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

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Whether it's called AI, Big Data, Analytics, or Digitalization, the procurement world is currently abuzz about all things data. And increased data means increased complexity, potential and digitalization. It's no secret that procurement organizations are pursuing increased digitalization. In a recent Digital Procurement World survey, 9 out of 10 respondents noted that they were actively pursuing increased digitalization of their procurement and sourcing operations.

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.

We'll approach this topic as follows:

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O1

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 leveraging 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, thus unlocking emergent value-producing opportunities.

First, given all the interest, it's important to ask several questions about digitalization as it relates to sourcing, starting with why, where and how?

02

Why embark
on the digitalization journey?

While it's easy to get caught up in the popular rush to digitalize all your operations, it's important to remember exactly WHY this needs to be done.

Digitalization is key but while the pressures to keep pace with the competition are very real, the push behind digitalization has a more fundamental driver: You need more advanced tools because the world in which you operate is getting more complex. As supply chains have continued to increase in complexity, so too have the tools required to manage them.

Digitalization is Power - You need advanced tools for a complex world

The RFP has become increasingly complex over time. What started as a simple statement of requirements and request for pricing has developed into a complicated process that can collect immense amounts of data, organize and evaluate it across multiple parameters beyond price to support good decisions. According to Scanmarket's consultancy team, RFPs started getting more complex both because of the requirements of the user base and the underlying technology's ability to support that complexity.

Looking forward, as organizations begin to implement true real-time category management, the need for increased (and constantly refreshed) information gets ever greater. The world where a periodic review of important spend categories would suffice, is giving way to a need to constantly stay on top of many more categories, understand the events and drivers in each, and be able to take action when needed in the right manner. A "regular" strategic sourcing pipeline approach is wholly insufficient to handle this.

To successfully achieve this level of control, compliance and transparency requires still more advanced tools that can monitor situations in real-time and identify opportunities for the procurement professional. Instead of simply finding the best deal, purchasing teams need to simultaneously find and approve sources, manage their supply bases, keep internal projects on track, mitigate potential supply risk, manage ESG and understand their external commitments.

Not surprisingly, all the simultaneous requirements cannot be accomplished through human effort alone. And that's where digitalization comes in. Don't pursue digitalization because it's a fad, do it because you need to!

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If your organization is not among the 3% that have been fully-digitalized, you need to make sure you have a plan to get there.

03

Where to start the digitalization journey?

The key difference between today's digitalization and previous digital efforts, is the integration of 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. Within procurement, the vendor management and RFx processes are the two areas most widely cited in the study by Globality as being opportunities for improvements through digitalization. Vendor (or Supply Base) Management is primed for digitalization due to the complexity and sheer number of relationships involved. Most large organisations have thousands of suppliers and that's just counting the ones with whom they have active relationships. When factoring in potential trading partners, the number gets even higher.

The interactions required for these thousands of current and potential trading partners can vary widely from maintenance of profile and contact information to supply risk event responses. When you combine the number of trading partners with the varied forms of interactions, it's easy to see how complex the information flows can be in [supply base management](#) and why digitalization is critical to processing so much data.

Digitalizing the RFx (RFI, RFP and RFQ) process is another good place to start for similar reasons. During the RFP process, it is necessary for the buying team to solicit a wealth of information from potential trading partners, establish demand forecasts, organize and evaluate information to ultimately make award decisions.

How to get started?

How to accelerate digitalization in procurement boils down to a straight-forward set of principles:

01   Have a plan

02   Make incremental progress

03   Hold yourself, your team, and your leadership accountable

04   Adjust as needed

05   Communicate to all involved, proactively

06   Always think in terms of what's in it for your employer, your executive team and your stakeholders

These principles are applicable to many different procurement initiatives including digitalization.

04

Proven benefits of digitalizing Sourcing

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 accreditation 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 percentage of 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 onboarding and approval process is highly streamlined as suppliers independently register by responding to questionnaires and uploading key documents and then await approval

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.

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.

05

The Do's and Don'ts

Do 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. Executive sponsorship from senior management can help encourage stakeholder engagement.

Do keep it simple

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

Do remember that 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.

Do 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.**

Do 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. Nominating a colleague(s) as a system "superuser" is a great way to manage ease of use by offering an internal source of support for end users.

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. 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. Start with high priority areas of business where you can generate visible and high focus wins.

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 superusers 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. And, finally, once implemented, your staff 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 matter will be:

» Does the system support and enhance processes?
» How quickly and well did the implementation go?
» How quick and successful was user onboarding?
» What is the level of throughput in the system?
» What was the return on investment?

Establishing key metrics so you can start measuring and sharing success when the system is live will aid focus throughout the year.

06

Why we're qualified to weigh in

As founders of one of the original eSourcing platforms (1999), we at Scanmarket are uniquely qualified to comment on the industry. We speak to procurement professionals from medium to large companies from all over the world all day long in a consultancy, account management, technical support and sales capacity. With each new era, we have used our agile development processes and innovative customer engagement model to make sure that our solution meets every need. This remains true in an era of "big data" where the ability to turn massive amounts of data into successful strategies, tactics and decisions is upon us. Scanmarket is a provider dedicated to the idea that eSourcing solutions should be easy to use, and the providers easy to get help from, and easy to do business with.

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.

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Scanmarket is a source-to-contract software provider that develops advanced functionalities in an effortless design. Originating from the needs of the end user, Scanmarket's S2C solution is attuned to meet the needs of the procurement professional. We take ownership of customer success with experts at your fingertips to drive user adoption. Digitalize your upstream procurement functions with technology that is built to be used.