

# E-Sourcing for Value



Steve C. Rogers

# Successful E-Sourcing is a Combination of:

1. Context/Philosophy/Culture



2. A Journey



3. A Set of Tools

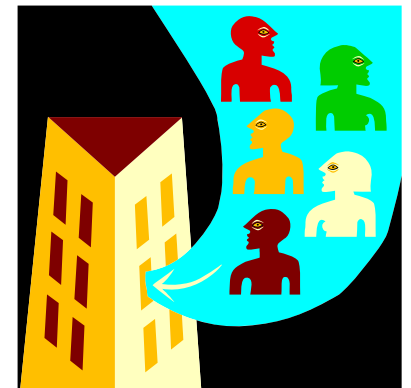


The goal is **Value!!!**

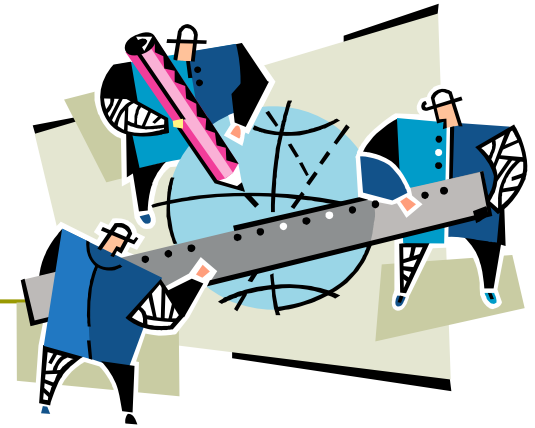
# Context : An Example

## Corporate Environment

- ❑ Company Culture and Structure
- ❑ Purchasing/Sourcing Structure and Culture
- ❑ Structural Evolution over time
- ❑ External Business Environment
- ❑ Internal Sourcing Environment



# Culture



- “Mandate Company” or not  
Much BU Autonomy or more central  
Sourcing must develop: credibility  
Sourcing must be linked to the business
- ▣ BU Embedded/BU focused
  - ▣ Commodity/Spend Pool Knowledgeable/Linked
  - ▣ Direct Spends – Sourcing controlled via specs
  - ▣ Indirect Spends – variable control “situational”
  - ▣ Savings measures: Actual year on year  
Versus Profit/Price Forecast  
Versus Market Indices/Competition  
As a percent of Product Cost

# Example: Journey and Tools

## E-Sourcing Evolution

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### □ The Wake Up Era



- Behind the leaders
  - Asleep
  - Maybe we are missing something?
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### □ The Get Going Era

Chase clear goals

Choose value creating tools



- Corporate Lead
- BU staffed/price focused
- Research Team
- Sourcing tools
- Operational interface tools

# Journey and Tools Continued

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## ▣ The Growing Up Era



- ▣ Philosophical Disagreements
- ▣ Individual tool application limits
- ▣ Corporate led with BU network of e-champions
- ▣ Supplier relationship considerations
- ▣ Ability to build cost insight
- ▣ Price and cost focus

# Journey and Tools Continued

## The Value Era



Recognize cost not always value

Complexity hard to deal with

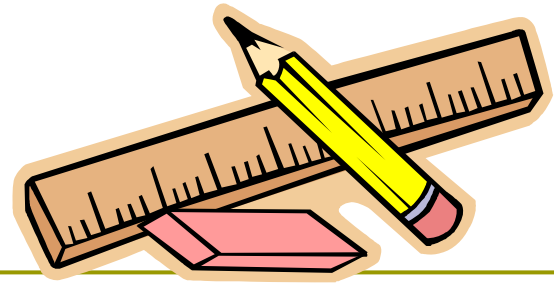
If Value = Performance/Cost  
need to define Performance

Use the right tool for the right task

- ❑ Complex spend pools
- ❑ RFX and RA complexity and segmentation difficulties
- ❑ Growing business uncertainty/complexity
- ❑ Cross Business buying
- ❑ Growing innovation
- ❑ Optimization



# Approach and Metrics

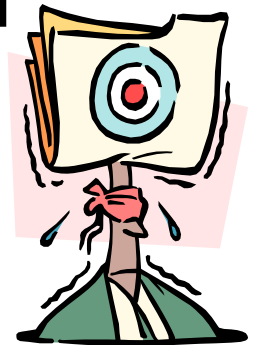


Approach – cautious, test your way in

Portions of several spends starting with those where decision control is greater

Metrics - # of events in each BU

total savings year on year  
savings per event



Corporate Management Pressure – key issue

Must deal with one size fits all pressure in terms of sourcing tools.



# Complexity Comes in 3 Dimensions

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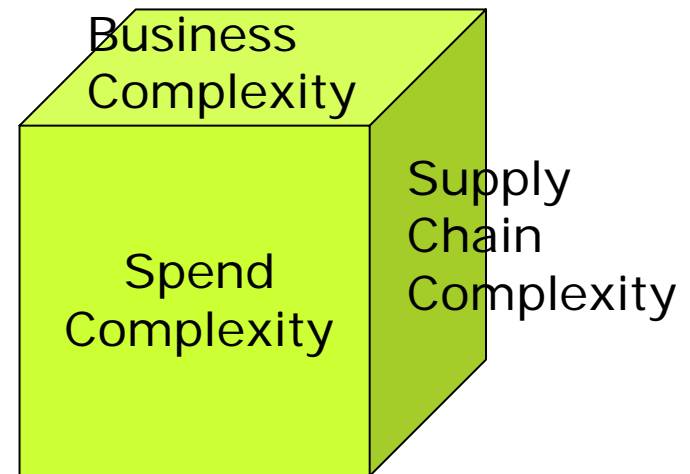
## Types of Complexity:

Spend – number of specs, suppliers and users

Business – number of unique user requirements and breadth of value definition

Supply Chain – number of individual related items (goods or services) in chain

## *Traditional RA and e-RFx limitations*



“Dumbing Down” to simplify  
Created “seams” in problem  
Buyer lotting lacked supplier  
knowledge of its system  
Optimization helps solve this

# Value and Complexity Combine in Many Ways

Value – Cost; Time; Capacity; Design; Spec Options, Service Options

Lotting – Suppliers know their system & can provide options unknown to buyer

Rules – Business Unit/User/Location/Multi-Company preferences/rules

Total Cost – Price, Freight, Duty, Services, Internal Costs, Cost of Quality

Markets – Supply Chain, Materials, Feedstocks, Labor, Distribution, Service Providers

Uncertainty – Demand Pattern, Volume, Cost, Specs, Response Time



# Value Era – E-Sourcing Insights

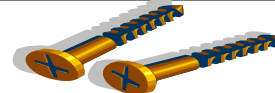
If all you have is a hammer, Everything is a nail.  
Match the tool to the job; use all the tools

## RA



Commodity, clear specs, market based, buyer lotting, competition, price, several suppliers

## eRFx



Commodity/specialty, competition, cost/market based, more complex specs, buyer lotting

## Optimization



Combination commodity/specialty, size/complexity, competition, cost/market/preference based, very complex requirements, buyer and seller lotting,

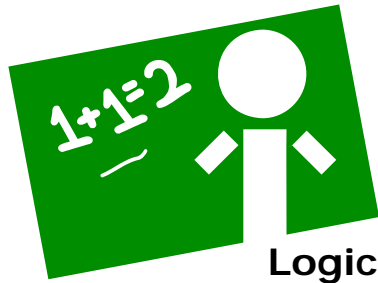
# Adoption: The Human Factor

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The Journey and Tools are so logical....

How come everyone doesn't just do it?

**Human Nature has its own logic called emotion**



Adoption of these tools is driven more by *human logic* than by *economic logic*.

You have to "get it" to get it.

The struggle is aligning the logics.

# Adoption: So Many Barriers to Overcome

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- ❑ Turf
- ❑ Power
- ❑ Budget
- ❑ Credit
- ❑ Reward
- ❑ Control
- ❑ Position
- ❑ Personality
- ❑ Lack of Knowledge
- ❑ Resistance to 'Change'



“If it wasn't for people  
change would be easy.”

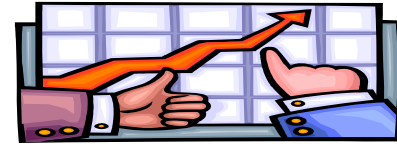
- Unknown



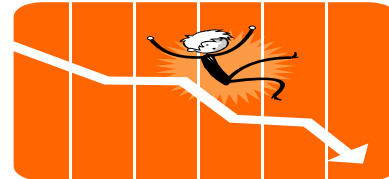
# Acceptance Comes in Phases

Ups and Downs Occur

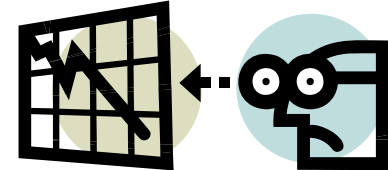
Early Excitement



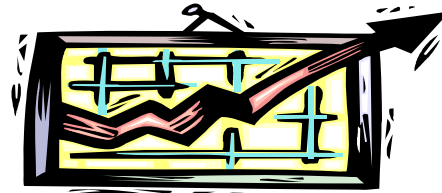
Disappointment/Missed Expectations



Power Struggle



Rebirth/Learning



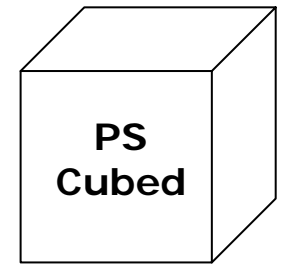
Building/Skill Acquisition



# Adoption: Overall Learnings

## 3 P's and 3 S's

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Follow the Passion, Pain and Progress

- ▣ Passion – encourage those who want to play
- ▣ Pain – find business situations and sourcing areas struggling to meet goals and go there versus trying to force everyone
- ▣ Progress – add tools but not too many at once, pick ones that matter, stay one ahead

Provide Strategy, Support and Skill

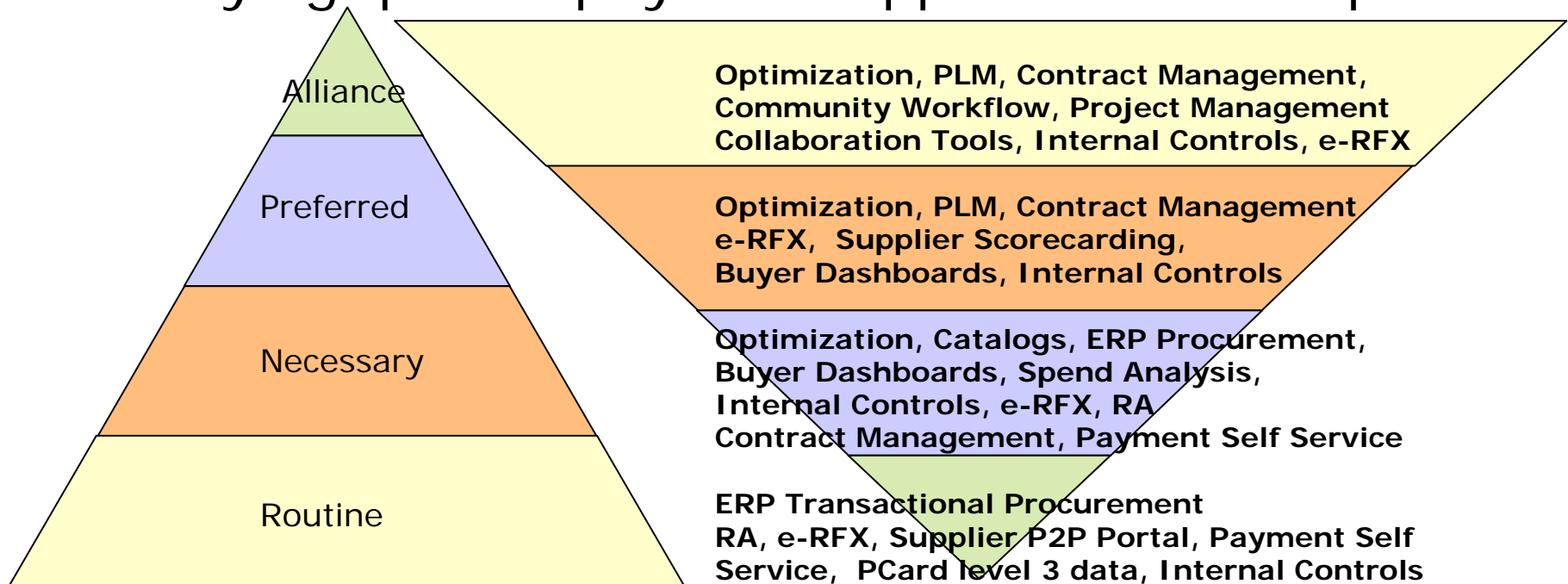
- ▣ Strategy – both sourcing strategy on spends and selection strategy for tool implementation
- ▣ Skill – develop a cadre of experts embedded in the organization
- ▣ Support – budget money, recognition, expertise

# Using Technology to Drive Value

## Summary Learning and Observations

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Technology needs to match up with your buying philosophy and supplier relationships



**Types of Suppliers**

**Types of Tools**



# Technology and Value

## Summary Learnings

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### 1. Define value early and in terms of business outcomes not Purchasing outcomes

- The definition of value will help you choose which tool to use and how to think about your sourcing strategy

### 2. Strategy precedes tools – always!!! Both in Sourcing and Tool Selection processes.

- Sourcing strategy should determine how you will approach the market. Only then can you decide whether to use an e-Sourcing tool or not and if you do which one.
- Tool selection strategy requires you to understand your purchasing system and where automation will help you deliver the best results.
- Preparation work in terms of analysis is critical for success.

### 3. Segment your suppliers in terms of value and importance

- Understanding the type of relationship you have with particular suppliers is critical to communicating with them about the technology choices you will require them to use.
- Understanding supplier importance to you and the value they deliver also drives tool choice, not just the relationship type.

# Technology and Value

## Summary Learnings

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4. **Apply e-tools against the range of business needs and supplier relationships. Use tools where they are appropriate.**
  - ▣ One size e-Sourcing tool does not fit all situations
  - ▣ E-Sourcing tools are not the only tools, but they are key to going to market.
  
5. **Allow the e-Sourcing user community some independence in where they use the tools but always require their involvement and only use one tool for each purpose.**
  - ▣ Tool choice is often situational and driven by the definition of value.
  - ▣ Do not allow multiple tools that do the same thing. It strains the training infrastructure and wastes money.
  - ▣ If there is conflict or dissent about using an e-Sourcing tool, demand a logical reason why before pushing for use of the tool.

# Technology and Value

## Summary Learnings

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6. **You can't afford every tool. Choose to invest your money, time and energy in the ones that matter most.**
  - ❑ Prioritize based on a business case – return on investment where the return is defined in terms of value not just price.
  - ❑ Recognize that with limited budgets you must compete for resources and if you get on the list someone else is probably thrown off the list.
  - ❑ Remember that energy is often just as limited as money, so don't overwhelm your organization – embed the ones you choose.
  
7. **Integrate skills and tools into your people.**
  - ❑ Develop a cadre of expert tool users to help support tool use among those less familiar
  - ❑ Teach people to both think and do by incorporating sourcing methodology/process training along with e-tool training
  - ❑ Reward thinking not just doing to get excellence.

# Technology and Value

## Summary Learnings

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8. **Remember the organizational infrastructure you will need to sustain the gain.**
  - ❑ Each tool needs a “help desk” and expert network.
  - ❑ Personnel turnover can complicate maintaining expertise.
  - ❑ Make users also be trainers and coaches.
  - ❑ Find a way to integrate all the tools into a common dashboard so they are easy to find.
  - ❑ Make it intuitive so new people can pick it up fast and experienced people are not put off.
  - ❑ Put someone in charge as the architect of your purchasing technology masterplan.

# Technology and Value

## Summary Learnings

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### 9. **Never underestimate the ability to regress!!!**

- ❑ Avoid embarrassing influential people
- ❑ The results of conflict at the personal level can linger and undermine progress.
- ❑ Try to document why you do what you do in order to avoid unconscious competence that can turn into unconscious incompetence.

### 10. **Drive adoption with “PS Cubed”.**

- ❑ Passion, Pain and Progress
- ❑ Strategy, Skill and Support
- ❑ Without adoption great e-Sourcing tools are not worth the effort and resources you invest.
- ❑ Tools that heal conflict and deliver great results are glue for the system.