Strategic e-Sourcing
Converting Costs into Profits

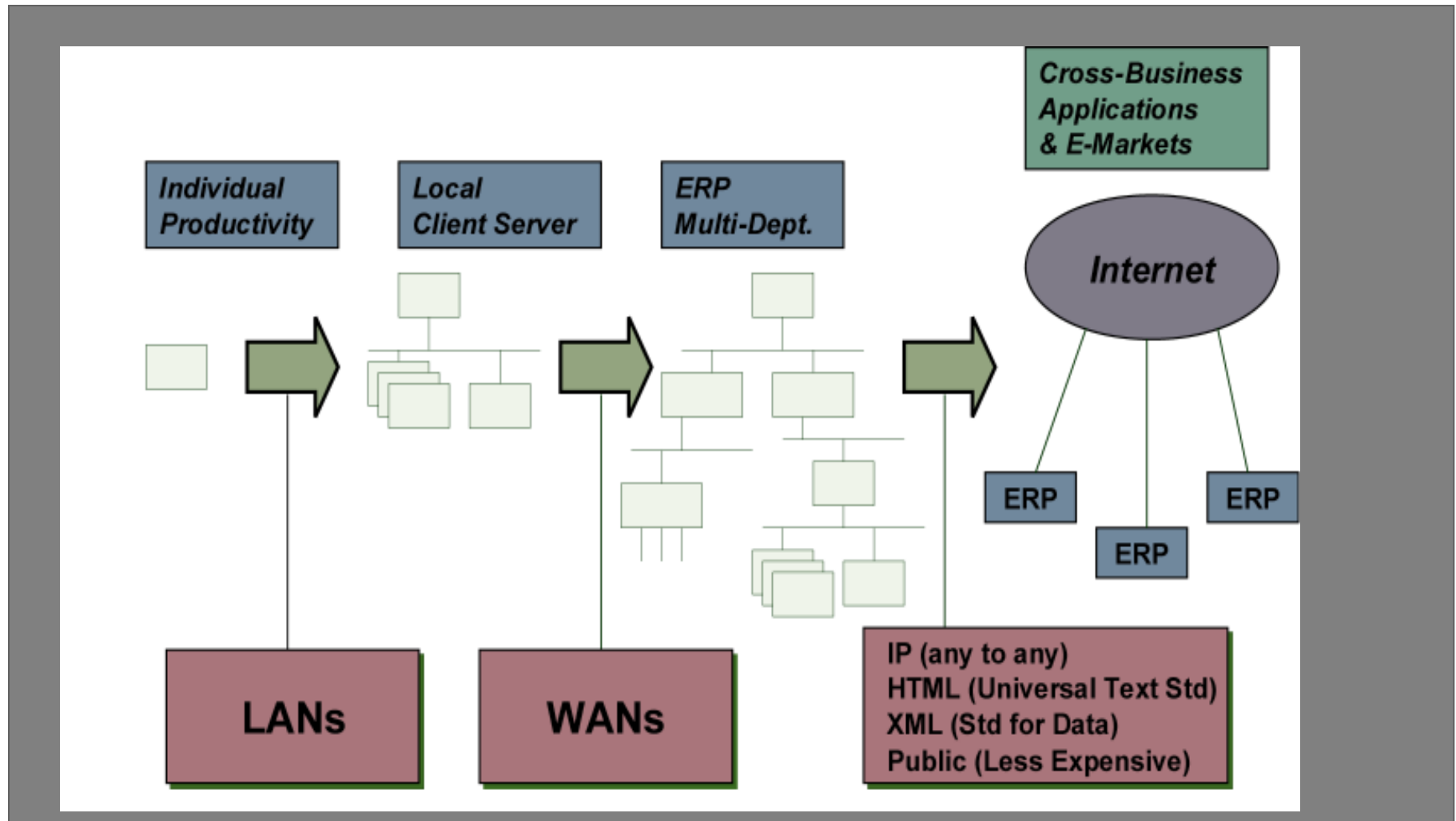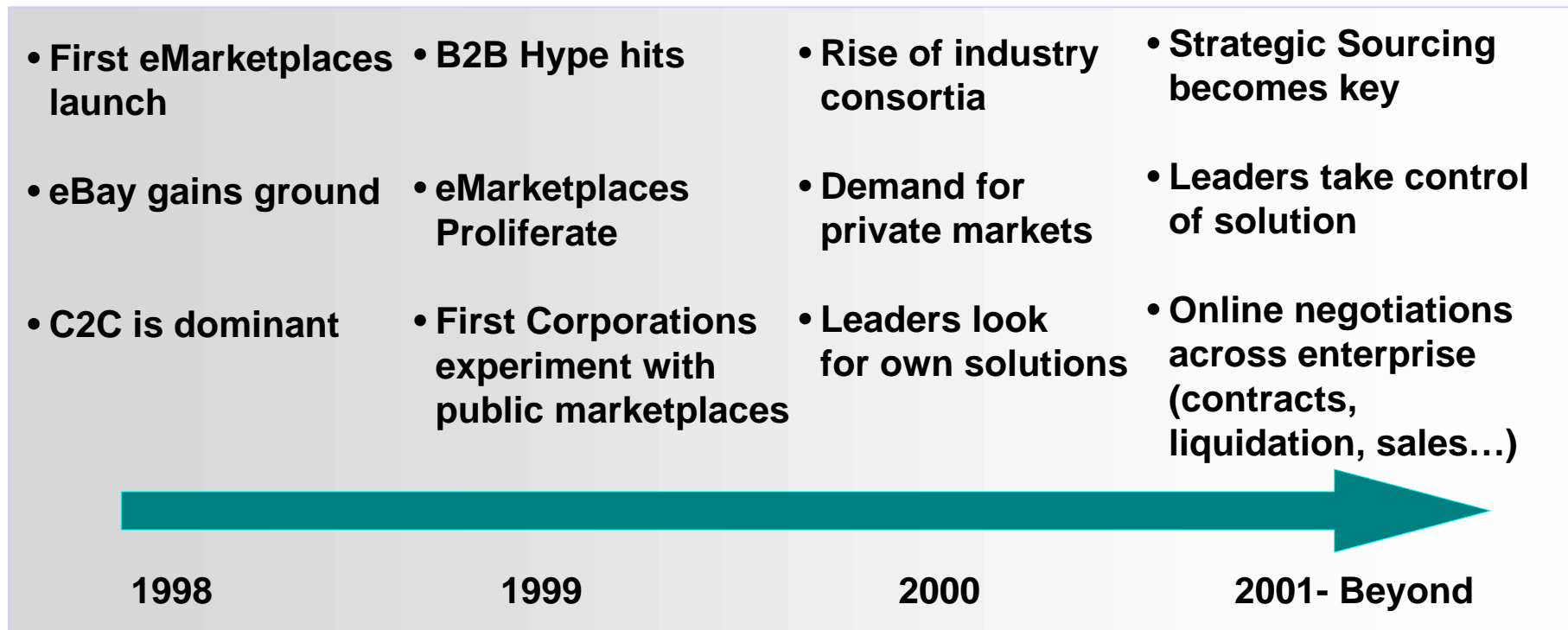**Ramesh Mehta**

CEO

Moai Technologies Inc.

What Attendees Will Learn

- How strategic sourcing can improve a company's profitability in a matter of weeks

- How end-to-end strategic sourcing enables companies to achieve greater flexibility, make better informed decisions, and strengthen buyer/supplier relationships

- What the advantages/disadvantages are of addressing strategic sourcing through a variety of solutions, including software, hosted events, and ASPs
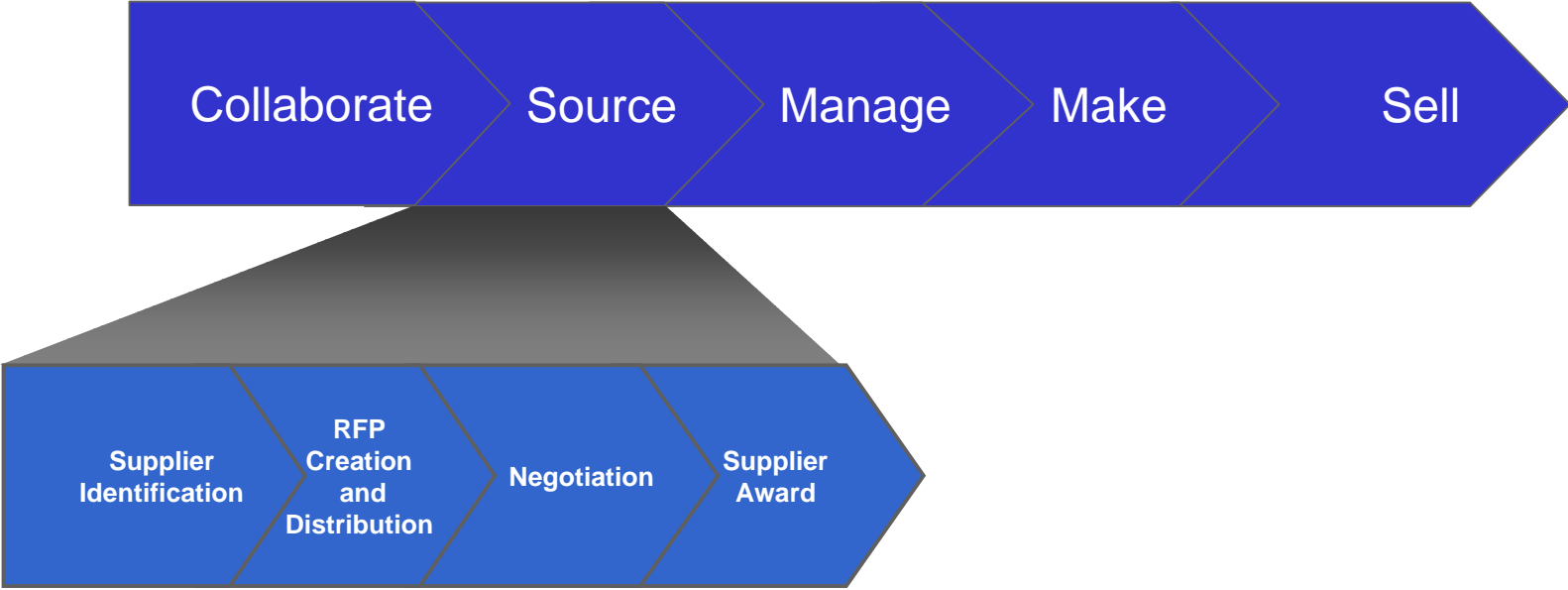
B2B Application Trends

An e-Business Adoption Timeline

1998	1999	2000	2001- Beyond
• First eMarketplaces launch	• B2B Hype hits	• Rise of industry consortia	• Strategic Sourcing becomes key
• eBay gains ground	• eMarketplaces Proliferate	• Demand for private markets	• Leaders take control of solution
• C2C is dominant	• First Corporations experiment with public marketplaces	• Leaders look for own solutions	• Online negotiations across enterprise (contracts, liquidation, sales…)

Sourcing – A Piece of The Supply Chain

Collaborate › Source › Manage › Make › Sell

Supplier Identification › RFP Creation and Distribution › Negotiation › Supplier Award

Definitions: eSourcing vs. eProcurement

eSourcing
process/technology

eProcurement/SCM
technology

| Analyze Current Situation | Identify, Qualify Suppliers | Classify Items & Dev Strategy | Send RFQ / eRFQ | Run Sourcing event | Select supplier | Negotiate/ Award Contract | Create & Track Automated Contracts | Generate And track PO | Integrate Into Supply chain |

Eprocurement (tactical)
Managing existing suppliers and transactions more efficiently/effectively
Savings apply to transaction cost only (small % of total cost 2-3%)

So Why Hasn't eProcurement Worked?

- Double counting e.g. leverage and maverick buying

- Much spend is not susceptible to "leverage"

- Maverick buying doesn't just stop overnight

- Most eProcurement is aimed at indirect spend

- Process savings are ephemeral

- Savings on purchase order costs are offset by an increase in purchase orders!

- Systems simplification just isn't that simple!

HP WORLD 2002
Conference & Expo

What Does Work? e-Sourcing!

- e-Sourcing is the process of reengineering a company's supply base to reduce costs and gain other competitive advantages such as:
  - Improved quality
  - Reduced lead time
  - Access to leading edge technology
  - Improved delivery
  - Ensured availability of product
- Potential for up to 20 percent reduction in material costs.

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Esourcing (strategic)
• A systematic process
Eauction
• Discrete event vs. systematic process

Esourcing = technology + methodology + expertise
Nascar   = engine   + rules   + driver & crew skills

What questions does e-sourcing answer?

Analyze Spending, Choose Strategy

- How much do I spend on what?
- What should I (out)source?

Identify & Qualify Suppliers

- What are the categories to address?
- Who/How do I engage potential supply?

RFQ, Negotiate, Contract

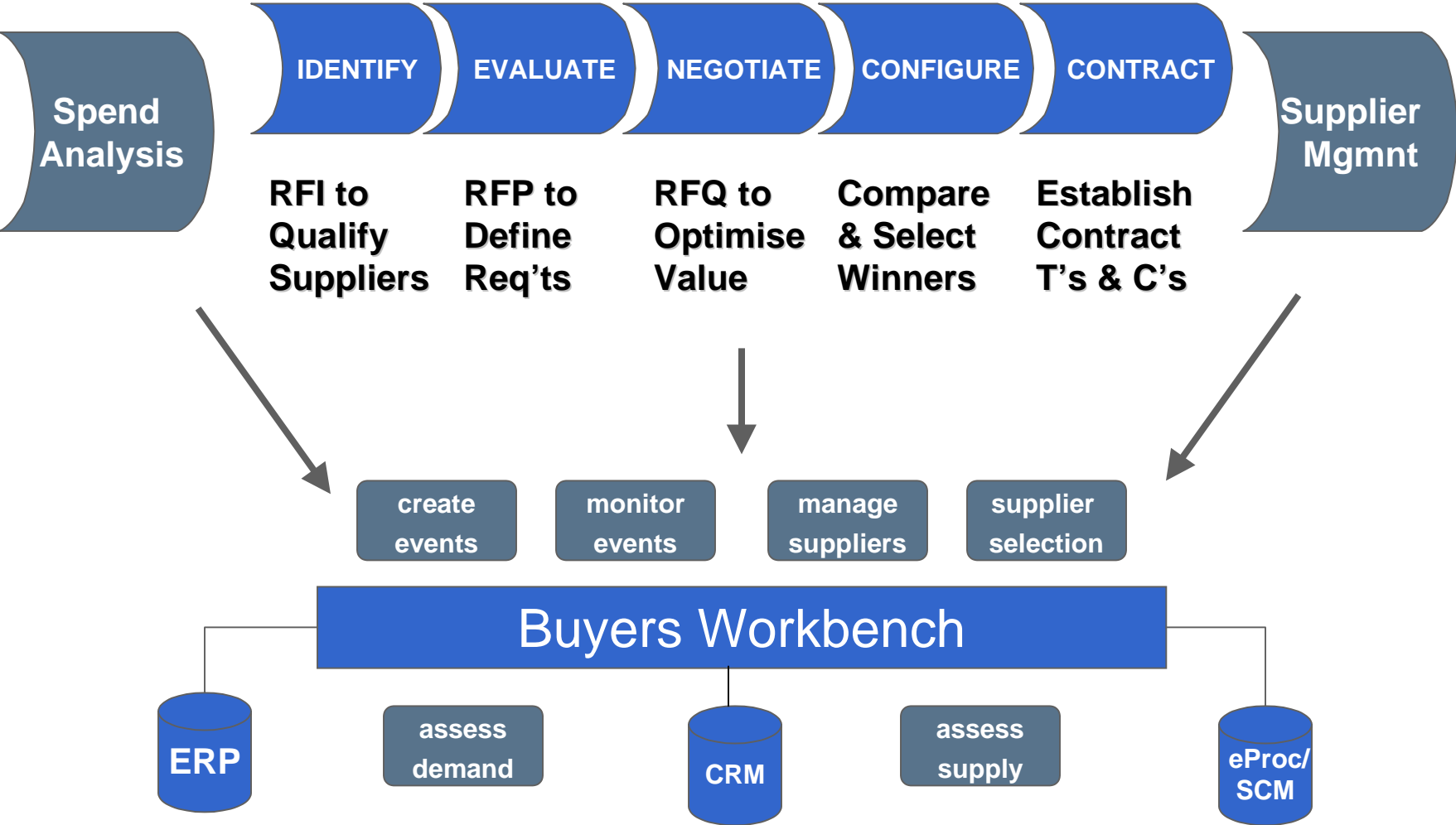- How should I negotiate?
- How do I structure the contract?

Monitor and Improve Suppliers
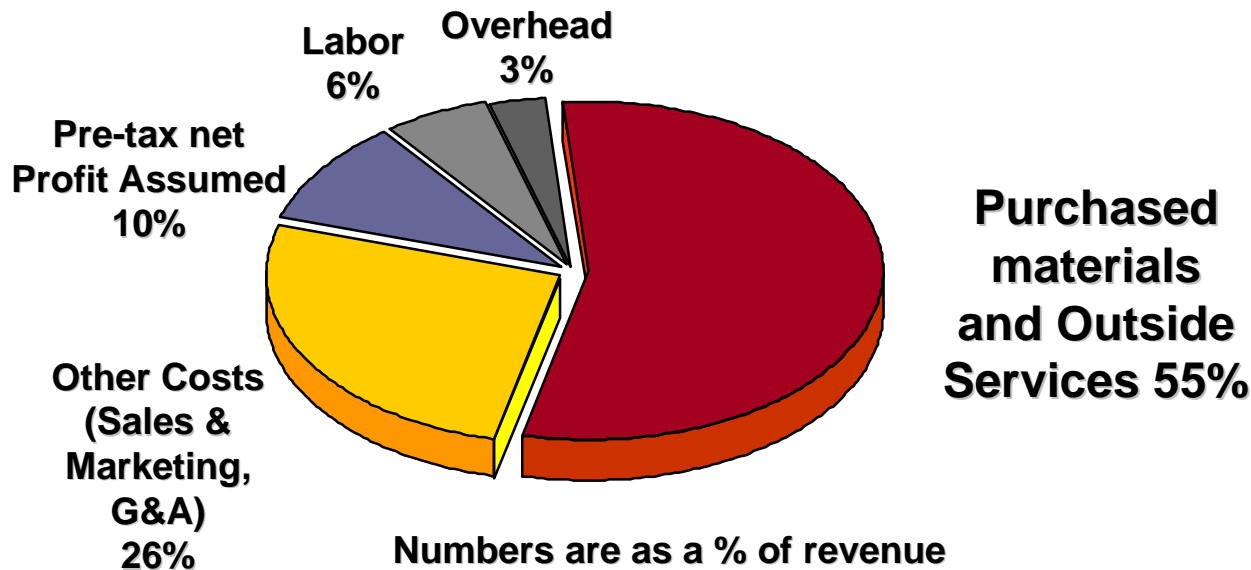
- How will I manage the relationship?

e-Sourcing is the Wave of the Future

- Joint study by CAPS, the Wacht Group and AT Kearney finds 73% of all potential savings can be attributed to strategic sourcing/e-Sourcing

- Goldman Sachs estimates Fortune 1000 companies can reduce contracting expenses from 50 basis points to 10-25 using automated contract management software

- AMR Research estimates market for e-Sourcing to grow from $275 million in 2000 to $3.5 billion in 2005

eSourcing - Evolution not Revolution

Spend Analysis	IDENTIFY	EVALUATE	NEGOTIATE	CONFIGURE	CONTRACT	Supplier Mgmnt
	RFI to Qualify Suppliers	RFP to Define Req'ts	RFQ to Optimise Value	Compare & Select Winners	Establish Contract T's & C's	

create events	monitor events	manage suppliers	supplier selection

Buyers Workbench

ERP	assess demand	CRM	assess supply	eProc/SCM

eSourcing Benefits - Effectiveness

Overhead 3%

Labor 6%

Pre-tax net Profit Assumed 10%

Purchased materials and Outside Services 55%

Other Costs (Sales & Marketing, G&A) 26%

Numbers are as a % of revenue

- Improve identification, qualification and management of suppliers

- Negotiate 5% to 20% total cost reductions

- Extend sourcing to a wider range of products and services

The Big Three: Spend Analysis, Sourcing Management and Contract Management
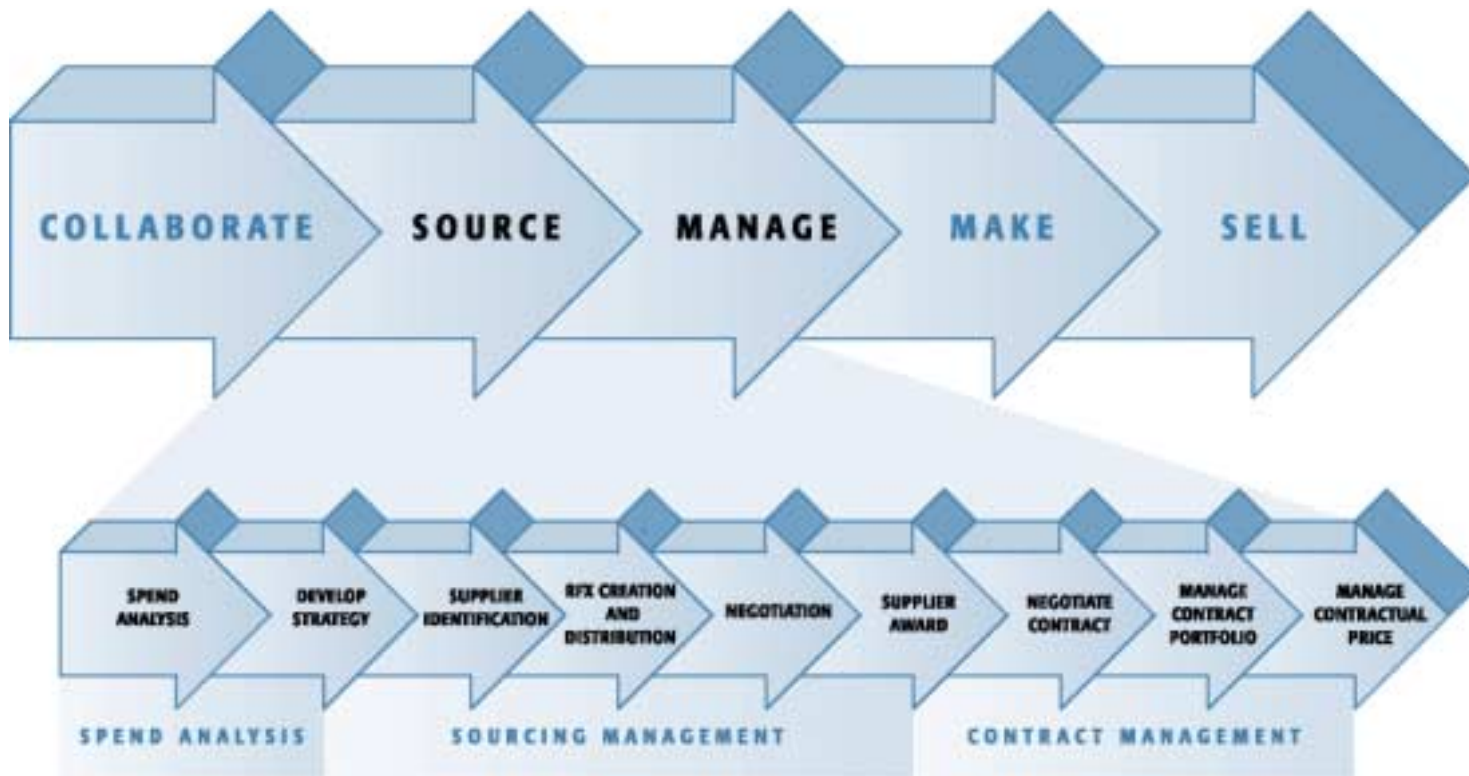
Spend Analysis

- Without spend analysis you are blind to the savings opportunities

- Should feature the following segments:
  - An ability to manage data from multiple data sources
  - Supplier catalog and product content data management
  - Complex manufacturer and distributor pricing data management
  - Supplier data management
  - Detailed standard and ad hoc purchasing activity analysis and reports
 - Constant updating

Sourcing Management

- Provides groups with the flexibility to create online negotiation scenarios that are unique to a particular organization, business or industry.

- Sourcing management components:
  - Supplier identification
  - RFQ, RFP and RFI creation
  - Negotiation and supplier award.

- Benefits of sourcing management:
  - 15-25% reduction in direct costs,
  - Reduced purchasing cycle time
  - Increased control of the sourcing process.

Contract Management

- Balancing multiple contracts is a daunting challenge
- Most purchases in new economy are done using contracts

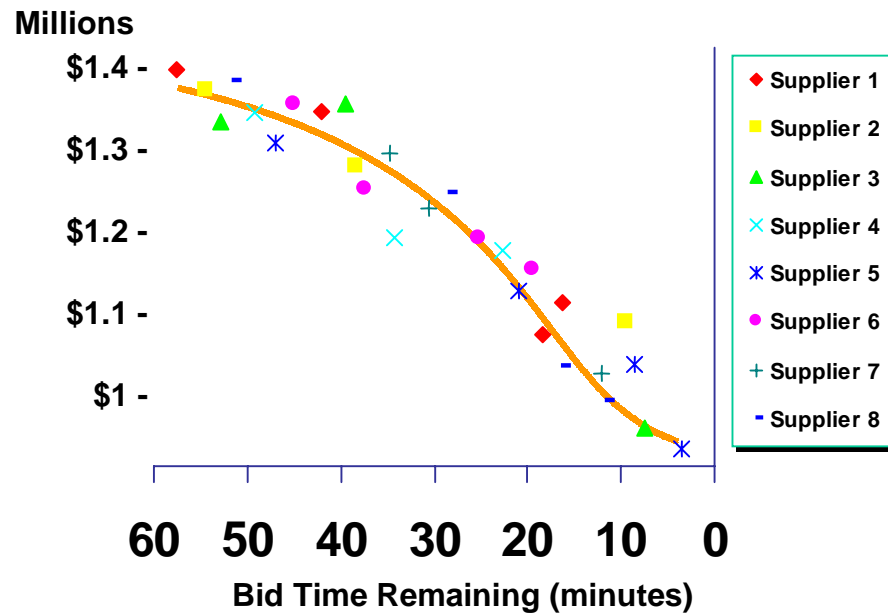Exhibit 3: Contracts are used in most purchases in the B2B economy

Spot
Purchases
22%

Contracted
Purchases
78%
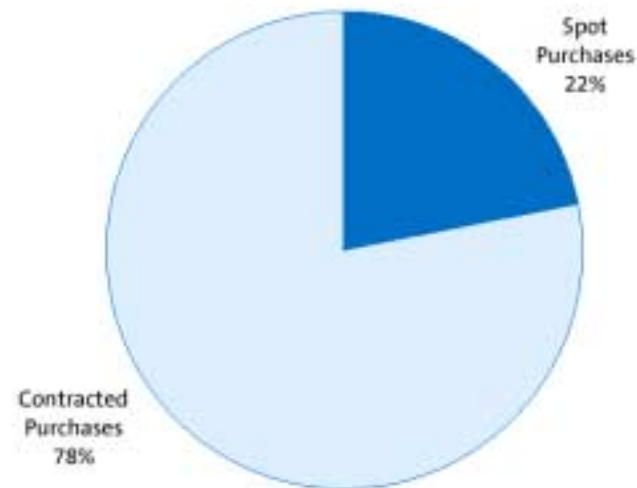
Source: National Association of Purchasing Managers, VerticalNet Solutions.

Global Airline—Event 1: Stationery

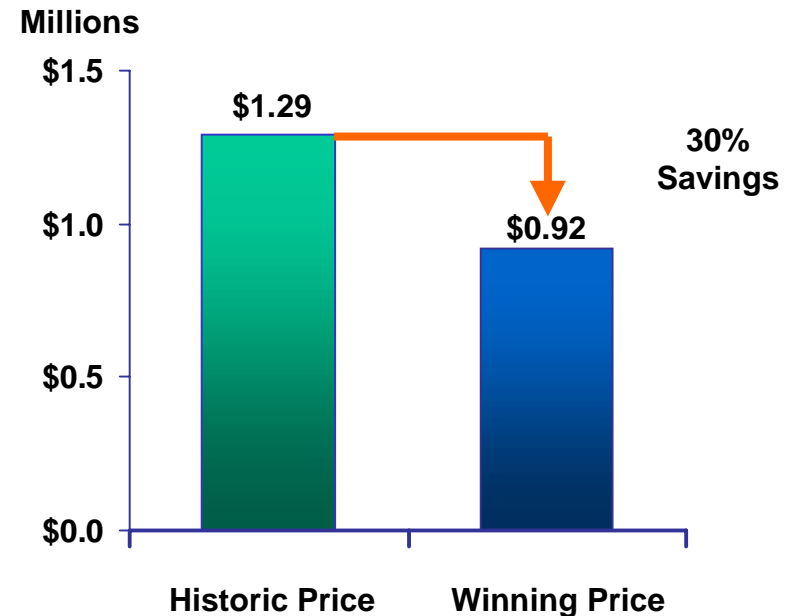**Scenario: 1 hour reverse auction for stationery with existing suppliers**

Competitive Reaction During Event

Millions

- $1.4 -
- $1.3 -
- $1.2 -
- $1.1 -
- $1 -

♦	Supplier 1
■	Supplier 2
▲	Supplier 3
✕	Supplier 4
✳	Supplier 5
●	Supplier 6
+	Supplier 7
−	Supplier 8

60 50 40 30 20 10 0

Bid Time Remaining (minutes)

- ■ 8 suppliers, 49 total bids
- ■ The winner bid 10 times with an average price drop of $46k per bid

Cost Savings

Millions

- $1.5
- $1.0
- $0.5
- $0.0

$1.29

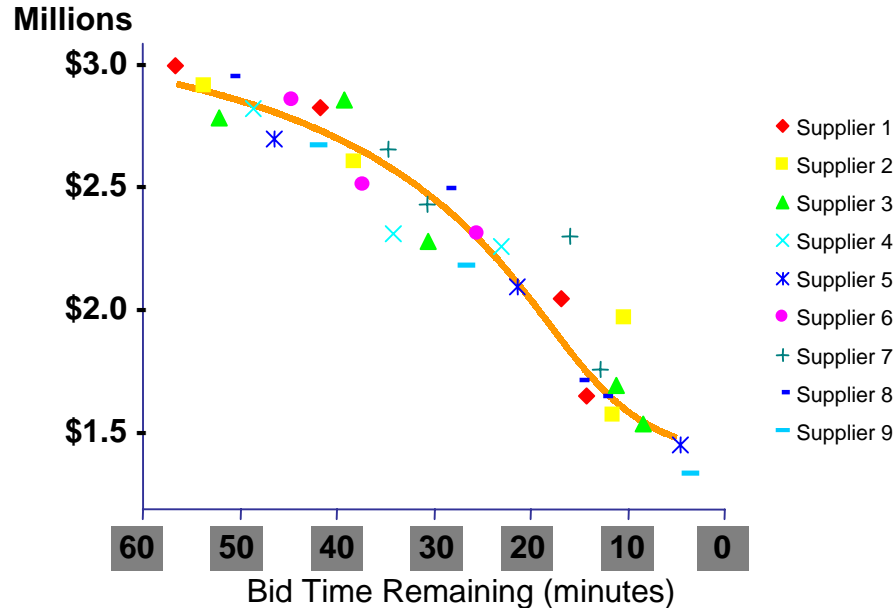**$0.92**

30% Savings

Historic Price   Winning Price

Global Airline—Event 2: PC Consumables

Scenario: 1 hour reverse auction for PC Consumables with existing suppliers

Competitive Reaction During Event

Millions

- ◆ Supplier 1
- ▪ Supplier 2
- ▲ Supplier 3
- ✕ Supplier 4
- ✳ Supplier 5
- ● Supplier 6
- + Supplier 7
- ▬ Supplier 8
- ▬ Supplier 9

Bid Time Remaining (minutes)

$3.0
$2.5
$2.0
$1.5

60 50 40 30 20 10 0

- ▪ 9 suppliers, 46 total bids
- ▪ Winner bid 10 times with an average price drop of $106k per bid

Cost Savings

Millions

$3
$2
$1
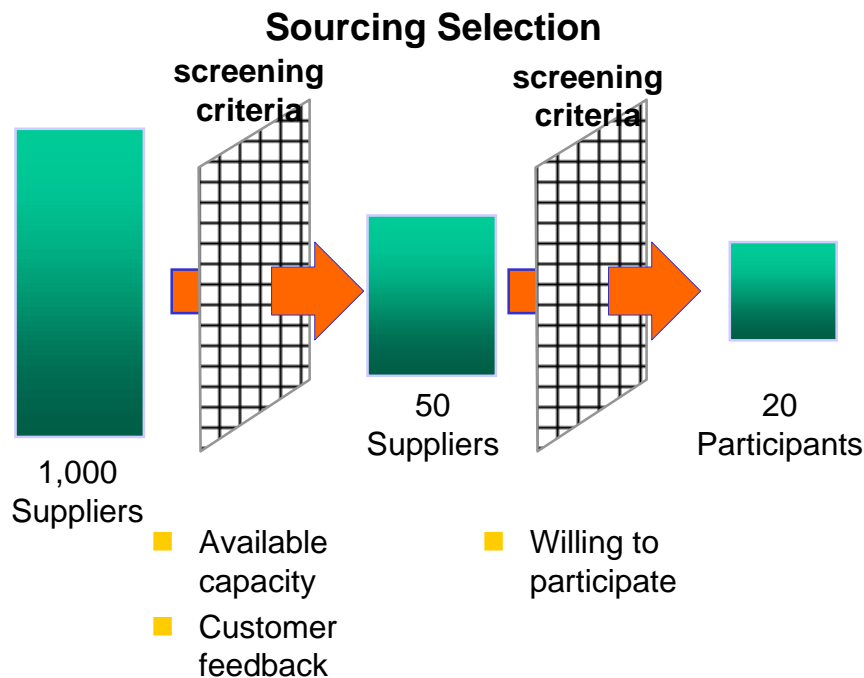$0

$2.6

$1.6

37% Savings

Historic Price   Winning Price
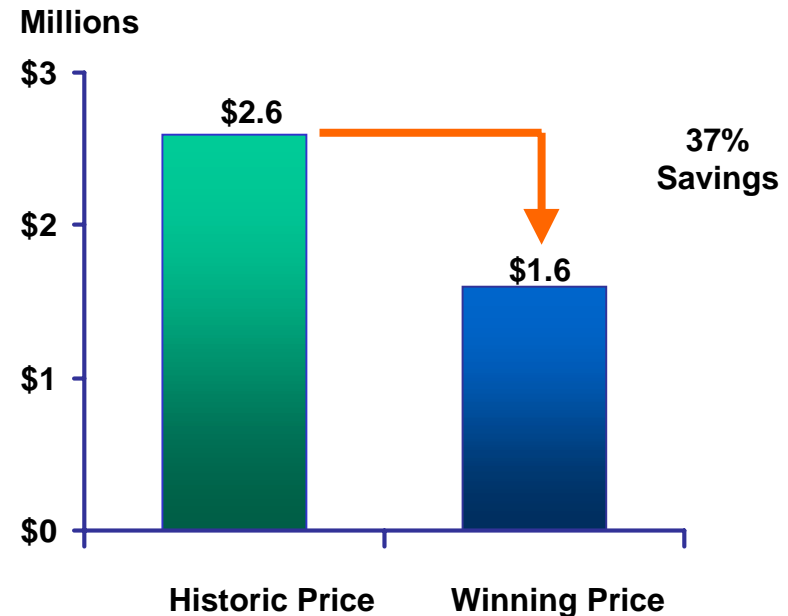
Direct Materials: Fortune 1000 Electronics Manufacturer

Purpose: To enhance the supply base, and to use Moai's solution to reduce costs for printed circuit boards

Results

Sourcing Selection

screening criteria

screening criteria

1,000 Suppliers

50 Suppliers

20 Participants

- Available capacity
- Customer feedback
- Willing to participate

Cost Savings

Millions

$30

$25

$20

$15

$10

$5

$0

$24

$18

25% Savings

Historic Price

Winning Price
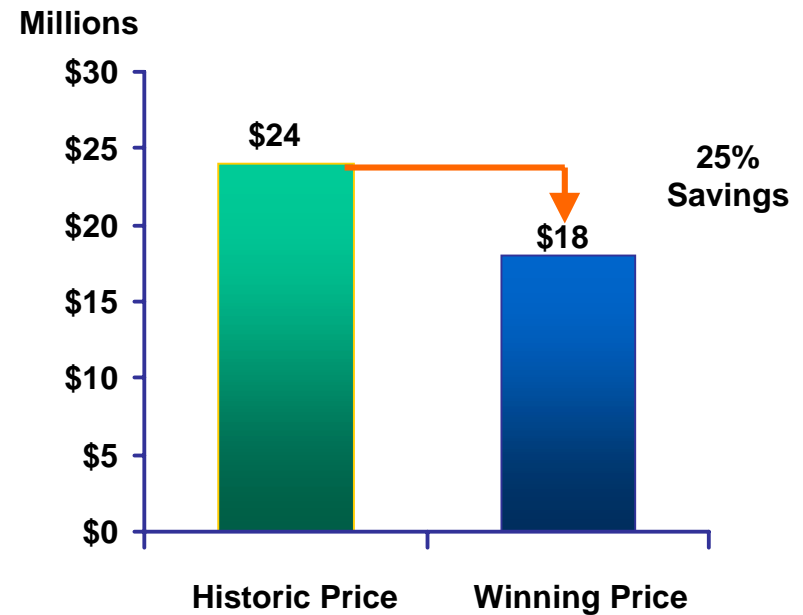
Conducting a successful sourcing event requires seamless integration of four key processes.

Supplier

End Customer

$ Savings $ →

① Strategic Sourcing

② Auction Event Mgmt.

③ Software Hosting

④ Technology Application (Software Tool)

- Spend analysis
- Requirements definition
- Baseline development
- TCO model analysis
- Supplier value proposition unbundling
- Identification/ qualification of supplier participants

- Auction variable choice
- Auction event strategy development
- Host/originator training
- Event monitoring/ set-up
- Post-event reporting

- Hosting facility
- Hardware systems
- Security
- Failure management
- Throughput management
- Communications

- Moai's LiveExchange

eSourcing Deployment Options

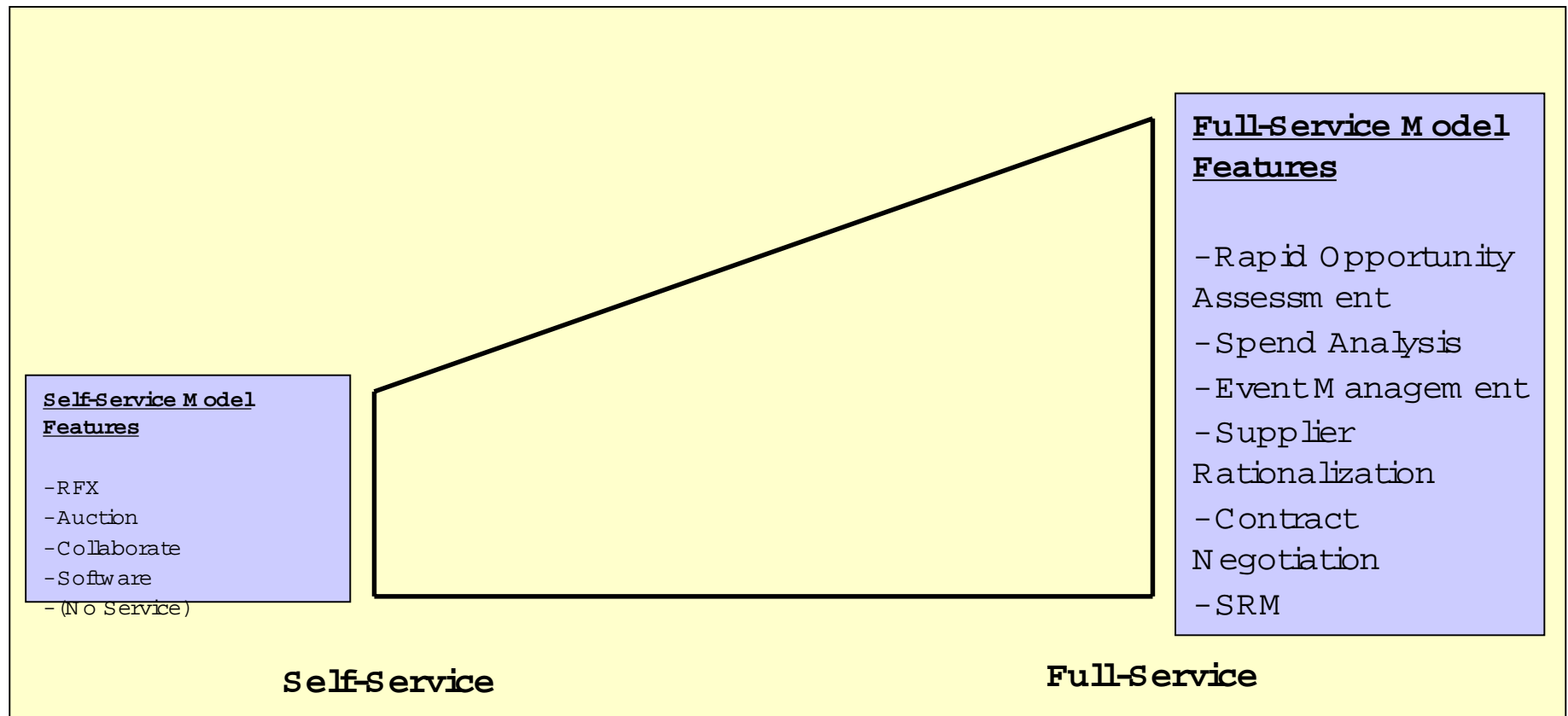| OPTION	ADVANTAGES	DISADVANTAGES
Consulting / Service / Technology enabled service	Low entry cost Sourcing expertise Economies across industry Supplier scale	**Higher total cost** **Loss of domain expertise** **Less control** **Not leverageable**
Hosted / subscription technology	Low entry cost Leverages internal domain expertise	**Moderate total cost** **Not customizable** **Training**

Software	Lowest total cost
	Can be customized according to needs
	Complete control over
	  sourcing process
	  supplier access
	Total industry expertise
	Total sourcing expertise
		Initial investment
		IT resources
		Training

View of the Journey: Customer Evolution

Time

Analytics

Optimization for Analysis

Win-Win: TCO

Bidding Events for Easy Categories

Sourcing Strategy (Corporate/SBU)

Corporate Visibility of Spending
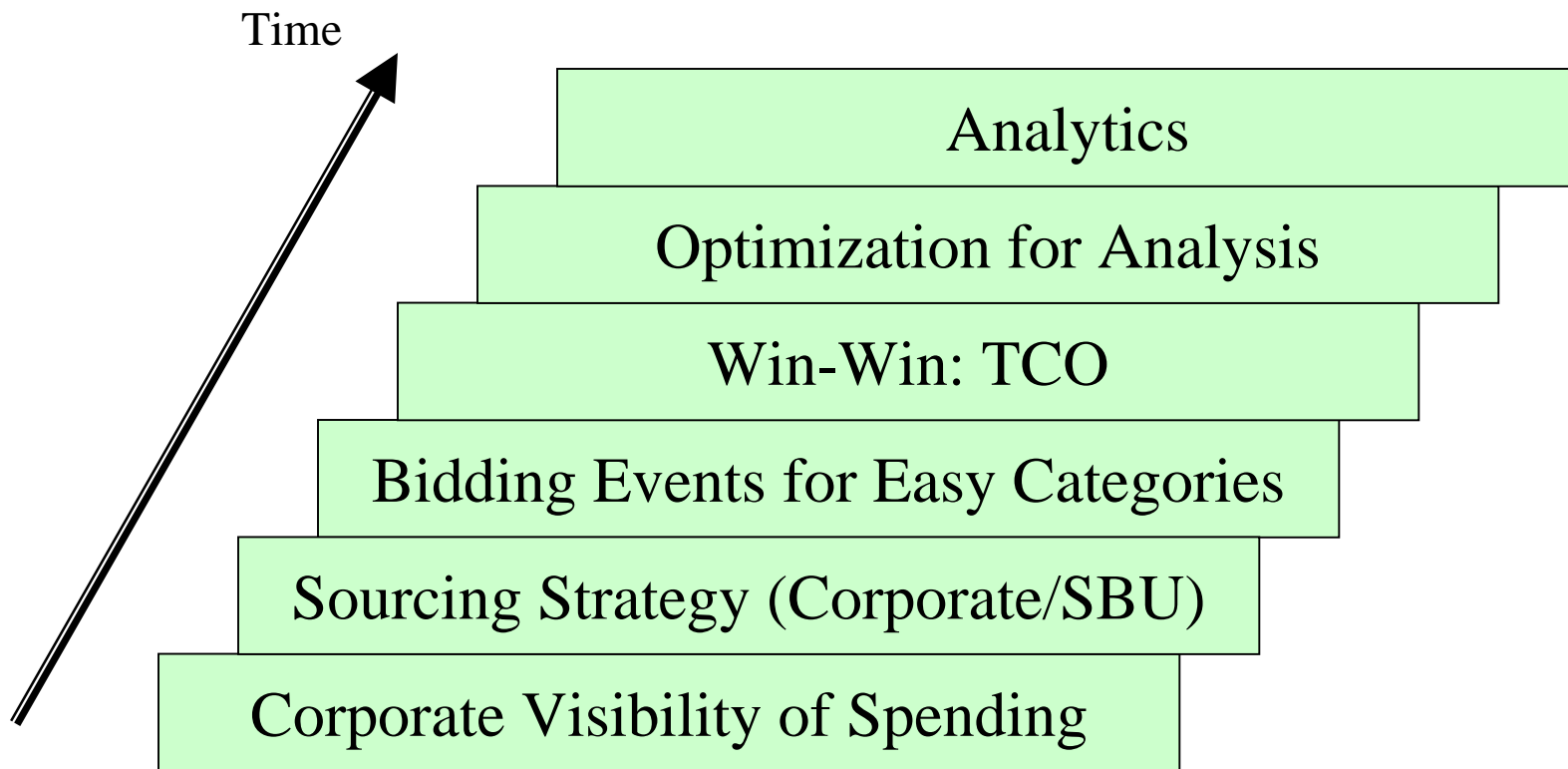
Source: AMR Research

Business model trends

The Spectrum of Business Models in e-Sourcing

Full-Service Model Features

- Rapid Opportunity Assessment
- Spend Analysis
- Event Management
- Supplier Rationalization
- Contract Negotiation
- SRM

Self-Service Model Features

- RFX
- Auction
- Collaborate
- Software
- (No Service)

Self-Service

Full-Service

Strategic sourcing strategies are complex as they are based on the internal approach in combination with the external market conditions.

Purchase Category Strategy Development Framework

Exploit / Create Market Leverage

Outsourcing	Local Purchase	Spot	Competitive Bid	Alliance

Change Supply Characteristics

- Supplier Programs
- Supplier Base Rationalization
- Bundling
- Portfolio Pricing
- Standardization
- Specification Change
- Logistical Improvements

Changing the approach to an external supply market in order to reduce unit cost. A portfolio of approaches are available to create this change

Internal changes or accommodations allows the capture of lower total costs

Five Beliefs About Sourcing

- No one knows the customer's business better than the customer.

- The customer will want to control the sourcing process and the speed that they adopt e-sourcing solutions.

- In the end, the customer will want and need enabling technologies so that they can do sourcing on their own.

- Each customer has unique needs that will significantly affect their optimal sourcing solution

- The customer requires a blend of service and technology that will change as the customer's needs change

Rules of e-Sourcing Success

- Spend analysis tools and your judgment are key to your success for sourcing.
- eProcurement has validity, but the original business case doesn't
- eSourcing will support and enhance eProcurement
  - Increased ROI
  - Increased (and real) sourcing cycle time reductions
- It is evolution not revolution
  - Don't reinvent the wheel – automate it!
- There needs to be a mix of solutions based on the type of procurement

> Work hard, get paid less, and enjoy more!
>
> (Welcome to the New New Economy)