

The 6 Days of X-asperation

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The 6 Days of X-asperation: Day 1 – Questions to Ask Every Vendor!

Yes folks! *the doctor* just keeps on giving! In addition to the specific questions on Spend Analysis, e-RFX and e-Auctions, Decision Optimization, Contract Management, e-Procurement, and e-Payment functionality that you should ask your prospective vendor before you even think about making any commitments, as x-emplified during the 12 Days of X-emplification, there are also some general questions that you should be asking each and every software vendor you are approaching for an e-Sourcing or e-Procurement Solution. In this post, I'm going to outline what they are and why they are important. Then, in the next five posts, I'm going to outline the full answers that you want to hear from your vendor. (And that's why this is the X-asperation series, because if most vendors weren't exasperated after the first series, you can count on them being exasperated after this one. But that's a good thing! Do you really want technology that hasn't been updated since 1999?)

Feel free to thank me, because I know for a fact there's quite a few vendors out there that aren't going to thank me for yet another set of questions that they, unfortunately, don't always have good answers for. (Let's put it this way, after this series, I'll be even more relieved that there just isn't enough money in *waste management* in the part of the world I call home to attract a certain breed of *waste manager*.)

1. What do I have to do to get a good handle on how to make effective use of this technology, and for an organization of my size, how long is it going to take?

Chances are that whatever you need to do, you're not the first company to need to get it done, or the first company to set about to do it. As such, even your best estimates are going to be just that - estimates. They might be close. They might be way off. But if the vendor has a sizable customer base, cares about it's customers, and works with them, then it will have a good idea of how long it's really going to take to implement the technology from end to end - in terms of software implementation, data population and cleansing, and project management.

Furthermore, even though most projects should be doable in a matter of weeks, the reality is that many e-Sourcing and e-Procurement systems actually take 3, 6, or even 12 months (or more) to implement because the buying organization isn't (fully) prepared.

Remember, the vendor can only get the work done in an efficient time-frame *if* you know where your data is (and have negotiated the required access with IT), your processes mapped, and the people on hand with the knowledge to quickly answer data and process questions as they arise during the implementation. If the vendor is any good, the vendor will understand exactly what they will need from you to implement the system in the time-frame they quote and, more importantly, they'll be able to tell you exactly what you need to do to get there. (If they can't tell you precisely what data and processes you need, and how to find that data or implement the processes you need, keep looking. You don't want another expensive piece of software nobody uses. You want a solution, and that solution needs to include the requisite services, training, and knowledge transfer.)

2a. How much functionality is my organization realistically going to be using in 12 months?

In this space, one of two things ultimately occurs, either an uninformed buyer asks for pie-in-the-sky functionality because they read some BS propaganda somewhere that said they absolutely need it, or, more often than not, some uninformed or FUD spreading salesperson tells them they absolutely need it (and that only the company they represent can offer it). The fact of the matter is, you usually don't need more than the basics during an initial implementation (as long as the key features addressed in the early posts in this series are there) to be productive and get a good initial ROI from the system. (You'll eventually want the more advanced features, but you won't be ready for them right away, and implementing them too early can sometimes do more harm than good!)

Furthermore, how many tools are there with more than a few dozen features where you regularly use all the features? You're probably familiar with Word. Word 2000 has hundreds of features. The same holds true for Word 2003. Word 2007, like every version before it, added over a hundred features. How many have you used, ever? And, more importantly, how many do you use regularly? A small fraction, on both counts. It's not how many features the tool has, but how many features you really need. Therefore, it's also important to ask:

2b. How much functionality do I really need?

Chances are, not as much as you think. (As my X-emplification series attempted to point out - most of the time it boils down to a small set of key features.) Map your processes and pains and then, with the help of an independent consultant if necessary, map these to basic system and software functions. What falls out is what you need, what's left, you probably don't - or at least you don't need it right away. More importantly, make sure the vendor answers:

2c. And how does this functionality solve my #1 pain today, which is X?

If you have a major pain point, like maverick spend, lack of spend visibility, or a paperwork nightmare due to compounding compliance and regulatory requirements in Europe that are driving you batty, make sure the vendor is able to clearly explain how their tool will solve that problem, how your buyers will use the tool on a daily basis to do the work they need to do, and how long it will take them to perform these common tasks that they need to do everyday. If the tool isn't able to do what your buyers need it to do, when they need to do it, and do it significantly faster than they can do it manually, then it's likely not the right tool for you.

3. How much training is my team going to require to effectively use the software? How long is it going to take them to absorb this training?

An enterprise software tool isn't e-mail, word processing, or web searching. It's not something you can expect the average user to figure out on her own, at least not in any reasonable time frame. Nor can you expect them to grok it from reading a manual. Let's face it ... supreme court opinions and the resulting in-depth analyses by legal scholars are children's literature when compared to the average technical manual. If you want your people to be productive on the tool, they need to learn the tool, and for that they are going to need training. If the vendor has well-designed multi-media self-study courses, then your buyers will be able to do a lot on their own, but they'll still need questions answered and demos that show them how to use the tool to do tasks specific to their organization.

There'll always be a traditional training requirement. Furthermore, the more features they have to learn, the longer you should expect that training to take. If a vendor representative is selling you a full suite and says training will take a day, he's clueless or the suite doesn't do anything. This will sometimes be a judgment call, but a good general rule of thumb is that for each major piece of functionality (or module), you should expect somewhere between half a day and a couple of days for a sufficient mastery of the basics. (Longer if the system is not user friendly.)

4. How much is this software REALLY going to cost me in the first year and each subsequent year?

Let's face it, especially where a few traditional behind-the-firewall vendors are concerned (and the ones that offer you 50% + discounts in particular), the software cost is never the full cost of the system. In fact, with some vendors, it's not even close!

In the traditional on-premise model, or the ASP hosting model (which should not be confused with true multi-tenant on-demand), the vendor quotes you a cost of a license to use the software for a fixed term, but that's all the quote includes. When you go to buy, that's when you find out that there's also an installation fee (on-premise) and / or initialization fee (hosted ASP) to install the software and get it ready for daily use, which doesn't include the initialization services fee where they load your data, users, etc. And let's not forget about the yearly maintenance fee. And of course, when you need to install the first update, there'll be an update fee to install the patches for you. And we all know that the training costs are never included.

If you're lucky, it stops there. If you're not, you find out that you were sold the "basic" version, but the functionality you really need is in the "professional" version or "enterprise" version and that you have to upgrade and pay a rather substantial upgrade fee, as well as a higher maintenance fee on the back-end. Then there'll be a need for data conversion and enrichment services, which will cost extra. And of course, there'll be more training, at additional training day rates.

But even if the basic version is enough, you might find out that you need bigger, better, faster, hardware - which can come with a hefty price tag. After you get the system implemented, you might realize there's too much work for you to do to ready all of your projects on the new system and that you need to bring in some services professionals to augment your team. And so on.

A 100K system can end up costing you 1M* (or more) over the course of the first two years and your expected ROI of 10 can vanish seemingly overnight! If you don't get the most honest answer of all to this question, stop the process with the vendor here and now. No matter how good the system might be, it's not a solution if it costs you money. (After all, if it's just labor savings, somewhere in the world there's people in a developing country who'll still work for pennies on the dollar. And they won't ask for a 1M software system - which they probably aren't educated enough to use anyway.) If you do think you are getting an honest answer, and all they are apparently charging you for is licensing and some standard services, then you should still make good and sure that they'll incorporate explicit provisions in the contract that indicates that all of the services and updates needed to make the system work, are included in the license or maintenance costs - and not separately priced. Otherwise, you might find that the vendor changes its tune six months down the road.

* I'm not saying you shouldn't pay 1M (or more) for a good e-Sourcing or e-Procurement suite, but that you need to make sure the ROI is there. If you've done your baseline and benchmarking and expect the solution to save you 5M to 10M over the timeframe where you spend 1M, then it's a good deal. But if you do your baseline and benchmarking and the 1M system is only going to save you 2M, tops, I'd think twice about buying it. (Also, you're likely only going to get this level of savings if it includes real spend analysis, real strategic sourcing decision optimization, or true end-to-end procurement cycle integration.)

5. You say you care about your customers and that you are going to provide great service. Prove it!

You should be able to choose from half a dozen references. The vendor should have a process to make sure all bugs are immediately logged, investigated, and incorporated into a release cycle. There should be a methodology to develop work-arounds or temporary patches if the functionality is critical. You should be allowed to go to the next conference or user meeting before you buy. The vendor should be more than willing to share the knowledge you need to answer each of these questions fully, completely and, if you missed any of these important questions, willing to point out what those questions are and why they feel that you need to ask the questions - *without answering the questions for you*. You want a vendor who's willing to let you do your own research, confident that there's a very good chance that you'll come back to them.

6. Can I take it for a test drive or a short term lease?

The reality is that you don't want to be dropping a huge bundle of dough on an integrated solution on just a hope and a prayer. It's best to spend some time with a very modest commitment of dollars and resources to test drive the product in the context of your projects and your needs. Get a flavor for what it can do, and how much it can save you. You can always dive in and buy the whole kit-n-kaboodle later. (The vendor's not going to say "sorry, you can't buy any more - we're sold out". It's software, not limited edition collector plates.)

Furthermore, until you're able to baseline not only how well you're doing now, but benchmark how much the proposed solution could realistically reduce the baseline over time, you won't be able to figure out if the ROI is really there or not. And that's what it's all about, isn't it?

7. Can I buy it or implement it in pieces?

Finally, even if you do decide that enterprise suite E is the solution for you, you still want to be able to roll it out in manageable phases or chunks. Your users aren't going to be able to lean an extensive suite overnight, so even if the vendor was true multi-tenant on-demand and could get it up and running, with your users and key data, in a matter of days, it wouldn't help you.

So come back tomorrow as we put the e-RFX & e-Auction vendors through the wringer again by diving into the questions above!

The 6 Days of X-asperation: Day 2 – Questions to ask your e-RFX and e-Auction Vendor!

Just like we did in the X-emplification series, we're going to start with e-RFX and e-Auction as we tackle the generic questions that you should be asking every vendor, and the types of answers you should be expecting.

1. What do I have to do to get a good handle on how to make effective use of this technology, and for an organization of my size, how long is it going to take?

Before you even consider selecting an e-RFX and e-Auctions platform, you should have reviewed your categories, divided them into projects, and achieved a good grip on what categories are appropriate for sealed bid RFX and what categories are appropriate for reverse auctions. Then, you should review these categories with the vendor and see if their recommendations match yours. If the vendor's recommendations are different, they should be able to back them up with data and experience and an ability to transfer that knowledge to you if you go with their solution.

Furthermore, neither e-RFX nor e-Auction is new, and both offerings should be very straight forward. Therefore, it shouldn't take long to install and deploy these solutions on your first project, once it is identified and the requirements determined. (A SaaS vendor should literally be able to set you up on the platform and help you get your first e-RFX and e-Auction up and running in a few days.)

2a. How much functionality is my organization realistically going to be using in 12 months?

e-RFX and e-Auction functionality is pretty basic compared to other e-Sourcing and e-Procurement offerings, and there's no reason that you shouldn't be using most of it within a year.

2b. How much functionality do I really need?

All of the basics. And all of the functionality that was outlined in the original X-emplification post, although you probably won't be ready to use complex formulas, splits, and cross-lot rankings right away.

This means that you don't need a 1001 template library or automatic project creation from a bundled spend analysis or reporting tool to be productive and, more importantly, get savings. If you have the flexibility to build any RFX you might need, you can always download a free template from a resource center and build it yourself. Sure a built-in one might save you a few hours, but how much is that few hours costing the organization relative to how much the total buy is costing and, more importantly, what if the bundled template isn't quite right? In other words, be sure you're not sacrificing core capabilities just to get a few frills.

Note that even though RFX is a mature technology, there are inflexibilities baked into many of the tools that analyst firms blindly label "best in class." There have even been outright failures of RFX software, despite this maturity level (one might almost say, "because of it" -- some companies have stopped innovating entirely in RFX as of several years ago). So when you evaluate RFX, make sure to pick a tough category with complex pricing grids and make sure the RFX solution you choose supports them. You might be unpleasantly surprised if you do not.

2c. And how does this functionality solve my #1 pain today, which is X?

Chances are, if you're looking at e-RFX, your number one pain is sourcing cycle time. Make sure the tool automates as much as possible. If you're looking at e-Auction, chances are your number one pain is cost. Make sure the tool supports a reasonable number of different auction formats, because empirical evidence seems to indicate that certain auction types get better results in some categories, while others get better results in other categories. (See Alan Buxton's Where Next blog, for example.)

3. How much training is my team going to require to effectively use the software? How long is it going to take them to absorb this training?

e-RFX and e-Auction is very straight forward, but you still shouldn't overlook some basic training. This training should include the set-up of a sealed-bid e-RFX project, the set up of a basic reverse auction, a review of what the supplier sees (so that the buyer can competently answer questions), an overview of the communication and collaboration capabilities, and troubleshooting techniques. This should only take a couple of days, but it's an important couple of days.

4. How much is this software REALLY going to cost me in the first year and each subsequent year?

e-RFX and e-Auction software are a commodity now. Decent solutions are available in the low five-figure range. Furthermore, since the solutions are mature, updates, whether they are minor bug fixes or minor updates, should be few and far between, so maintenance should be low - in the 10% (or less) range per year. Installation should be free if delivered as true multi-tenant on-demand software, and if it's behind the fire-wall or hosted ASP installation, no more than a couple of days of reasonably priced consulting time. Furthermore, there should be no need for technology services - the basic training should include everything you need to know to get started. (Although you might want to consider using them for category expertise consulting, if they have it.)

5. You say you care about your customers and that you are going to provide great service. Prove it!

Ask for references. Talk to them. If they have an upcoming user meeting or conference, ask to go to it. But most importantly, ask for examples of results their customers have achieved on the platforms recently, and how they can help you achieve the same.

6. Can I take it for a test drive or a short term lease?

Considering that all of this software is web-based, even if the provider isn't delivering it using true multi-tenant on-demand SaaS, they should still have a test-drive platform up-and-running and they should be willing to let you do a test-drive at a very low, nominal, cost.

7. Can I buy it or implement it in pieces?

This is one of the few technologies, given that it is simplistic when compared to other e-Sourcing solutions and a commodity, that you may want to consider buying the technology up front rather than buying it on a per-event basis. You don't have to use more than the basic reserve price reverse auction until you're ready for more advanced features. Having said that, though, nothing prevents you from using the technology for one or two events just to make sure that it works well, before signing a long term commitment.

The 6 Days of X-asperation: Day 3 – Questions to ask your Spend Analysis Vendor

Just like we did in the X-emplification series, we're going to continue with Spend Analysis as we tackle the generic questions that you should be asking every vendor, and the types of answers you should be expecting.

1. What do I have to do to get a good handle on how to make effective use of this technology, and for an organization of my size, how long is it going to take?

You need to be aware of the data that you need and where it is located. You should also have a good handle on how long it's going to take to get permission to access the data and how long it's going to take to classify the data. But most importantly, you need executive support to get the various subsidiaries and business units to elevate the priority of your request.

To answer this question, you first need to know how many systems the organization is using, as there are likely multiple accounting systems involved in any reasonably large organizations. The data feed from each system will need to be coerced (or transformed) into a common, all inclusive, record format. At a minimum, you will need supplier, cost center, GL classification, currency, amount, and any relevant dates. You should also include item description, PO number, legal entity, business unit, country, payment method, and any other descriptive fields that are available to you. Finally, also be sure to get any ancillary data that link to the records, such as supplier or GL master, as this data can provide additional information, such as MWBE status, as well as the "names" that go with the non-descriptive "codes" that are commonly used by accounting systems. Note that if you have a good spend analysis tool, it will provide a scriptable translation facility (the "T" in ETL) that will make the transformations required to transform all of your data into a common record format easy to define and repeat.

With cooperation from the business units, and allowing for some corrective feedback, it should only take a few days to acquire the data feeds and derive the transformations necessary as the creation of an initial dump script for each system, once you locate the person who understands the data organization in the system, shouldn't take more than a day or so. In practice, the actual wall time may be somewhat longer, as there will always be a business unit with "something better to do" than dump data for you, and that's why you start by getting executive support to insure that the wall time doesn't drag on unnecessarily.

Once the data is extracted and transformed, it shouldn't take more than a few hours to load the data into the spend analysis tool, derive the key dimensions such as supplier, cost center, GL code, date, etc, and get your first view of spend. The view will not be a perfect one, because you still need to build the commodity dimension that defines what was actually purchased, but it will still have some value - as you will have a picture of total spend by supplier, cost center, etc.

Fortunately, data mapping, and dimension familying, are well understood exercises. The *secret sauce* of mapping is "map the GL codes ... map the suppliers ... map the GL codes and suppliers", and this can be done by most organizations in just a few days, and quicker still if you start with an 80-20 approach and start by classifying the top 1000 suppliers and top 1000 GL codes. (And you don't need an "automatic classifier" -- which still needs to be checked anyway as "IBM" could be International Business Machines or Iggy's Beachside Market -- to do it!)

But remember, this is just the first A/P spend cube. If you really want to derive maximum value from your spend analysis tool, you'll want to build a lot of different spend cubes using the data that's lying around your organization, starting with PxQ invoice data that's just begging to be analyzed. That's why you'll want to develop in-house capability to build cubes, so your analysts can use the spend analysis system to perform dozens of specialty analyses. That's why it's important to make sure your spend analysis system is accessible to your analysts, because relying on third parties, or on the spend analysis system vendor, to build cubes for you quickly becomes expensive in a many-cubes scenario.

2a. How much functionality is my organization realistically going to be using in 12 months?

It comes down to the tool and the user. If it's a real spend analysis tool, versus just a spend reporting tool tacked on to a data warehouse, your power users will be using most of the functionality almost immediately, while regular users just use the cubes (yes, that's cubes in plural) and reports prepared by the power users. If it's simply canned reporting on a data warehouse, you won't be using any of it in a year as you'll have identified and cleaned up all of the low-hanging fruit within 3 to 6 months.

2b. How much functionality do I really need?

The ability to build your own cubes from arbitrary data sources, to classify and re-classify the data on the fly with a rules engine, to create ranged dimensions, and to slice the data anyway you see fit. Canned reports, data enrichment, and other peripheral features, while nice, are mostly just sales tools and "icing" that you'll outgrow quickly.

2c. And how does this functionality solve my #1 pain today, which is X?

If you're looking at spend analysis, and never built an A/P spend cube, your number one pain point is that your spend is probably out of control. Thus, you want a solution that's going to do more than just build a few canned reports, because otherwise you'll be in the exact same position a year after implementing the system, where you are still spending with vendors you thought you had terminated, where there is still off-contract spending you don't know about, and where you are still spending across business units with the same vendor in a non-amalgamated, or non-leveraged, way that was never identified to begin with.

If you already have an A/P spend cube, the number one pain point is likely to be that your vendors are not performing to contract or that your contracts are not returning the savings that were predicted. In order to get to the bottom of these issues, you have to understand both the demand side and the invoice side, which requires the building of cubes with more detailed, commodity-specific data. You may find, for example, that the office supplies contract that was so carefully negotiated has been neatly side-stepped by the vendor, through unreasonable pricing of off-contract items. You may find that your "best price" contract for PC's shows a 12-month absolutely flat price curve for the same exact SKU, even though you know that PCs always depreciate 25-30% over such a time period. And so on.

Either way, you need a solution that's going to do more than just identify the low hanging fruit, because otherwise you'll be in the exact same position a year after implementing the system. You need to know that it has the flexibility to cube, slice, and dice spend any way you can imagine so that you can find savings opportunities above and beyond those that can be identified with canned reports and "just one" cube.

3. How much training is my team going to require to effectively use the software? How long is it going to take them to absorb this training?

Your team needs to be shown how to build a basic spend cube, import data, map data using rules and overlays, create ranged and/or rolled-up dimensions, create reports and graphs and maps, and drill down by multiple dimensions. Not all users will need all of this training, but your up-and-coming sourcing professionals and power users will. This training should take at least a week, and preferably two - where the second week includes guided mapping, cubing, and analysis of your data.

4. How much is this software REALLY going to cost me in the first year and each subsequent year?

Real spend analysis, versus just spend reporting tied to a spend data warehouse, is a relatively new offering. Expect to pay high five to low six figures a year for this functionality alone. If you're also buying a data warehouse, or buying "automated classification" (if such functionality really exists), then expect to pay more. For on-demand solutions, or installed solutions priced with an on-demand model, maintenance should be (close to) zero; for other solutions, figure a higher maintenance cost than for e-RFx and e-Auction - closer to 20% than to 10%.

If we're just talking pure analysis functionality, then installation should be free if it is on-demand, or be no more than a day of consulting if we're talking behind the firewall or hosted ASP. However, if you're also buying a data warehouse, then, depending on how many systems you have and how many transactions are in each system, and whether you want automated integration, it could be days, or weeks, or even months, to load and classify the data and get the automated integration paths up and running between all of the various systems. If we're talking (real) enrichment using (real) third party data, add more time still.

If you turn to a third party or to the vendor for services, you should ensure that you can onboard those services in the future. Ideally, you should partner with a services vendor who will do "walk along" training, so that internal resources can become familiar with the system while real work is progressing in parallel. Services vendors should offer "a la carte" pricing, not just fancy promises and a fixed (large) price.

Finally, you shouldn't be forced to sign a long-term contract with any software vendor, and you shouldn't do so voluntarily until you've had a chance to really use the product. There should be a way (ask them!) to structure the contract such that you can stop using the software at any time. And, you should make sure that there's a way to dump out and preserve all of the data you've organized with the spend analysis system, so that you can easily move that data to another platform, be it another spend analysis system or BI system or just a general-purpose database management system.

5. You say you care about your customers and that you are going to provide great service. Prove it!

Ask for references. Talk to them. If the vendor has an upcoming user meeting or conference, ask to go to it. Ask for examples of results their customers have achieved on the platforms recently, and how they can help you achieve the same. But most importantly, ask them if they'll help you with your initial pilot project at a reasonable consulting rate and see what kind of results they deliver - with their tool.

6. Can I take it for a test drive or a short term lease?

Considering that this software is usually either web-based or a fat client that runs on your desktop, there shouldn't be any problem for your provider to set you up with a single instance, or copy, for you to use on a pilot project - which they should be comfortable with you undertaking at a low consulting rate - equal to the cost of the consultant that guides you through the pilot project.

7. Can I buy it or implement it in pieces?

Just like you should buy the entire e-RFx or e-Auction tool functionality up-front, you should buy the entire analysis tool functionality up-front, but if the vendor also offers warehouse and automated classification and integration platforms, you should be able to buy, and add, them in pieces. (You might think that you need a data warehouse upon which to run a spend analysis tool, but just remember that most BI tools come with their own internal, basic, database functionality and that a good tool will allow you to import the relevant data dumps from each of your current databases, integrate them into a single cube, and run the reports you need.)

However, you should write the contract such that you can choose to drop add-on modules, services, or other functionality later, without penalty. Too many software and services contracts contain "poison pills" such as guaranteed services payments or guaranteed maintenance payments. Don't sign them.

The 6 Days of X-asperation: Day 4 – Questions to ask your Decision Optimization Vendor

Just like we did in the X-emplification series, we're going to continue with Decision Optimization as we tackle the generic questions that you should be asking every vendor, and the types of answers you should be expecting.

1. What do I have to do to get a good handle on how to make effective use of this technology, and for an organization of my size, how long is it going to take?

The first thing you have to do is get a good understanding of what strategic sourcing decision optimization is, what it can do for you, and, most importantly, what data you're going to need. I strongly suggest you read the wiki-paper authored by yours truly if you haven't already. The wiki-paper will tell you:

- *The requirements of a true decision optimization system*
which will insure you don't get taken in by a cheap imitation decision support system
- *The basic capabilities a decision optimization system should have to be truly useful for strategic sourcing decision optimization*
which will insure that the decision optimization system you select is most appropriate for the problems your team faces as sourcing professionals
- *The basic requirements for success when using a decision optimization system*
which include good forecasts, appropriate cost breakdowns, and knowledge of the required, vs. desired, business rules
- *Ten strategies for success*
which will help you get the most out of every strategic sourcing decision optimization project

Then you need to figure out what your potential return is from decision optimization. Although every project will benefit, the reality is that decision optimization is still relatively expensive technology to buy and the amount of work involved in these projects can be considerably more than an auction. This sometimes requires the time of senior professionals, which can add up. If you're a small or mid-size company whose largest sourcing project is 10M -- and you only expect to save 3%, primarily on reduced freight and inventory by way of better allocations, because it's a buyers market and auctions work very well -- then, considering that the cost of buying, maintaining, and using a good solution starts in the mid six-figures a year, it's probably not for you. However, if you're a global 3000 company with a dozen or more sourcing projects in the 50M to 500M+ range, and a possibility of savings of 5% to 15% per project, and your total potential savings is in the 50M to 150M range in the first two to three years, then you should identify the right optimization system for you and start using it as soon as possible.

Once you've decided optimization is a useful technology, and one you should be using, you need to review the categories that you will be sourcing in the next 12 months, and then rank them by dollar amount and complexity. The projects that appear in the top half of both lists will be good candidates for strategic sourcing decision optimization. (Note that if your annual spend is in excess of 1B, *the doctor* can tell you right now that properly applied decision optimization technology will generate ROI for you.) Armed with the potential projects, you need to devise appropriate cost breakdowns for each of the goods and services under consideration, identify other relevant non-cost and qualitative factors, and prepare the appropriate surveys and RFPs/RFQs so that you can get projects underway relatively quickly. Optimization only achieves significant returns if done right - and this requires that you get accurate bids and cost breakdowns where the cost of the good or service is separated from the freight cost, and any relevant costs such as duties, differential costs of waste and returns, and discounts are taken into account. The extra preparation is definitely worth it when you consider that studies done by Aberdeen in 2005 and 2007 (as referenced in the wiki-paper) found that organizations that employ advanced sourcing methods based on decision optimization save an organization, on average, 12% above and beyond what can be saved in an e-Auction or basic sourcing project.

The amount of time it takes really depends upon the skill-level of the people you have. They have to wrap their minds around decision optimization for strategic sourcing, understand what it really is, how they best use it, and how they have to approach decision optimization sourcing projects and data collection to get the most bang for their buck. If they are junior buyers in skill-level, it could easily take them a few months to truly grasp the basic concept, and chances are they will never be able to take full advantage of the tool until you upgrade their sourcing skill level (through an appropriate certification program such as the CPSM or SPSM, for example). If they are senior buyers in skill-level, they should be able to grasp the basics and re-design the RFXs for the first project within a couple of weeks.

2a. How much functionality is my organization realistically going to be using in 12 months?

Your senior buyers should be using all of the functionality in the strategic sourcing decision optimization tool within 6 - 12 months. The situation now isn't as it was when these tools were first hitting the market place 7 years ago (at which time the UI alone was so complicated you needed a graduate degree just to understand it). A good tool has a clear UI and good data import capability that allows you to specify the categories and items under consideration, the suppliers who can supply those items, the locations where you need those items (which may be done by way of groupings), and the cost breakdowns (at least by adjusted unit cost and freight cost). The tool should be able to import data from an appropriately formatted excel worksheet, or from an e-RFX or e-Auction module if it is integrated into a sourcing suite. Furthermore, modern software allows each type of constraint that can be defined to be clearly delineated, and step-by-step wizards exist to help you define the constraint appropriately.

Your intermediate buyers should be able to master the basic constraints in this time-frame, and be well on their way to improving their sourcing decisions and relative skill levels.

Even though the tools have improved significantly, strategic sourcing decision optimization, by its very nature, requires a more advanced skill level than other tools in the e-Sourcing suite and your junior buyers may not be up to the challenge. You will need to provide them the training they need to upgrade their sourcing competence to an intermediate level before you can expect them to master the tool, even though your technologically savvy junior buyers will be able to get a reasonable grip on the basics of setting up a scenario and defining simple constraints in a rather short time frame. You have to remember that the use of strategic sourcing decision optimization is advanced sourcing, and this requires more than just a friendly tool - it requires buyer skill.

2b. How much functionality do I really need?

When it comes to model development and solver capability, as much as you can get. This is still a developing technology, and even though you can achieve considerable savings above and beyond an e-Auction just with what's out there today, there's still a long way to go.

When it comes to add-ons, it depends on what the company is offering you as an add-on. If it's services, then, considering you should have guidance on your first few projects, you should strongly consider them if they're reasonably priced. If it's custom integration services to your RFX or e-Auction platform, then, assuming these are the right RFX and e-Auction platforms to be using, and the integration is priced competitively, then this is also worth considering. However, if the add-on an enhanced solver module, I'd ask why this isn't part of the base offering (as it should be).

However, one thing that is important to note, if it's not easy to load the data into the tool, it likely won't be used at all. Thus, it's important to make sure that not only is the import or ETL tool included as part of the basic functionality, but that the import functionality is also easy to use.

2c. And how does this functionality solve my #1 pain today, which is X?

If you're looking at strategic sourcing decision optimization, chances are you are seeing diminishing savings from your sourcing projects and need a way to improve returns. What you're looking for here is an answer not based on technical competence, but on sourcing experience. You want the vendor to tell you that their product has been applied successfully by companies in a number of verticals on a number of categories and that, based upon their experience in and around your industry, they expect that you will be able to save in the 5% to 15% range on a well-defined set of categories. You want to know that they have the experience to help you select the right categories to start with that will help you get some quick wins and support for the new technology.

**3. How much training is my team going to require to effectively use the software?
How long is it going to take them to absorb this training?**

It should not take more than a week to get your intermediate and senior buyers up to speed on how to use the tool. However, the training is not really going to be absorbed at a deep level until your professionals apply the tool on a few projects, which should be done under the guidance of an experienced professional who can insure that your team is tackling the project in an optimal manner. Thus, it will probably take a few months, at the minimum, for your senior buyers to truly master the tool.

4. How much is this software REALLY going to cost me in the first year and each subsequent year?

Although real strategic sourcing decision optimization has been around for almost seven years, it only became usable in the last few, and due to its relatively low adoption rate to date, and continued development, it's still a reasonably new offering. You should expect to be paying in the mid six figures per year, depending on the power of the solution and your hardware and solver license requirements. (Most platforms are built on top of industry leading solvers, such as Ilog's CPLEX, which can run 25K to 50K per license. Plus, you need high end servers if you want to build large models and have them solve relatively quickly. Thus, even an on-demand offering is going to be pricey if you want dedicated solvers and hardware, which you could need if you have large models or intend to use the platform significantly.)

Furthermore, since this technology is still emerging (like real spend analysis), updates should be regular and maintenance will be higher than for e-RFX and e-Auction, so you are probably looking at maintenance (for behind the firewall or ASP solutions) in the 20% range.

Installation should not be time consuming, and should not require more than a few days of consulting. (On-demand should be free if you're using a basic service that uses shared optimization resources, but if you are asking for dedicated resources, you should expect to pay for some consulting time as a dedicated resource will need to be deployed to get this done.)

5. You say you care about your customers and that you are going to provide great service. Prove it!

Ask for references. Talk to them. If the vendor has an upcoming user meeting or conference, ask to go to it. Ask for examples of results their customers have achieved on the platforms recently, and how they can help you achieve the same. But most importantly, ask them if they'll help you with your initial pilot project at a reasonable consulting rate and see what kind of results they deliver - with their tool.

6. Can I take it for a test drive or a short term lease?

Considering that this software is usually either web-based or a fat client that runs on your desktop, there shouldn't be any problem for your provider to set you up with a single instance, or copy, for you to use on a pilot project - which they should be comfortable with you undertaking at a low consulting rate - equal to the cost of the consultant that guides you through the pilot project.

7. Can I buy it or implement it in pieces?

Just like you should ultimately buy the entire e-RFx or e-Auction tool functionality up-front, you should buy the entire functionality of the strategic sourcing decision optimization tool up-front as well, but I'd hold off on buying dedicated hardware and solver resources until you're ramped up and ready to maximize usage of such resources, as a single dedicated high-end machine with a dedicated CPLEX license will cost you (well) over 50K a year in additional cost. If you're maxing out your solver, dedicated resources can be worth it when you consider the ROI that accompanies strategic sourcing decision optimization. But if the hardware is just sitting there, that money is better spent on consulting services to help you get up to speed on how to maximize use of the tool.

The 6 Days of X-asperation: Day 5 –

Questions to ask your Contract Management Vendor

Just like we did in the X-emplification series, we're going to continue with Contract Management as we tackle the generic questions that you should be asking every vendor, and the types of answers you should be expecting.

1. What do I have to do to get a good handle on how to make effective use of this technology, and for an organization of my size, how long is it going to take?

You need to figure out how many contracts you have, where they are located, and how many are in electronic form. Although this question might sound easy, in your average large organization, this question is a lot harder to answer than you think it would be - and should be. You'll probably have to canvas dozens, if not dozens of dozens, of individuals to find out how many contracts you should have, only to find out that you don't know where half of them are. In some cases, you'll have to go back, a bit embarrassed, to your supplier and ask for a copy.

If the contracts are in electronic form, then it's simply a matter of identifying the formats, running them through conversion software to get them to a common format, and tagging them. But if they are mostly in paper form, then you'll have to do a lot of scanning and manual correction of the OCR errors before you can start tagging them.

Depending on the length and complexity of the contracts, it could take anywhere from 15 minutes to an hour or two to get a contract properly loaded and tagged, with alerts and expirations, into an enterprise contract management system. If you have a thousand contracts, you need to allow at least five hundred man hours, or 3 man months, of resources to get this done, once the contracts are in electronic form. Finding and scanning them could take another 3 man months (or more). It's true that you can deploy a number of resource simultaneously to get this done faster, but, in real time, I'd allow at least 3 weeks to identify, find, and scan the contracts and 2 more weeks to get them in the system, tagged, indexed, and verified.

So, if a vendor tells you, as a large organization, "no problem - we can have you up and running next week", either they don't really understand the complexity of an average large organization undertaking this project for the first time or they're trying to pull the wool over your eyes. Either way, I'd be wary.

2a. How much functionality is my organization realistically going to be using in 12 months?

All of the core functionality around contract storage, retrieval, and, if supported, construction. This means that you'll be using the repository, search, meta-data, alerts, import, export, and contract authoring features. Any features beyond that will probably not be used, or at least not on a regular basis.

2b. How much functionality do I really need?

When it comes to bells and whistles, contract management is like the Microsoft Office of the e-Sourcing world. Some of these tools have so many "features" that it makes your head spin. But we already know it's not "features" that you are looking for when you are shopping for enterprise software, it's "functionality" and, in particular, the functionality that you need to do your jobs, and do them well.

To this end, the following "functionality" is critical when you are evaluating enterprise contract management technology:

- A solid, robust, scalable contract repository,
- User-definable and extensible meta-data support,
- Alert and expiration definitions, and
- if you are going to be using the tool to help you generate contracts, Contract templating capabilities.

Just remember that, in contract management, the ability to author a contract in the tool isn't that important. After all, Microsoft Word is quite cheap compared to the cost of some of the Enterprise Contract Management solutions on the market and Open Office is free - and both are probably much more powerful than any editor the tool is going to provide (unless it integrates with these tools). In-tool editors are nice, but don't sacrifice powerful metadata and tagging capabilities, or a big wad of cash, for a gee-whiz editor. Finally, remember (as with most e-sourcing tools), you may someday be moving on from whatever tool you select today. Nothing is "forever." There will come a time when you want to pull the data from this tool into another tool, such as a spreadsheet or relational database or different contract management system. The contract management tool should allow you to pull all of the information out, preferably in flat file format (not some complex XML format) such that desktop tools (and other applications) can trivially import it. You may be surprised to find that some major vendors cannot provide this functionality, so make sure to ask for it.

2c. And how does this functionality solve my #1 pain today, which is X?

If you're looking at a contract management solution, your biggest pain is that you are having difficulty keeping track of all of your contracts with respect to terms, conditions, and (evergreen) renewal dates and need an easier way to not only track this information, but to access previous contracts and standard templates for standard terms and conditions when negotiating a new contract. If you're looking for savings, you're looking at the wrong tool. A contract management tool gives you efficiency, consistency, and helps you with your compliance initiatives (but does not solve all of the problems). It doesn't deliver up-front savings like e-Auctions, spend analysis, and decision optimization. It supports your efforts to insure that negotiated savings are realized. It's important, but it won't save you big bucks on its own.

3. How much training is my team going to require to effectively use the software? How long is it going to take them to absorb this training?

A few days. Make sure your team is appropriately trained on the process to load a contract, create the meta-data, create alerts, run status reports, search the repository, and, if the functionality is included, create templates.

4. How much is this software REALLY going to cost me in the first year and each subsequent year?

Basic contract management is not much more than document & content management, which is a commodity - especially given the number of free open source systems out there. Best-of-Breed enterprise contract management is also becoming mature, with a number of players offering reasonable, and reasonably equivalent, functionality. Therefore the cost for a basic system should not be more than for an e-RFX / e-Auction system, and the cost for a true enterprise system somewhere between the cost of an e-RFX / e-Auction system and a spend analysis system.

The maintenance fee for a basic contract management system should be on par with that of a basic e-RFX / e-Auction system while the maintenance fee for an enterprise contract management system should be midway between the fee for the basic system and the fee for a spend analysis system - around 10% to 15% per year.

On-demand installation should be free. On premise should cost no more than a day of consulting. However, you should consider retaining a project manager to help you get your contracts scanned, tagged, and loaded, with appropriate alerts, in a correct and efficient manner. The rates should be comparable with third party consulting rates.

5. You say you care about your customers and that you are going to provide great service. Prove it!

Ask for references. Talk to them. If the vendor has an upcoming user meeting or conference, ask to go to it. Ask for how long it has taken some recent customers to get the platform up and running with the majority (80%+) of their contracts and how much penetration they have achieved throughout the organization with the system. Verify this with the references.

6. Can I take it for a test drive or a short term lease?

Considering that most solutions are web-based, they should be willing to set up a playground where you can load a few dozen contracts on a trial basis and get a feel for the system. They should be willing to do this at a very low fee - equal to no more than a couple of days of consulting time.

7. Can I buy it or implement it in pieces?

Just like you should buy the entire e-RFx or e-Auction tool functionality up-front, you should probably buy all of the functionality that you're going to want up front, since it should be much more cost effective to do so.

The 6 Days of X-asperation: Day 6 – Questions to ask your e-Procurement Vendor

For our last post in the X-asperation series, we're going to conclude with e-Procurement as we tackle the generic questions that you should be asking every vendor, and the types of answers you should be expecting. And just like the X-emplification post, we're going to keep it short and sweet.

1. What do I have to do to get a good handle on how to make effective use of this technology, and for an organization of my size, how long is it going to take?

You need to answer the following questions:

Do I need to alter my processes to implement and use the system?

If you need to do some process re-engineering, it's probably going to take a couple of weeks, if not a couple of months, of work before you are ready for the system.

What do I need to do to switch over from my current system?

Chances are you'll need to undertake either a data integration, or historical data propagation, project and this needs to be adequately planned for. It will probably require at least a couple of weeks.

How long is it going to take to train people on the new system?

You want your people to have some basic training on the new system before you switch over.

An average mid-size organization that needs to switch systems is probably going to need to do (at least) a few weeks of process analysis and preparation before it can switch to a new system, or bring a system in for the first time.

2a. How much functionality is my organization realistically going to be using in 12 months?

e-Procurement is for buying - and that's as straight-forward as you get. If the tool is easy to use, then, provided that buyers can buy what they need, when they need it, they'll use the e-Procurement tool to create requisitions, which in turn become purchase orders when authorized and result in invoices when accepted by the suppliers, which in turn get sent to the accounts payable system(s), and they'll be doing this from day one. An e-Payment

tool will be used to pay approved invoices to suppliers that accept e-Payments using accepted payment methods such as ACH or wire.

Unfortunately, lots of things can't be bought effectively using many of today's e-Procurement systems, despite vendor claims to the contrary. These include "soft" categories like commercial print, PC's and computing, and contingent labor. Furthermore, allowing everyone in the organization to punch out to an office supplies catalogue typically doesn't save a dime, although it may reduce the number of complaints to management about "how slow" Procurement is. So be cautious -- very cautious -- about the claims of e-Procurement vendors with regard to overall savings. After all, one only has to look at the history of e-Procurement, and the savings claims made in the past that were never realized, to understand that achieving savings goals is a much harder problem than simply enabling a catalogue buying system.

2b. How much functionality do I really need?

The ability to locate the goods and services you need in the system quickly and easily, the ability to create purchase orders, the ability to authorize purchase orders, the ability to accept and approve, or reject, invoices, m-way matching, and simple upload utilities that allow correctly formatted invoices to be uploaded directly into the accounts payable system(s),

2c. And how does this functionality solve my #1 pain today, which is X?

If you're looking at e-Procurement, then you have two problems. Your tactical procurement team is taking too long to place and approve orders and your maverick spend rate is too high. You're looking for a tool that makes it easy to add contracted goods and services to the system, to specify contract terms, conditions, and rates, and to allow approvers to verify that if there is a contract that covers a purchase, the contract is being used. If it doesn't help your buyers buy and your CPO keep maverick spend under control, it's not the tool for you.

3. How much training is my team going to require to effectively use the software? How long is it going to take them to absorb this training?

It shouldn't take more than a day to get even the most junior of purchasing agents up and running on the full capabilities of the tool. Remember, it's supposed to make their life easier - not harder!

4. How much is this software REALLY going to cost me in the first year and each subsequent year?

It depends on whether you're buying a point solution, or a true end-to-end e-procurement system, and whether or not the system is enabled with catalogues, punch-outs, networks, or marketplaces. Point solutions are literally a dime a dozen and should be in the low five figures per year. True end-to-end solutions are rarer, and those integrated with useful catalogue or network solutions rarer still. True end-to-end solutions will be in the mid to high five-figure range per year and those integrated with networks or e-Payment solutions will be in the low-end of the six figure range per year.

5. You say you care about your customers and that you are going to provide great service. Prove it!

Ask for references. Talk to them. If the vendor has an upcoming user meeting or conference, ask to go to it. Ask for examples of results their customers have achieved on the platforms recently, and how they can help you achieve the same.

6. Can I take it for a test drive or a short term lease?

e-Procurement, by definition, is web-based, and good systems are at least hosted ASP, and most of the new systems are true multi-tenant on-demand SaaS, so the vendor should have no problem setting a couple of buyers for your organization up on the system for a test drive and should be able to give you access to any standard vendors it has integrated through punch-out, XML, or other means, into its offering. And they should be willing and able to give you short term access (for a week or two) to review it for free.

7. Can I buy it or implement it in pieces?

Just like you should buy the entire e-RFx or e-Auction tool functionality up-front, you should buy the entire functionality of the e-Procurement and e-Payment tool up front, as it shouldn't be that expensive and you should get a slightly better price that way.

Thank you for reading

The 6 Days of X-asperation

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