of X-emplification:

Day 11 - Supply Chain Optimization

On Day 2 we talked about strategic sourcing decision optimization, the technology you need to make the right buy given the myriad of constraints you have to adhere to and the large number of costs and bids you need to take into account. Today we're going to talk about supply chain optimization - the process of optimizing your supply chain, or distribution network, to minimize costs and maximize value.

Even though the only way to truly get the optimal buy every time is to use the optimal supply chain, the reality is that you can't transform your supply chain overnight for every bid. The realities are that it takes time to acquire, lease, or dispose of distribution centers and warehouses, that you have contracts in place with suppliers and carriers for anywhere from three months to three years in a typical organization, and that changing global distribution patterns requires time to research the regulatory, documentation, and taxation requirements of different countries and trade zones. Thus, when it comes to strategic sourcing, the best you can do is optimize the buy within the supply chain you have available to you today. However, if you can improve the supply chain, then you can reduce your costs and save even more across all of your buys.

Supply chain optimization is something you should do on a regular basis. Whereas in the past, experts would say that it is something you should do only once every five, seven, or ten years - today it is something you should do every year! Today's optimization solutions are a lot more powerful than they were ten years ago and allow you to build much more sophisticated models, which are now usually solved in hours compared to the weeks that was once required for models of this magnitude.

Even though it probably doesn't make sense to buy and sell manufacturing and distribution center assets every year, there's nothing stopping you from modeling the cost associated with such a sale, or modeling the cost of breaking or failing to renew a lease, of each asset you have if new options present themselves, such as alternative low-cost distribution centers or the possibility to sell a manufacturing center to an outsourced contract manufacturer who might be able to manage it more cost effectively. Today's solutions can model all of the costs associated with acquiring, running, and disposing of an asset in your global distribution network, and can help you truly identify what the optimal network is for you at any given time for any given period of operation. (Thus, every year you can redo the analysis and assume that the network is only going to remain stable for the next year.) You can also tell a good supply chain network optimization solution that certain aspects of the network aren't allowed to change and that certain aspects of the network must change and have it tell you whether or not your current network is optimal or if you should consider making some changes.
So how do you identify the right supply chain modeling and optimization solution? As with any other technology, you ask the right questions. The following questions should be enough to get you started and help you identify the real solutions with the power you need from the imposters.

1. Can the solution model your supply chain as is?

This is a question you need a resounding yes to. How do you know how much a potential network redesign is going to save you if you don't even know how much your current network design is costing you? This brings us to ...

2. Can it derive a cost baseline?

Once you've modeled your current network, the solution should be able to run the model and tell you how much your network should be costing you. (If your current network is actually costing you significantly more, than either you have some inefficiencies in your processes to work out or you have not accurately modeled your network and need to revise or expand your model.)

3. Can the solution support the construction of a model depicting a desired state?

If you have a solution in mind, you should be able to construct that solution and derive a cost baseline for that solution. Similarly, you should be able to define your own modification of a suggested network design and derive a cost baseline for that modification. After all, it's not the lowest cost solution, it's the highest value solution - and that's not necessarily the solution with the lowest cost today, but the network design with the expected lowest cost, and highest value, over the expected lifetime of the network.

4. Can it derive an estimated cost of any model you specify under a projected range of activity?

The reality is that any given solution is only optimal for the specific (set of) demand value(s) and the specific (set of) cost(s) that the model is defined on. However, you're optimizing your network for a future period of time, where demands are only forecasts that could change. Thus, you want a solution that also has simulation capabilities and the ability to run multiple models under multiple demand scenarios and cost differentials to allow you to come up with a network plan that is robust and most likely to save you money over the range of scenarios that are most likely to occur.
5. Can it allow you to drill down into the expected cost differential between two models and determine why?

It's not enough to know that one network design is expected to cost 2M more than another, you also need to know why, especially if the more expensive network design is the one you'd prefer. If you know that most of the costs are associated with lease payments, then you know that if you could negotiate a lower lease price, you could end up with a network design that you like and that is only slightly more than the lowest cost solution. If such a design also has lower risks, then it has a higher value and you can choose it.

6. Can it help you optimize your supply chain improvement investments?

Converting from one network design to another will occur a lot of upfront costs associated with asset acquisition, lease, and disposal as well as penalties if you have contracts in place that you need to back out of early. These up front costs need to be covered somehow, and if you only have a fixed amount of capital available for supply chain improvements, you want the model to be able to take that into account and the solution to provide you with different, near-optimal, improvement possibilities that are within your budget today.

7. Can it model the impact of fixed asset disposal or cost reduction on projected service levels? inventories? greening?

When optimizing your network, it's not just about cost and risk, it's also about service optimization, inventory optimization, supply chain greening, and a slew of other initiatives. It's important that such a solution not only allow you to specify all of your constraints, but allow you to calculate whether or not you're trading service level or inventory risk or carbon credits for that cost reduction.

8. Can the solution support sensitivity analysis?

Building on the last question, if the system tells you a certain network design is likely to reduce your projected service levels by 1%, you want to know how much money is required to bring that down to any threshold between 0 and 1%. Maybe you only have to sacrifice 25% of your maximum savings opportunity to achieve a service level decrease of only 0.1%. That could be a good trade-off - a 0.1% decrease in projected service levels is much better than a 1% service level decrease, especially when it costs you only 25% of your maximum savings potential to achieve a projected service decrease that's ten times better than the projected service decrease that you would be stuck with if you went with the greedy solution.
The 12 Days of X-emplification:

Day 12 - e-Payment

Sooner or later you have to pay the piper, and that's why I saved this topic for last. Although e-Payment falls under the e-Procurement umbrella, that we covered back on Day 5, most e-Procurement solutions don't handle e-Payments, and most e-Payment solutions are actually stand alone solutions. Thus, it's important that this topic be covered on its own.

Since the underlying concept of e-Payment is relatively simple, like the post on e-Procurement, this post is going to be a little shorter than the other posts in the series, although it actually has twice as many questions. e-Payment, in principle, is not that complex and it just boils down to whether or not the system does what you need it to do (without costing you a king's ransom).

1. Does it integrate with your ERP and/or e-Procurement Platform?

If it doesn't integrate, there should be an easy, well-defined methodology for getting invoice data out of your ERP and/or e-Procurement platform and the e-Payment data back in. Furthermore, if it doesn't integrate directly, make sure to ask for a demo of the integration capability, with a test system that mimics your systems (and preferably a test system that you control), before signing on the dotted line. Remember, e-Payment, like e-Procurement is supposed to make things easier - if you have to re-key data, then it's likely not any easier than whatever process you are using today.

2. Does it integrate with your AP system?

Your accounts payable system not only needs to track what needs to be paid, but when it was paid, how, and whether or not it was paid in full. Again, since you don't want to re-key data, you want a clear, easy integration path. In this case, batch export and batch import using XML files is sufficient, since AP doesn't necessarily need real time status, but you need a mechanism that is as seamless and easy as the mechanism that integrates the system with the ERP and/or e-Procurement system used by procurement on a day-to-day basis.
3. What level of volume can the system support?

If you make a lot of transactions over the course of a day, you don't want a system that craps out if you try to put more than one transaction through a second. In particular, since you will have peaks and troughs, and since your goal is to grow your business, you want a system that can reasonably support five to ten times your peak activity today. Ask for benchmark results conducted or certified by a third party - you want to know the system is up to snuff.

4. Does it detect duplicates?

You don't want to be paying the same invoice twice - because if it's a less-than-reputable supplier, you might have trouble getting the payment back or getting a credit towards future purchases - and this is assuming you can even identify the duplicate payment at all! If it's less than a certain percentage of spend, your accountants might think it less costly to write it off as a loss than try to hunt the error down. Since this will negatively affect your implemented savings metrics, you want to be sure this doesn't happen.

5. What is the true cost of the system?

Since many e-Payment systems are priced per transaction, either a fixed rate for each transaction or a percentage of each transaction, you want to be sure you have a good handle on what a system is going to cost you before making a decision. Ask them for complete purchase, installation, operation, and maintenance quotes and a sample calculation based upon your expected throughput. Then do your own calculations.

6. How are rejected transactions managed?

Not paying the piper is generally not an option, especially since you never know what rats he might lead your way if you don't, so you want to make sure that all rejected transactions are appropriately caught, flagged, and managed. If it was a system error, it should be retried after a small period of time has elapsed. If it was an account error, it needs to be flagged and brought to the attention of a human being to correct the information. If it was a lack of funds error, all payments in the queue need to be put on hold until the issue is resolved.

7. What types of payment are supported?

Electronic check / ACH, wire, P-card, credit card? If you're locked into only one or two methods, and the methods aren't right for you, it doesn't matter how good the system is technically - it's not the system for you.
The 12 Days of X-emplification: Epilogue

On the first day of X-Emplification
my blogger gave to me
Notes on Some Bartering Tools

On the second day of X-Emplification
my blogger gave to me
Some Spending Rules
and Notes on Some Bartering Tools

On the third day of X-Emplification
my blogger gave to me
Optimized Buys
Some Spending Rules
and Notes on Some Bartering Tools

On the fourth day of X-Emplification
my blogger gave to me
A Contracts Piece
Optimized Buys
Some Spending Rules
and Notes on Some Bartering Tools

On the fifth day of X-Emplification
my blogger gave to me
e-Procurement
A Contracts Piece
Optimized Buys
Some Spending Rules
and Notes on Some Bartering Tools

On the sixth day of X-Emplification
my blogger gave to me
Supplier Networks
e-Procurement
A Contracts Piece
Optimized Buys
Some Spending Rules
and Notes on Some Bartering Tools
On the seventh day of X-Emplification
my blogger gave to me
GPOs and Markets
Supplier Networks
e-Procurement
A Contracts Piece
Optimized Buys
Some Spending Rules
and Notes on Some Bartering Tools

On the eighth day of X-Emplification
my blogger gave to me
Some Market Lessons
GPOs and Markets
Supplier Networks
e-Procurement
A Contracts Piece
Optimized Buys
Some Spending Rules
and Notes on Some Bartering Tools

On the ninth day of X-Emplification
my blogger gave to me
A Sourcing Primer
Some Market Lessons
GPOs and Markets
Supplier Networks
e-Procurement
A Contracts Piece
Optimized Buys
Some Spending Rules
and Notes on Some Bartering Tools

On the tenth day of X-Emplification
my blogger gave to me
Trade Data Insight
A Sourcing Primer
Some Market Lessons
GPOs and Markets
Supplier Networks
e-Procurement
A Contracts Piece
Optimized Buys
Some Spending Rules
and Notes on Some Bartering Tools
On the eleventh day of X-Emplification
my blogger gave to me
Optimized Supply Networks
Trade Data Insight
A Sourcing Primer
Some Market Lessons
GPOs and Markets
Supplier Networks
e-Procurement
A Contracts Piece
Optimized Buys
Some Spending Rules
and Notes on Some Bartering Tools

On the twelfth day of X-Emplification
my blogger gave to me
Rules of e-Payment
Optimized Supply Networks
Trade Data Insight
A Sourcing Primer
Some Market Lessons
GPOs and Markets
Supplier Networks
e-Procurement
A Contracts Piece
Optimized Buys
Some Spending Rules
and Notes on Some Bartering Tools
Thank you for reading

The 12 Days of X-Emplification

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“the doctor” of Sourcing Innovation

December 25, 2007


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