

WHITE PAPER

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## **CAPTURE MORE SPEND UNDER MANAGEMENT:**

**Attack the Gaps in Your Sourcing Toolkit with an Advanced Sourcing Solution**

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Over the past decade, many companies have adopted e-sourcing solution suites to get corporate-wide spending under control and reduce costs. Over time, most have steadily reached a plateau in the amount of spend that they are able to centrally manage using these suites, often capturing only 30% of their organization's spend under central management. As these organizations struggle to meet corporate objectives for increasing their control over enterprise-wide spend, they are finding that their existing technology solutions are unable to efficiently support central sourcing processes and the needs of local spend owners. The organizations poised to achieve the next level of spend under management and cost reductions are those that adopt a more advanced strategic sourcing solution, like that offered by CombineNet, to augment their existing technology investments.

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## SPEND UNDER MANAGEMENT

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### SPEND UNDER MANAGEMENT WITH GENERAL SOURCING SUITES

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“Spend under management” is often defined as spend that is identified, sourced, and managed by a centralized or center-led team using a variety of e-sourcing technologies. By capturing more spend under management, companies gain the benefits of better organizational visibility into what is being spent, for what, and with whom. In addition to identifying cost savings opportunities, capturing more spend under management enables better efficiency, productivity, and predictability within an organization’s sourcing and procurement activities.

Beginning in the late 1990s, e-sourcing technologies emerged to assist with this process, initially finding traction within large organizations, with slower adoption amongst small and mid-sized companies. Successful providers here, based on market share today, include SAP, Ariba, and Emptoris. Those vendors, and others, offer customers a variety of solution components in addition to basic e-sourcing, including spend analysis, contract management, and supplier performance management, often delivered as a solution suite.

As suite solutions, they provide a broad range of functionality that is designed to solve commonly reoccurring problems for most companies, which brings us to today’s challenges. Those solutions’ sourcing offerings are designed to address the low hanging fruit: sourcing events that have little complexity; they do not provide a deep and advanced focus on addressing a greater range of sourcing requirements.

Therefore, despite the amount of time those products have been in the market, most companies report that they have successfully captured only up to 30% of their corporate spend under centralized management, on average, with the largest proportion of that spend in indirect spend categories.

CombineNet’s own recent research\* indicates that even the most innovative companies, those who were the early adopters of centralized sourcing strategies and e-sourcing technologies years ago, have been unable to get beyond a ceiling of 25-35% of spend under management. The remaining spend, often more strategic to the business and that with the most impact on a company’s financial success, continues to be managed by regional/local owners (business unit managers, subsidiaries, manufacturing organizations, etc.), or by central buying teams that are using ad-hoc processes outside of the e-sourcing suites that were adopted.

### THE SPEND PLATEAU

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Early gains in capturing spend under management -- reducing costs while increasing efficiency and productivity -- provided compelling returns on investment. The challenge of capturing the remaining 70% of spend not under central management is what we refer to as reaching “the spend plateau,” and it has many negative effects on an organization’s ability to better manage corporate spend and control costs.

Mainly, the central sourcing organization lacks valuable visibility into a large portion of its spend – what vendors are supplying its business, what items it buys and where they are utilized, what costs they incur, and what impact this has on their global supply chains.

\*CombineNet survey conducted through SGT Research, June 2010, to 100 global companies.

Additionally, because the central team, which is specialized in the analysis, sourcing, negotiating, contracting, and management of spend, is often not leading the process (in many cases they are engaged, but not fully leveraged), the organization is suffering from less than ideal execution and efficiency.

Here are some specific examples of lost opportunities when more spend categories are not managed centrally:

- Lack of central visibility into spend – suppliers, items, costs, supply chain impact – reduces an organization’s ability to respond to savings opportunities
- Similar products are being sourced from common supply bases in ad-hoc, unleveraged sourcing activities, reducing efficiency and cost savings opportunities.
- Multiple people across the organization are performing similar, parallel tasks, further reducing efficiency and cost savings opportunities.
- The impact of decentralized sourcing activities and decisions on the global supply chain are not being adequately measured and acted upon.

All of this leads to higher costs, lost opportunities, and poor productivity.

These are the reasons that organizations began to centralize their sourcing activities in the past, and yet the “spend plateau” effects are still being felt and must be addressed to improve organizational economics.

## ROOT CAUSE OF THE SPEND PLATEAU – GAPS IN SUITE SOLUTIONS

So why, after more than 10 years since the introduction of e-sourcing strategies and supporting technologies, are most organizations still struggling to capture a large portion of their enterprise-wide spend? Part of the answer lies in the inability to efficiently manage that spend with existing technology solutions.

### DESIGN GAPS

Let’s expand on this in more detail: the early, and still most dominant, e-sourcing technologies were designed to streamline the process of managing the “low hanging fruit” – the simple, less strategic spends that most organizations shared: indirect materials, office supplies, simple commodities, common services. These spend categories represent easy targets, because the outcome of these sourcing events (which suppliers would win, how they would be managed) has little strategic impact on a business’s operations, yet provides opportunities for reducing costs and rationalizing suppliers.

The online RFP process for this low hanging fruit is straightforward: a list of items being sourced is presented to suppliers, and suppliers are asked to respond with pricing on each item, or on a bundle of items. The e-sourcing solutions designed to address these spend areas in large part require little technological complexity, and therefore primarily deliver an

automated, routine process for collecting pricing and providing an answer based on lowest price. “Three bids and a buy” is a phrase often attributed to the e-sourcing process through these solutions.

However, the bulk of spend and largest opportunity for creating value for the business lies in more strategic spend categories, such as direct and raw materials, business-critical services (such as transportation, marketing, legal), and other spends that have a direct impact on the efficient execution of an organization’s supply chain. As stated previously, these areas remain elusive targets for the general purpose e-sourcing technologies adopted by most companies today.

Respondents to the CombineNet survey cited earlier shed even more light on why strategic spend areas are difficult to source considering the gaps left by general purpose e-sourcing suites.

Those survey respondents’ characteristics of strategic spends include:

- Larger spends with a more sophisticated supply base
- Cost is important, but not always the dominate decision factor
- Supply quality and predictability are important to the underlying business
- Supplier relationships are critical to reducing supply risk

Sourcing activities for strategic spends are often larger in size (both in terms of dollars, number of items/ship-to locations, and number of suppliers) than non-strategic spend categories. Strategic sourcing events often include hundreds, if not thousands, of individual items, spanning dozens or even hundreds of locations. Multiple dozens, sometimes hundreds, of suppliers may be invited to participate, each with their own value proposition.



Most e-sourcing solutions have hard limits on the size of sourcing event they can efficiently support, and require sourcing teams to break up sourcing events into more manageable sizes, which reduces the opportunity for cost savings and operational efficiency.

The sourcing of strategic materials, goods, and services requires the ability to make sourcing decisions based on more information and factors than non-strategic spends. In turn, the buyer must be able to collect and analyze supplier information that relates to item quality, service, supplier performance, and regional/local preferences. More complex cost models are required to understand the total cost of a supplier’s proposal and the right solution. Most e-sourcing solutions struggle to support the collection of non-price bid information, and provide little flexibility for cost models with multiple components.

Understanding the supply base is of significant importance. Price is independent of quality, and for strategic spend categories, often quality, reliability and overall value are as (or more) important than price. Incumbent suppliers that provide quality service are often measured

beyond the price of their service, and in large strategic events, there may be dozens of incumbent suppliers of the same materials across your organization. Awarding business to different combinations of suppliers for different items at different locations (award splitting), based on the preferences of local spend owners, can be next to impossible with general purpose e-sourcing suites.



Many of the participants of CombineNet’s survey report that their use of those general e-sourcing suites posed some key challenges: difficulties running large events, collecting the type of information they needed from suppliers (34%), analyzing supplier proposals beyond price (38%), and making decisions that support the needs of distributed stakeholders.

Traditional E-Sourcing	Advanced Sourcing
Involves simpler, less strategic spend areas that are more routine in nature – low business impact	More strategic spend areas with strong potential to improve supply innovation while optimizing cost – high business impact
Lowest price often the deciding factor – little to no analytics.	Awards based on complex set of factors and cost models – greater analytics needed.
Smaller list of items/locations/suppliers – limited data collection.	Medium to large information sets of items/locations/suppliers + supplier attributes and proposal factors – greater data collection.
Award splitting not supported or extremely limited.	Award splitting naturally and easily supported.
Decisions made by individual or small groups.	Decisions often involve multiple stakeholders with competing priorities.
General sourcing suites usually sufficient solution.	No or limited support in general sourcing products, often results in reverting to manually intensive off-line practices.

The inability of those e-sourcing suites to support strategic spend categories has made strategic spend owners reluctant to rely on them for managing their sourcing activities. Instead, they continue to manage sourcing activities the old fashioned way: with spreadsheets.

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## SPREADSHEETS FOR STRATEGIC SOURCING?

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A majority of the participants in our survey stated that they rely on spreadsheets to collect supplier information and bids (55%). The reasons they cite include:

- Lack of ability to configure the e-sourcing solution to collect the necessary information.
- Limits on the number of items and suppliers that they can include in an RFP within the e-sourcing solution.
- E-sourcing solution cost model inflexibility.
- Plan to analyze in spreadsheets, so it is easier to collect the information using spreadsheets.
- Easier and faster to create a spreadsheet than to configure their e-sourcing solution to meet their requirements.

In addition to using spreadsheets for collecting bid information, two-thirds of the participants in our survey use Excel spreadsheets to analyze their bids (67%). This is because their e-sourcing solutions don't provide an easy to use process for creating award scenarios that analyze supplier pricing alongside other value-add factors, let alone understand the cost impact of what are often competing preferences between different stakeholders within the organization. Excel provides a familiar and much more flexible solution for analyzing bids, though it can be a clunky and time consuming process.

Spreadsheet users within organizations that have corporate mandates to use their existing e-sourcing suite for all sourcing activities simply circumvent the mandate by attaching a spreadsheet-based bid sheet to an e-sourcing event. Similarly, those that use spreadsheets to analyze bid information that is collected within the e-sourcing solution are also circumventing the spend under management strategy. Spreadsheet utilization is not spend under management; the central sourcing team does not retain visibility and management of the sourcing process and decision making cycle because the process is conducted outside of the e-sourcing solution.

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## ADVANCED SOURCING SOLUTIONS TO GET YOU OVER THE PLATEAU

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Companies that want to achieve the next level of spend under management should look to advanced sourcing solutions that fill the gaps left by their existing e-sourcing suites. Implementing a complementary advanced sourcing solution to support these investments will put their organization on the road towards big gains in spend under management, efficiency, centralized management, and cost savings.

CombineNet ASAP (Advanced Sourcing Application Platform) is being adopted by leading companies to manage the sourcing activities that they are unable to efficiently and effectively manage within their general purpose e-sourcing suites.

## COMBINENET BACKGROUND

Originally developed in 2000 to support the largest and most complex sourcing activities, CombineNet ASAP offered customers an advanced sourcing solution to manage incredibly strategic sourcing events, where the outcomes have a material impact on the organization's supply chain and finances. These sourcing events represented the opposite of the low hanging fruit that general purpose e-sourcing suites were designed to support:

- Large data sets – often thousands of items, hundreds of ship-to locations, and hundreds of suppliers involved.
- Complex bid collection – price and non-price information, alternate items, tiered bids, volume discounts, conditional offers – referred to in CombineNet ASAP as Expressive Bidding®
- Robust bid analysis – “What If?” scenarios include business goals and local stakeholder preferences in the analysis of supplier proposals for better, faster decision making

CombineNet ASAP's flexibility, speed, and robustness in streamlining bid collection, coupled with its fast, powerful optimization-based analysis, led companies to turn to CombineNet for their most complex strategic sourcing activities. Those areas include categories such as transportation, packaging, and services. CombineNet ASAP's capabilities make it possible to easily support the needs of sourcing professionals who have been turning to the cumbersome use of spreadsheets for additional bid collection and analysis flexibility.

Over the past several years, CombineNet ASAP has made advancements in its user interface design, workflow automation, rapid RFI and RFP configuration, and sourcing event creation, launch, and management.

## COMBINENET ASAP TODAY

CombineNet ASAP today is a web-based solution used by sourcing teams to speed, simplify, and centralize the creation and management of sourcing events of any size, scale, or complexity – and in any spend category.

Key components CombineNet ASAP include:

- **RFxpress** – our 6-step wizard enabling rapid creation of RFx events
- **Expressive Bidding** – improving bid collection with greater flexibility, supplier creativity and non-price factors
- **Scenario Builder** – creating robust “What If?” analysis scenarios and supporting stakeholder alignment
- **Analysis and Optimization** – arriving at the best sourcing award decisions based on cost, value, business rules and other preferences
- **Sourcing Event Management** – supporting the full range of event management needs
- **Template Management** – improving overall productivity, re-use, and scale to other sourcing events and spend categories

Because CombineNet ASAP is focused on being best-of-breed for advanced sourcing, this has led to a significant increase in the use of CombineNet ASAP for spend that had been unaddressed or under-addressed by general sourcing suites.

## CUSTOMER ROI WITH COMBINENET ASAP

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CombineNet ASAP customers use the product as an augmentation to their current sourcing and procurement suite products already in place. Benefits they report include improvements in the areas of: buyer productivity; cost savings; supply innovation; supplier relationships; process centralization; best practices re-use and scalability; and internal stakeholder collaboration, which helps to mitigate off-contract spend leakage.

Some excerpted examples of real-world benefits ROI reported by just some of our customers:

- 45% in savings equaling \$75 million annually (in-store displays)
- 30% in cost savings (MRO sourcing)
- 50% reduction in time for the overall sourcing process (ocean tender sourcing)
- 15-20% reduction in time per sourcing event, or 1 day per week (across multiple categories)
- 30% in cost savings (air freight)
- Risk reductions by optimizing suppliers against non-price factors (steel sourcing)

CombineNet ASAP's proven capability to manage all types of sourcing events, from simple, routine spend all the way to the most complex, makes it ideally suited to be the best-of-breed solution in place specifically focused on delivering that solution -- rather than general purpose e-sourcing suites that were built to manage the low hanging fruit.



Customers report that CombineNet's easy of use for configuring and managing online RFPs and the ability to conduct fast bid analysis that includes stakeholder preferences has reduced the time it takes to create and manage an online RFP by 20%.

## NEXT STEPS FOR GETTING BEYOND THE PLATEAU

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Are you one of the 55% that use Excel spreadsheets to collect bids, or one of the 67% who use spreadsheets to analyze bids? What percentage of your direct material spend, or logistics spend, or other strategic spend categories are you managing through a formal e-sourcing process?

You should begin to measure the current state of spend under management at your company. Here are a few internal questions that should be answered:

- a. What spend areas are being addressed outside of your current sourcing solution?
- b. What constraints and limitations does the current sourcing solution impose?
- c. What ROI is desired: cost savings, productivity improvement, centralized management, best practices scalability, supplier improvements, etc.?
- d. What % of time is spent *creating and updating* RFIs and RFPs in Excel?
- e. What % of time is spent *collecting* bid responses in Excel?
- f. What % of time is spent *analyzing* bid responses in Excel?
- g. Do local spend owners have reluctance to hand over spend, if so, why, and what do they need from central sourcing?

If you are seeking to increase your spend under management – and have unaddressed or under-addressed spend, we invite a next-step discussion where we can learn about your goals and current solution limitations. From there, we can continue the evaluation through a demo of CombineNet ASAP, tailored to your business environment and sourcing areas.

Learn how CombineNet ASAP can impact your entire enterprise.

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