Sourcing: The Do's and Don'ts of Digitalization

Despite that fact that electronic sourcing and procurement tools have been around for a while now, digitalization is still a hot topic within procurement. This article will drill down to explore digitalization within the sourcing arena specifically, the expected benefits and the do's and the don'ts when embarking upon the digitalization journey.

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We'll approach this topic as follows:

1. What is digitalization of Sourcing?
2. What does it entail?
3. Proven benefits of digitalizing Sourcing
4. The Do's and Don'ts

1. What is digitalization of Sourcing?

The Gartner IT glossary defines digitalization as "*the use of digital technologies to change a business model and provide new revenue and value-producing opportunities; it is the process of moving to a digital business*".

Digitalization of sourcing is the process of using digital technologies (eSourcing software) to conduct all elements of the sourcing process, from finding and evaluating suppliers to negotiating, awarding, contracting and finally monitoring supplier performance.

2. What does it entail?

Procurement professionals use eSourcing software to manage their supply base, select vendors to invite into sourcing events and to publish the RFx (i.e. RFI-Request for Information, RFP-Request for Proposal, or RFQ-Request for Quotation) to the invited bidders. Bidders respond online by submitting responses to questionnaires and bid lists, interact with the buyers, and respond to requests/queries in real-time. All the information from the process is compiled in one place for comparison, evaluation and decision-making.

eAuctions are often used to further negotiate with shortlisted suppliers to deliver the best overall value options for internal customers. eAuctions can be run for all from simple commodity categories to complex service categories (depending upon the maturity of the procurement department and the software implemented). Once the successful supplier is selected, the contract details and documents are published to an internal contract repository for enhanced visibility/reporting and notifications for contract deadlines are set up. It's then over to online supplier performance monitoring until it's time to re-evaluate the market, and it's back to the beginning of the cycle. Over time, the amount of information collected serves as both an intelligence trove and source of templates for future events.

The key difference between today's digitalization and previous digital efforts, is the integration of these different systems to the point where an entire project will live in a digital realm, rather than simply discrete steps in an otherwise paper-dominated process.

3. Proven benefits

Key proven benefits of digitalizing sourcing include:

The ability to leverage sourcing data quickly, easily and accurately

Instead of spending considerable time and effort retrospectively and manually analyzing your sourcing data, simply click a button and run real-time reports on a wealth of metrics including:

- Savings generated
- Number of sourcing events run
- Sourcing cycle time
- Number of suppliers participating
- Categories covered
- Contract status
- Contract expiry dates
- Supplier accreditations etc.
- Supplier pricing in previous sourcing events
- Supplier pricing trends
- And much more...

The potential for human error in the data collection process is eradicated

With such quick and easy access to accurate key sourcing data, decisions can be made, strategies devised when you need and not when the business can get around to it, and they will be based upon documented statistics, not intuition.

Finally, benefit tracking reports can show the true impact of the sourcing team, rather than savings figures being diluted (by reinvestment, etc.) by the time annual figures get to the board.

Increase spend under management

By digitalizing sourcing, sourcing professionals are essentially automating and streamlining processes, enabling them to speed up each project cycle time and ultimately increase their percentage of spend under management. For example:

- Click on a category and all suppliers registered to that category will appear, ready to be invited to the sourcing event
- The software will collate and analyze supplier responses, providing buyers one comprehensive report with all qualitative and quantitative data compiled ready for further analysis
- Push RFx data through to another round of bidding or to an eAuction; eAuctions have been proven time and again, to increase savings and significantly reduce negotiation cycle time (average eAuction lasts less than one hour) without compromising quality
- Managing the supplier on-boarding and approval process is highly streamlined as suppliers independently register by responding to questionnaires and uploading key documents and then await approval.

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Increased internal and supplier compliance

Digitalization effectuates more structure, visibility and control to daily activities. Sourcing processes can be more easily standardized (and adhered to) using workflow technology, and management can access project status dashboards to see which projects are on time and which are behind schedule.

Regarding supplier compliance, having all data readily available online with reports, notifications and flags to alert the buyer of none-compliance, the benefits are many.

Improved auditability

As the whole process (supplier on-boarding, RFx, messaging, supplier responses, award decisions, internal notes, etc.) takes place on one platform, there's no need to be constantly digging around for emails and hunting through spreadsheets collating information for audits, all the data is in one place.

Furthermore, audit logs show not only what has been done, but exactly who did it and when.

4. The Do's and Don'ts

Make sure to get key stakeholders and users involved at an early stage – so that they are part of the process. Don't just give them a system they had no part in selecting and tell them to start using it. This often leads to resentment of the system, complaints about its lack of extremely specific functions, and all-round resistance to adoption.

Keep it simple – You're better off getting more events from more people than trying to perfect the highly complicated, perfect event.

Technology alone is not the solution – While most of the eSourcing platforms are strong, the key to success is having the right program, sponsorship, support and expertise in place so that your users feel comfortable enough to actually USE it.

Maximize user-adoption and throughput – Since the benefits are well-documented, don't spend too much time searching for the "perfect" project. Instead, focus on getting as much volume through your program as possible. Some projects will deliver huge results, some less so. But over time, you will average 13-17% savings.

Make it easy – The biggest hurdle is stakeholders who are reluctant to participate because they're not familiar with the system or find it hard to use. Make sure your platform is intuitive and there's help available when needed.

Don't be too feature-centric – features are extremely important, and you need to select a system that is powerful and flexible enough to support your processes, but functionality depth is only one of the five pillars of a successful digitalization program:

• Functionality

• Ease of use

• Efficiency

• Technical support

• Ease of implementation

No system will have every single function you want, so understand what the absolute key functions you need are, and then evaluate your shortlisted suppliers against how they deliver that function (i.e. how easy is it for buyers and suppliers to use, how long it takes to perform a task, how much training and technical support is needed, how good is their technical support).

Don't try jumping across the stream in one go - use stepping stones – as tempting as it is, don't try to go from having zero digitalization to full digitalization in one fell swoop. Chances are it will take an age to plan, an age to select a provider, an age to implement and an eon to reach your adoption and throughput targets.

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Many providers offer full end-to-end systems, but that doesn't mean you need to implement all the elements from day one.

Select the areas that are most important to your business, implement, get user adoption where it needs to be, see the results, then implement the next phase.

Don't rely on system demos alone – the experienced sales guy can show you how to execute every function that is important to you in logical, seemingly easy, intuitive and efficient steps. However, this may not be the case when you try to do the same.

Always demand a sand pit environment and USE it. Get your super users to run through test projects within the system based on real-life scenarios and gauge feedback.

Don't forget about selecting the right provider, as well as the right system – ensure that the provider you select has an extremely customer-centric approach; if they're not willing to go the extra mile during the sales process, you can bet your bottom dollar that they won't afterwards.

Having full and proactive support from your provider, pushing you to maximize adoption, utilization of wider functionality and throughput can be the difference between a resounding success and a mediocre half job.

Finally, if having the ability to influence the direction of future functionality is important to you, make sure your shortlisted providers are aligned. Once implemented, your people will have questions so make sure they can easily find answers.

Don't forget what you'll be judged on – 12 months after selecting your system you, your peers and your bosses will look back to judge the success of the project. The only areas that will matter will be:

1) Does the system support and enhance processes

2) How quickly and well did the implementation go

3) How quick and successful was user on-boarding

4) What is the level of throughput in the system

5) What was the return on investment

The conclusion...

Digitalizing sourcing successfully doesn't just mean selecting the right system, it's about selecting the right provider too. Selecting the right system isn't just about selecting the system with the largest number of features, it's about selecting the system which will get you the best results.

About Scanmarket

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