



Sourcing Optimisation

The next level in Digital Procurement

A Deloitte 'Point of View'

August 2020



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IMPACT THAT
MATTERS
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The next level in digital procurement

Many procurement leaders have questioned what procurement could look like in an automated, digital future. In operational procurement we can already see the initial effects and benefits. But few organisations have established an integrated and strategic approach to leverage value from their procurement function and their supply base.

After about two decades of development, the perception and delivery of procurement is still more tactical than

strategic. Many procurement organisations could not enhance their procurement function beyond a process-driven strategic sourcing capability and in-depth insights and knowledge about categories remained mostly a business domain.

Sourcing Optimisation will enhance the delicate relationship between business and strategic sourcing functions and as a consequence will become a key element in the digital procurement journey.

Our point of view outlines key elements and opportunities unlocked by this important new technology, demonstrates applicable use cases from across our clients in the category deep dives, highlights pitfalls that need to be avoided and explains how Sourcing Optimisation can be a stepping stone for procurement to become more strategic.



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Reaching the next level in digital procurement

The **increased speed of digital disruption and change** already seen in procurement today will further intensify and force companies to act more swiftly in the future. A **high pressure on resources** and **increasing complexity** in products and processes will put further stress on organisations.

Technology can mitigate some of these developments by providing **advanced analytical capabilities and automated sourcing processes**. These components enable sourcing managers to make more **informed decisions in real time** and **achieve improved financial outcomes**.

Overcoming the resistance to applying new technologies and to change generally in many organisations will be a major challenge for procurement organisations of today and tomorrow.

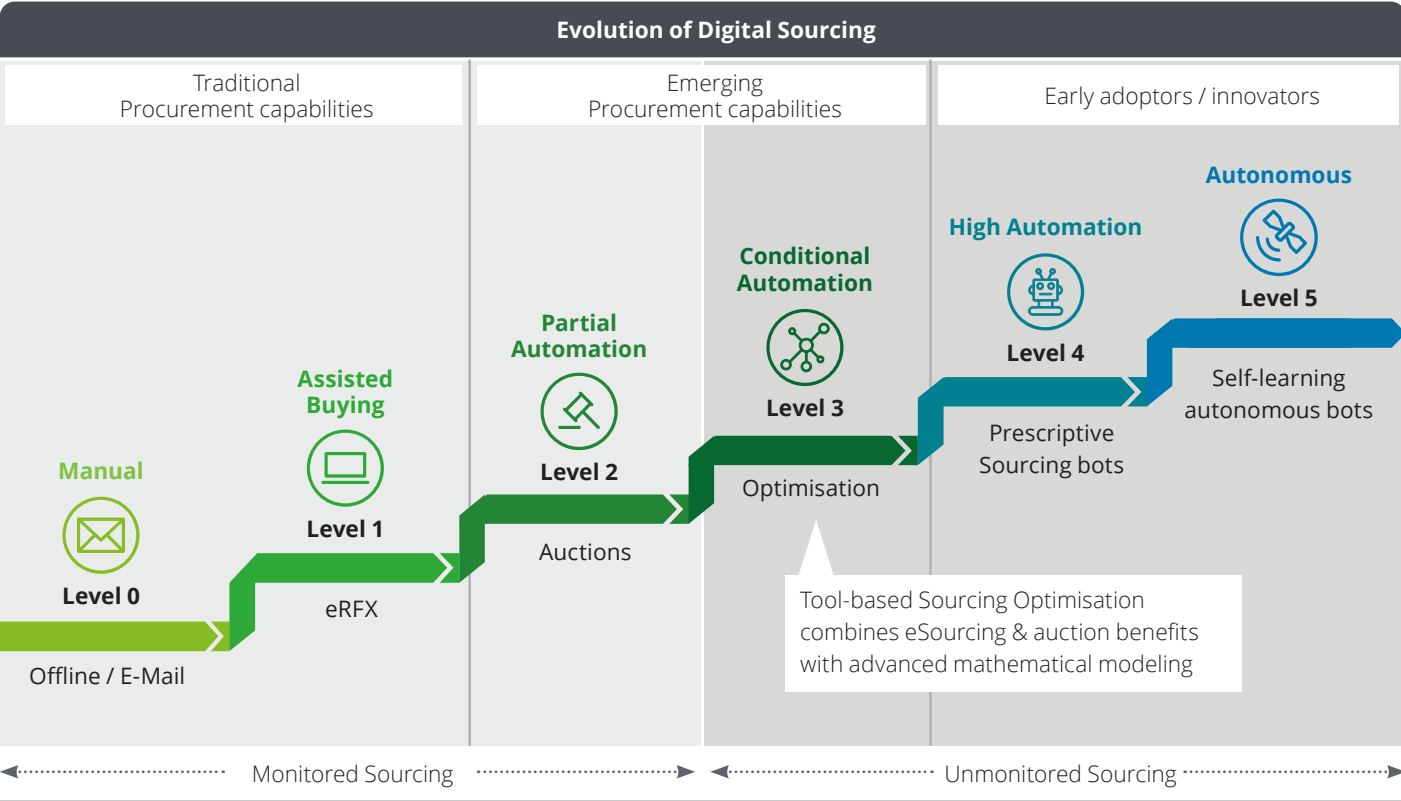
Organisations that fail to **identify suitable technologies** or to **manage the organisational enablement** will not prevail in the procurement world of tomorrow.

While some organisations have started their digital procurement journey, most don't use the available resources to their full potential yet. eSourcing and auctions are still not commonplace in most companies. All the while new cloud-based sourcing tools are entering the market that drive added value through **advanced mathematical modelling and scenario building**. These tools are the first step towards automated sourcing and are commonly described as 'advanced Sourcing Optimisation' tools.

They offer features that are primarily relevant to complex sourcing events with large numbers of line items, input factors and/or suppliers. These traits can be found in almost all commodities, but offer new

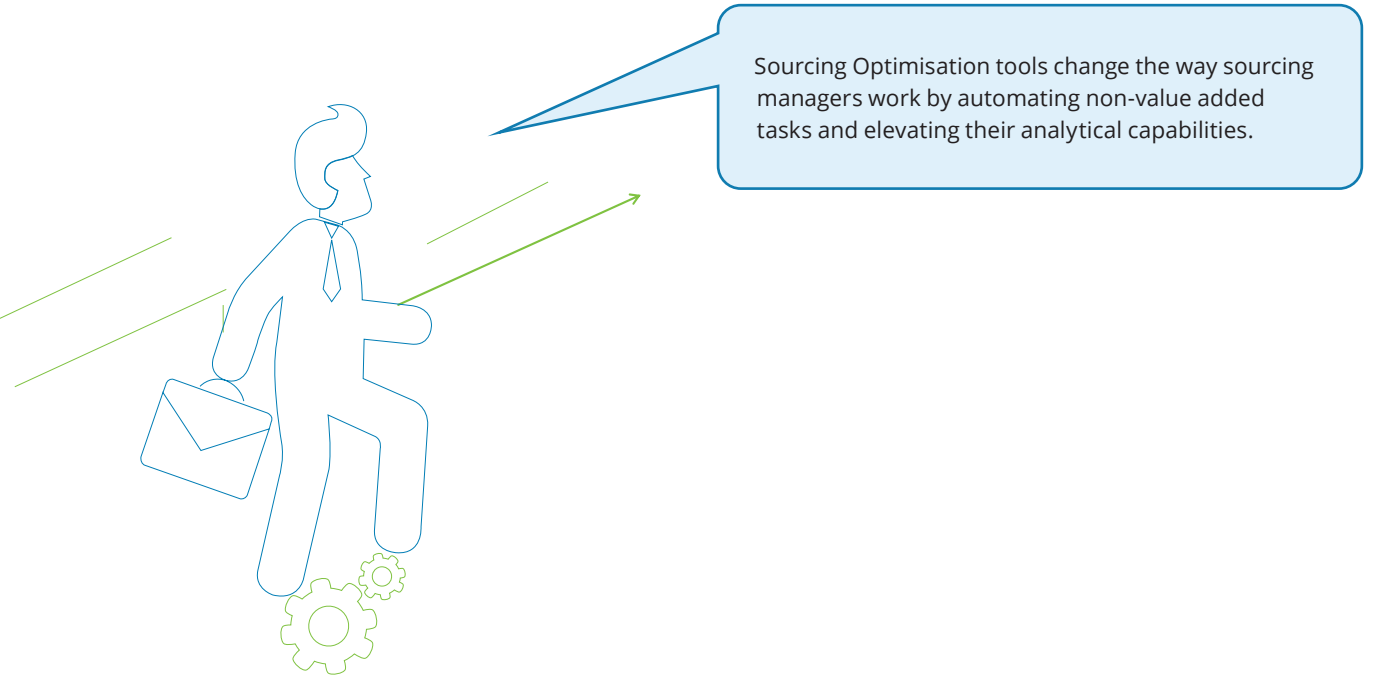
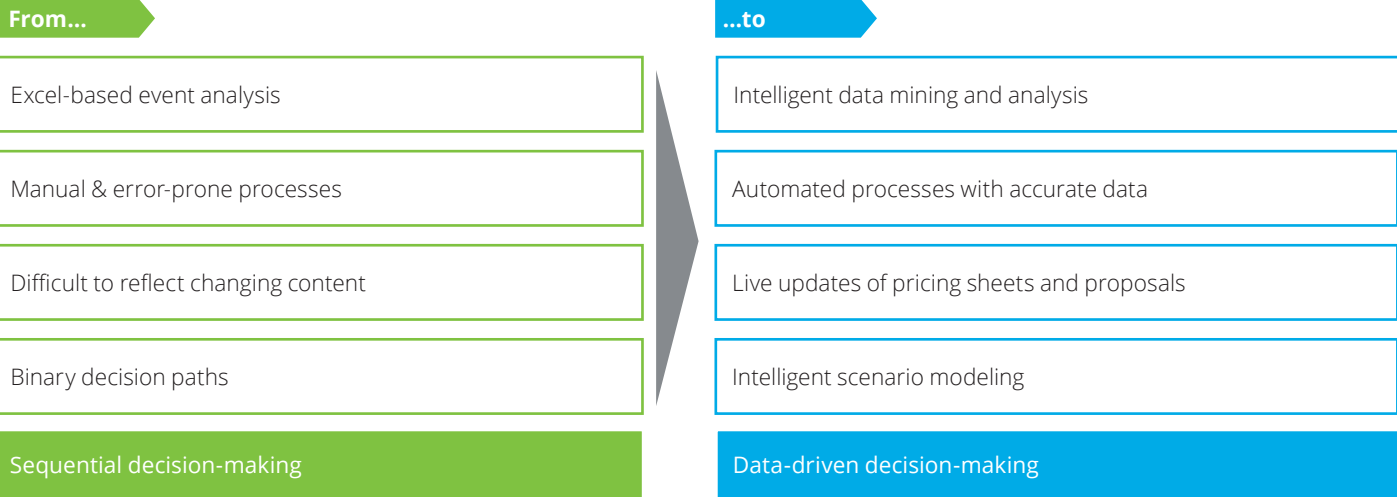
opportunities in complex direct and indirect spend categories especially.

Through elevating the ways of working, **tool-based sourcing** enables organisations to **increase their efficiency** and unlock **new ways of delivering savings**. It allows them to conduct more sourcing events and to apply **complex negotiation strategies**, like game-theoretical negotiation design, as part of large-scale sourcing programmes, resulting in **more spend covered** and **higher savings**. Ultimately, Sourcing Optimisation can help to **increase the return on your procurement investment**.



Definition:

'Advanced Sourcing Optimisation' describes the calculation of optimal award allocations using scenario-based mathematical modelling under consideration of holistic award criteria and internal/external allocation constraints. Infinite combinations of input factors (suppliers, restrictions, risk & performance scores, etc.) can be processed and incorporated in customised award scenarios to unlock substantial savings potentials. Sourcing Optimisation reflects **changing constraints and proposal updates in real time**, which **enables instant event analysis and improved decision-making**.



“When it comes to analysing proposals, Excel sheets are not the optimal solution, but they are all I have today. Each change in scope and each new tender round mean starting over.”

Global Sourcing Manager, FMCG

Technology as an enabler for optimised decision-making

Deloitte recognises three key elements that are responsible for driving benefits and success using Sourcing Optimisation tools. The approach to sourcing has to shift towards more upfront planning and anticipation of relevant information for the decision process or potential content changes in order to create sourcing events that take full advantage of data analytics and modelling capabilities.



Event design:

Fully customisable events can be set up with an infinite number of input fields. This enables buyers to account for a Total Cost of Ownership (TCO) perspective, which can be modelled in sophisticated cost formulas. All information relating to the event, from RFI to supplier quality scores, discounts, bundles, alternative offers and handicaps, can be incorporated in the event and inform the decision-making process.



Event analysis:

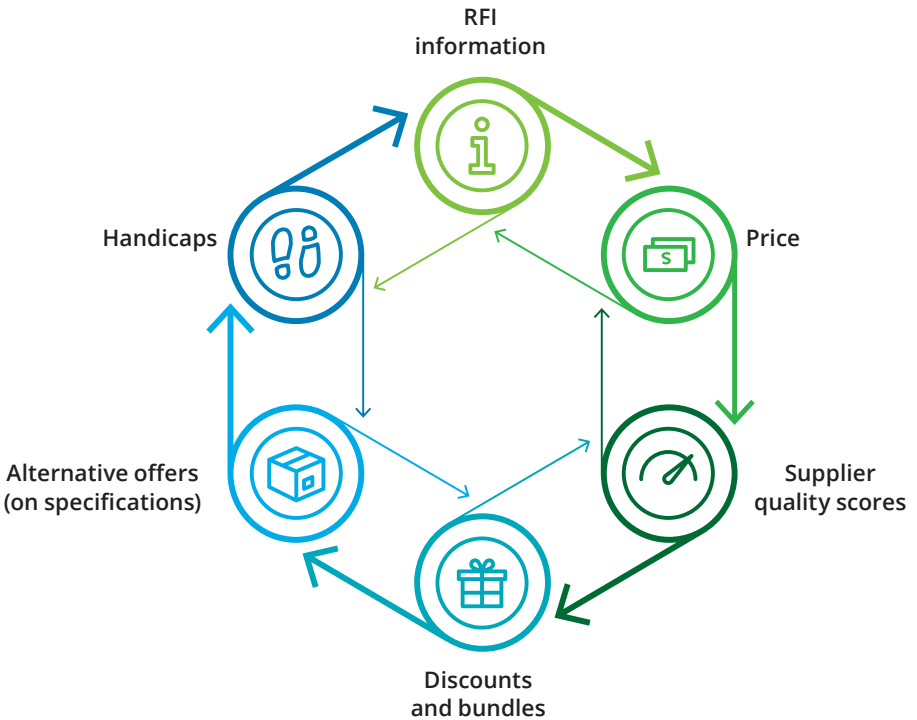
AI-powered, instant data analysis and reporting allows for easy comparisons between offers across suppliers, scenarios and event stages. As project scopes fluctuate and multiple tender rounds require adaptations, advanced sourcing tools increase the speed to market, since updates can be published, collected and analysed in real time. This responsiveness represents a competitive advantage due to the reduced time to market.

Additionally, incorporating holistic award criteria or constraints and the transparent modelling of allocation splits across scenarios enables an informed decision-making process.



Event management:

As optimisation tools are highly sophisticated, users require some training and experience to unlock their full potential. Category-specific event templates and externally managed services can drive adoption and create immediate value while organisations enable their sourcing teams. The use especially of various static and live feedback options supports advanced negotiation strategies and tactics (e.g. parallel or online negotiations) that result in improved results.



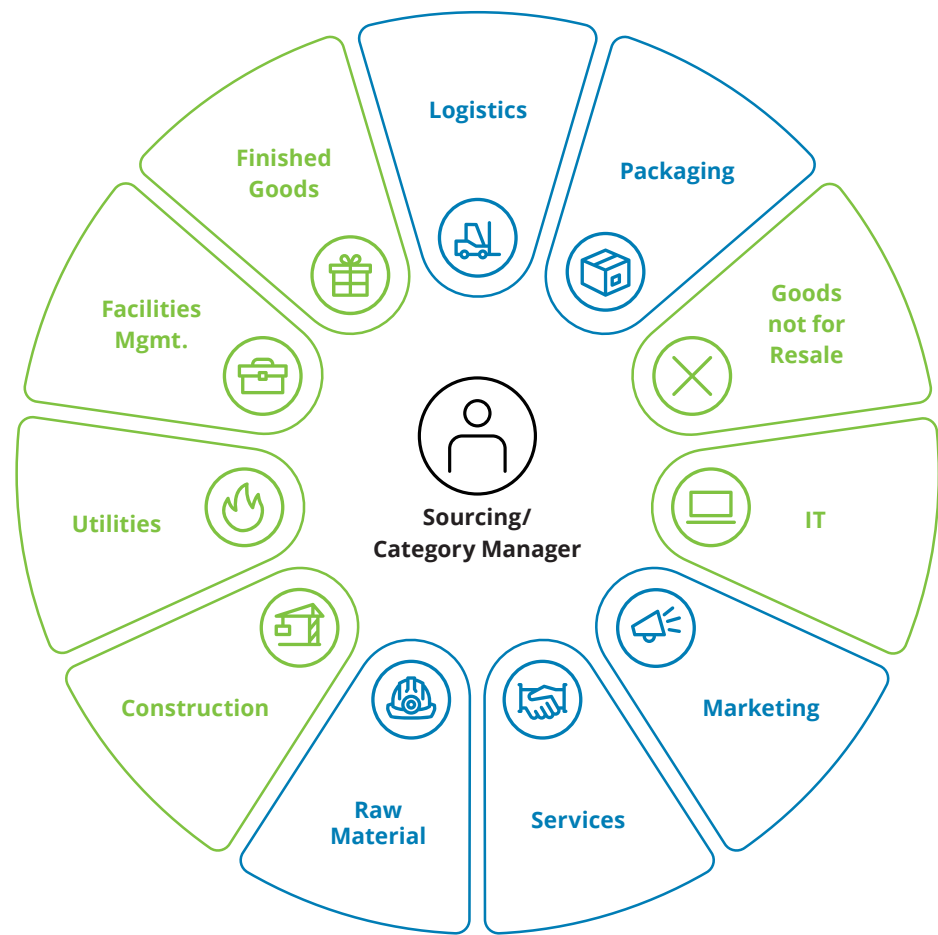
Applying Sourcing Optimisation

Indirect spend categories usually require high volumes of labour and/or large numbers of different components, whereas direct spend categories often require detailed cost breakdowns or TCO analysis. In either case, intricate structures and matrices quickly make tenders complex and hard to manage, and Excel-based analysis cumbersome and error-prone.

Besides the ability to structure and analyse information in a more usable format, advanced sourcing tools can **support the creation of holistic databases** that **capture cross-country and cross-event information** and enable **advanced analytics**, without the risk of compromised data files or insufficient access rights.

We believe that Sourcing Optimisation can be applied and will deliver these benefits independent of commodities. The following deep dives will provide an overview of potential use cases to start the conversation.

Overview of potential categories relevant for Sourcing Optimisation



The items highlighted in **blue** will be explored in the following deep dives

Raw Materials & CAPEX

Deep Dive

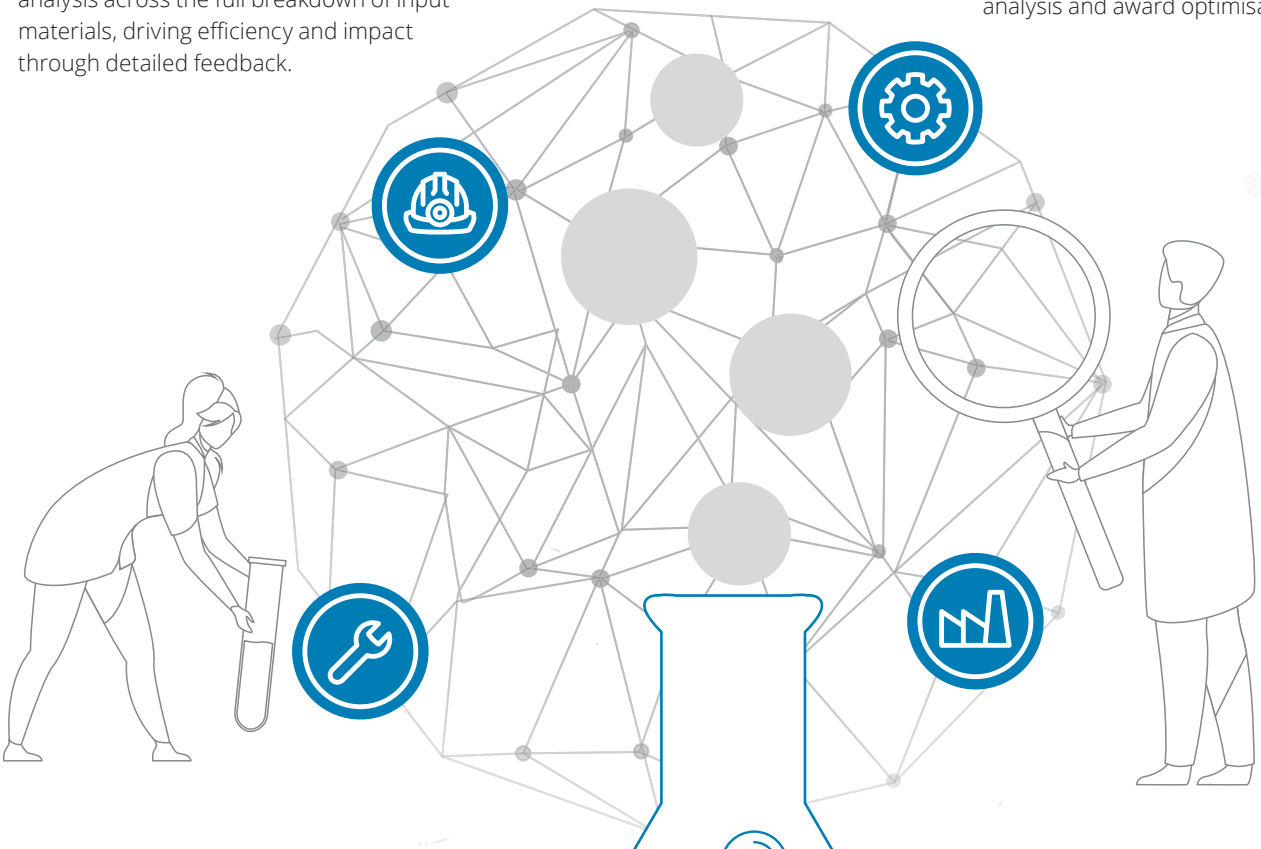
Raw Materials and associated categories are usually driven by a high level of granularity and hence large numbers of input requirements. At the same time, many markets are open and competitive, which results in healthy competition through multiple suppliers. The combination of granular pricing requests and large numbers of suppliers makes Direct Materials a perfect area for Sourcing Optimisation.

Raw materials

Sourcing critical components of an end-product requires thorough analysis of the final impact. Manual assessments are often time-consuming and inaccurate. Sourcing Optimisation can provide real-time analysis across the full breakdown of input materials, driving efficiency and impact through detailed feedback.

Bill of Material

Complex Bills of Material (BOM) can be replicated in a single event as different components can be assigned to individual supplier groups through visibility restrictions. This enables a true TCO analysis and award optimisation.



MRO

MRO is usually defined by large numbers of required products. Sourcing Optimisation can drive speed and impact by comparing endless lists of spares, providing detailed feedback on a line by line basis.

CAPEX

CAPEX projects usually require complex bid sheets for multiple technologies or building components. Granular information on assumptions and required input materials make them hard to analyse and compare holistically. Advanced analytics and scenario modelling can drive speed and financial benefits in this category.

Deep Dive

Services

Marketing

Deep Dive

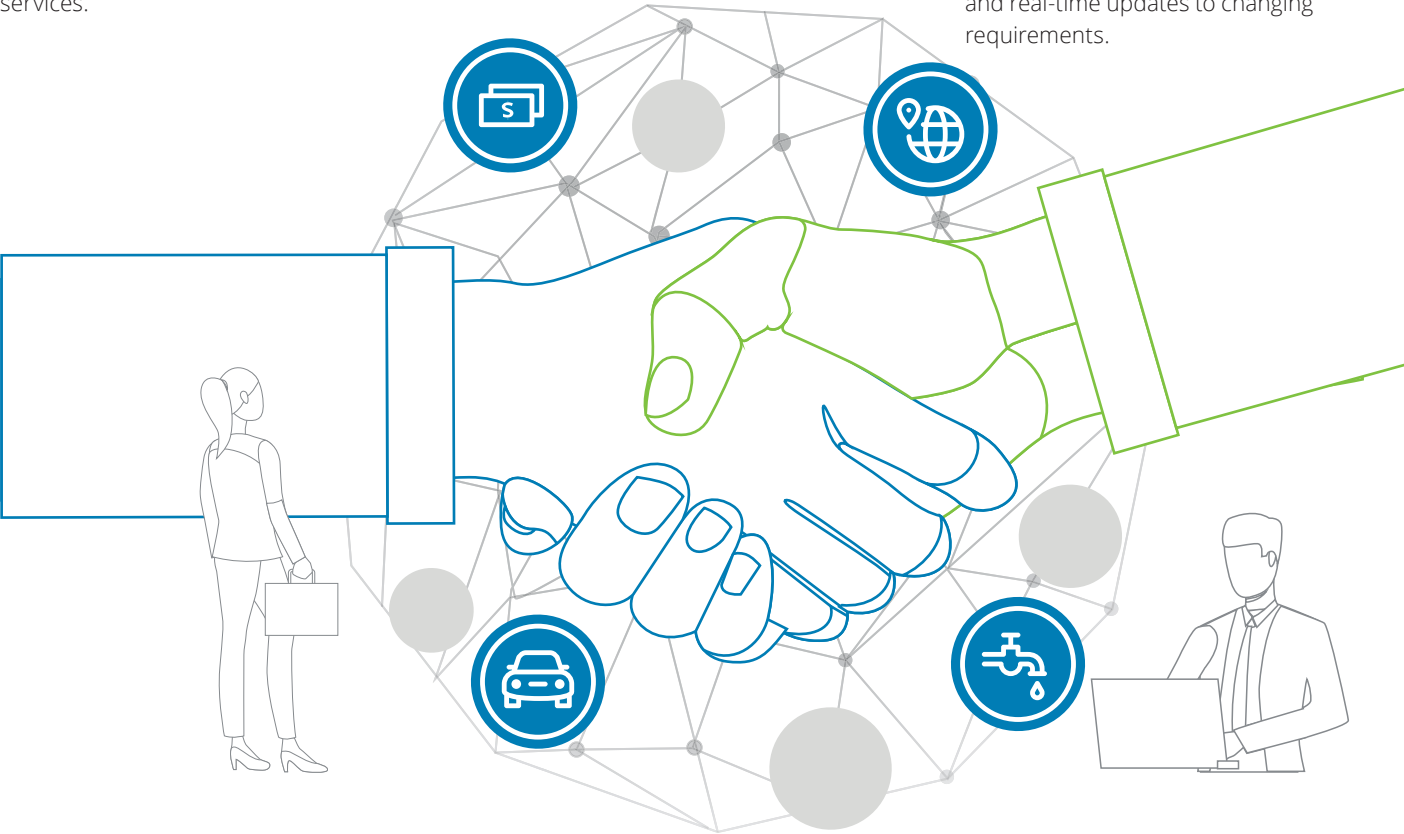
Indirect portfolios need to address a wide variety of different services with their respective complexities. The cost breakdowns tend to have combinations of labour cost and materials and can amass large numbers of line items, depending on the local or global nature of the commodity or the number of countries/sites covered in a tender. Excel-based analysis is cumbersome and error-prone, especially if multiple tender rounds need to be administered. Potential use cases in this context include:

Professional Services Rate Cards

Hourly rate cards across levels/titles and geographic location are commonly needed for management and IT consulting or legal services.

Outsourcing services

Complex outsourcing tenders with a large number of variables, dependencies and options benefit from modelling capabilities and real-time updates to changing requirements.



Fleet

Complex fleet tenders within or across markets with large numbers of models, OEMs and/or service requirements can benefit from scenario modelling and different feedback options.

Facility Management

FM tenders need to cover a wide array of different services that combine labour-intensive services with the complexity of site specific requirements in potentially cross-site or cross-market tenders. Advanced analytics, feedback options and scenario modelling are highly relevant for optimising tender results.

As Marketing Procurement and Services usually require high volumes of labour, cost breakdowns are normally a mix of hourly rates, the number of hours required, an overhead and profit contribution, and third-party cost elements. These components can either be individually tendered on a project-by-project basis or holistically as part of a strategic category review. Potential use cases in this context include but are not limited to the following:

Rate Cards

Hourly rate cards across levels/titles can be captured and stored in a single point of truth for easy comparison, offering visibility and access on a need-to-know basis

Asset Pricing

Based on individual rate cards and effort assumptions, asset prices can be easily compared and harmonised to build the basis for catalogue items and a central price database.

Collateral

Large tenders for Marketing collateral across regions and countries with many items and specifications, volumes and requirements can be analysed easily using scenario modelling.

Advertising Production

With unique production approaches, effort assumptions and frequently changing requirements, production tenders can benefit from flexibility in the tender design as well as expressive bidding features. This also enables the creation of a database for production rate cards and requirements over time.



Deep Dive

Logistics

Logistics and Transportation are the areas most widely used in Sourcing Optimisation. With large numbers of lanes, transportation modes and available suppliers, the market is highly competitive, yet difficult to compare when regional or global supply or distribution networks are required. As demands can be either planned or come up ad hoc, tendering tools need to be flexible yet quick to ensure fair market value is achieved.

Warehousing

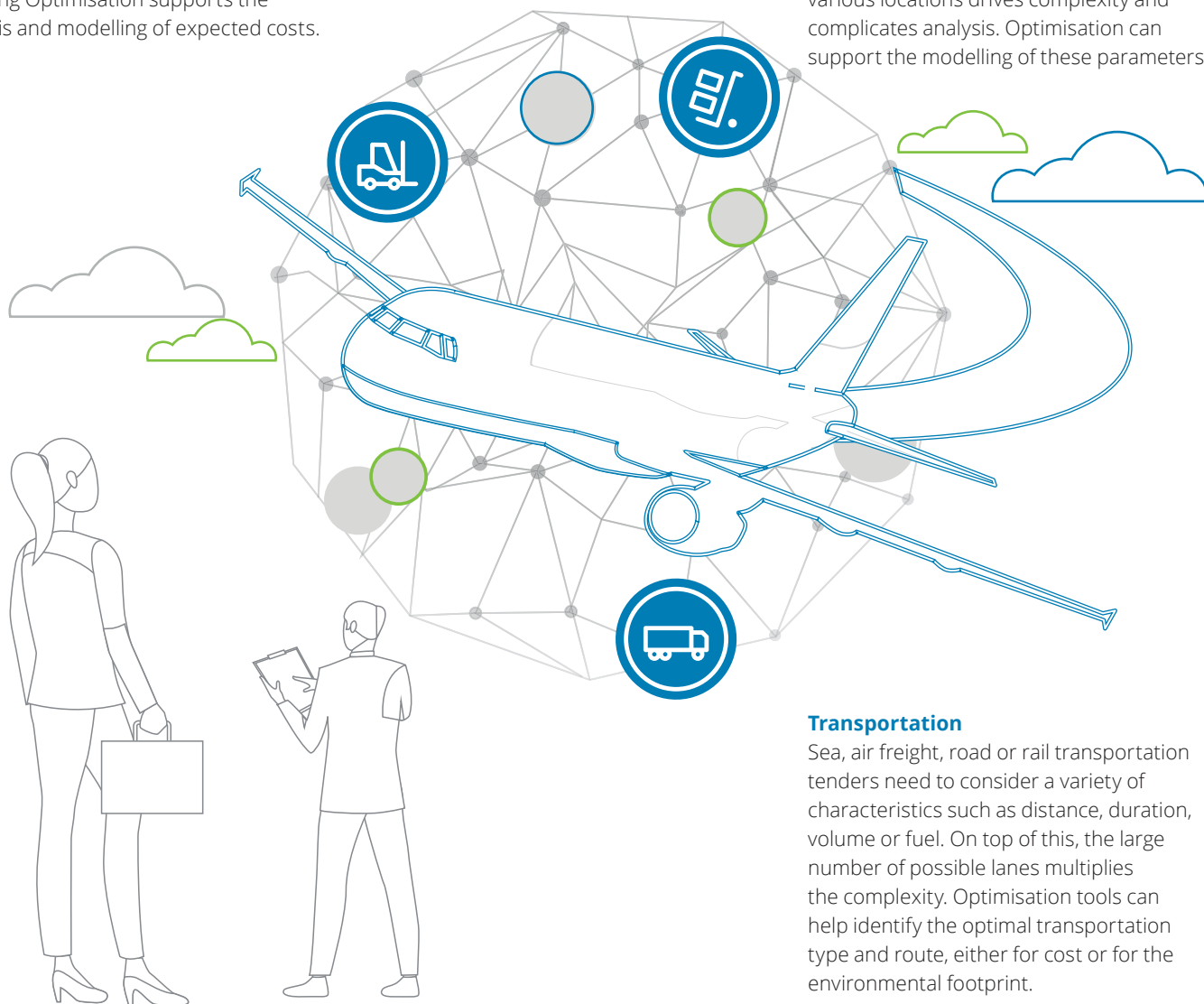
Warehousing space and its alternatives are defined by various parameters. Different shift plans and changing volume forecasts across years add to the complexity. Sourcing Optimisation supports the analysis and modelling of expected costs.

Pallets

Ensuring the ownership and flow of pallets is accurately reflected in tenders is cumbersome. Modelling shifting demands and cross-country networks including various locations drives complexity and complicates analysis. Optimisation can support the modelling of these parameters

Transportation

Sea, air freight, road or rail transportation tenders need to consider a variety of characteristics such as distance, duration, volume or fuel. On top of this, the large number of possible lanes multiplies the complexity. Optimisation tools can help identify the optimal transportation type and route, either for cost or for the environmental footprint.



Packaging

Packing Procurement is considered one of the most demanding and competitive sourcing portfolios. Large number of different packaging materials, endless variations of specs and a competitive supply market make it the perfect candidate to profit from Sourcing Optimisation. Managing large packaging tenders in Excel is extremely cumbersome and definitely sub-optimal if alternative specifications or active feedback are not employed in tenders. Potential use cases in this context include but are not limited to the following:

Cardboard

Weight, size and material are only part of the complexity of sourcing cardboards. Attention to sustainability guidelines, logistics and replenishment lead times must be taken into consideration.

Labels

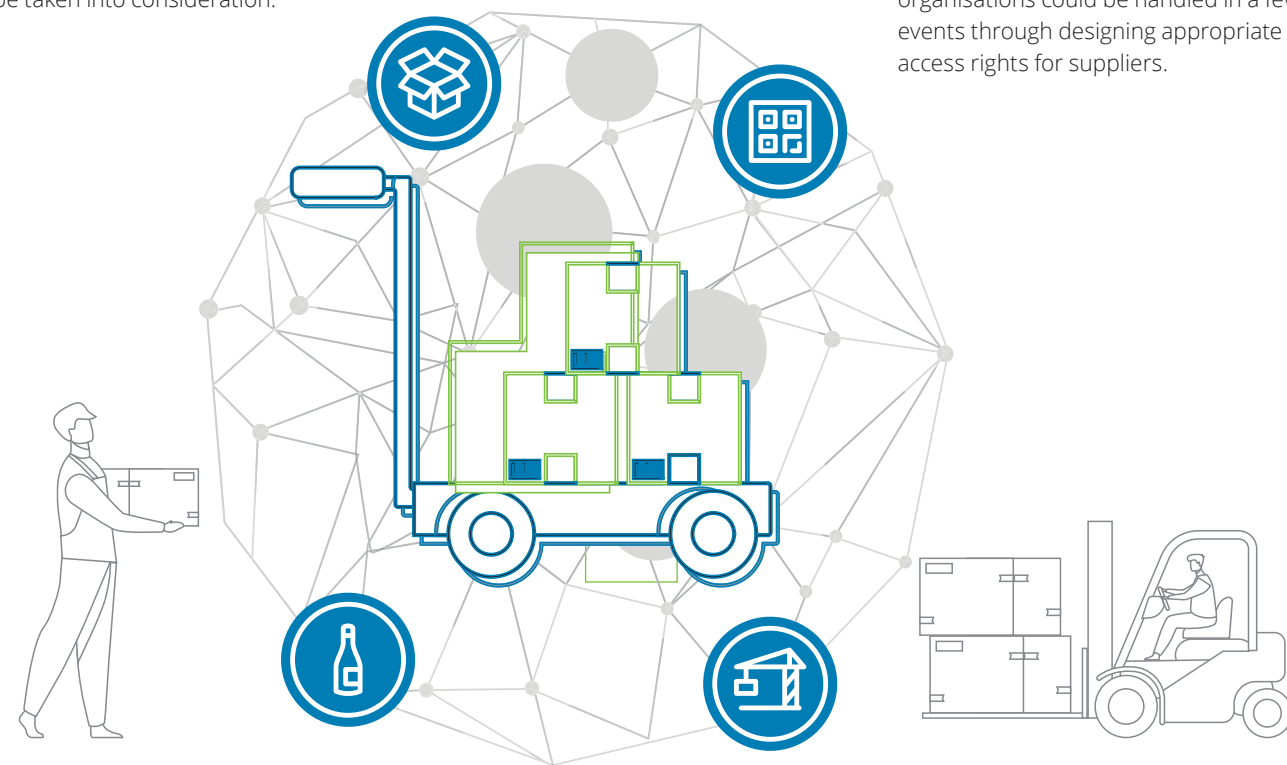
The quality and requirements of the labels depend on the field of application. The large number of different types required across products and markets by organisations could be handled in a few events through designing appropriate access rights for suppliers.

Bottles

Besides the large number of potential specifications required, alternative options often exist to fulfill the same purpose. Sourcing Optimisation tools can integrate supplier proposals on alternative specs as well as use scenario modelling to identify the optimal route to market.

Equipment

Packaging equipment is tailored to client needs and consists of multiple components that can easily be designed in an optimisation tool and be optimised for output and cost.



“Finding the right Sourcing Tools is only one side of the Coin. Bringing it to life is the hard part”

Head of Sourcing Excellence,
Automotive Industry


How to accelerate value delivery with Sourcing Optimisation

While many organisations see the merits of Sourcing Optimisation, they often struggle to drive adoption and harvest the full benefits. Common problems observed are:

In order to realise the full value of Sourcing Optimisation, organisations need to take a holistic approach to enabling their employees. This includes aspects of change management such as communication and training needs, but also hands-on support, like category-specific templates or even external support. A balanced approach can drive adoption and create immediate value, resulting in improved returns on the digitalisation investment.



Deloitte supports organisations across the entire digital procurement journey, in line with their individual requirements, development goals and financial targets




Conception

Operating Model Development

Tool Selection & Tool Setup

Communication Strategy

Deloitte. supports the **ideation & implementation** process to promote the organisational anchoring while delivering first results



Enablement

Coaching & Training

Template Design

Establish Support Infrastructure

Deloitte. enables teams to run their own sourcing events



Delivery

Event Set-up & Management

Documentation & Reporting

Negotiation Support

Deloitte. delivers **immediate impact** through **assessing opportunities & conducting events** in a service delivery model



Outlook

Inefficiency and outdated approaches are challenging the view of procurement as a value driver. Procurement as a function has to transform itself and invest in the digitalisation of processes, tasks and skills in order to keep the seat at the table for which it has worked so hard.

We believe that Procurement Digitalisation, in terms of increased automation, advanced data analytics and increased savings delivery, is required to accomplish this challenge. Technology providers need to make these features available to a wider group of users. In this environment,

Sourcing Optimisation can help to **deliver more savings** from **more events** in **less time**.



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Deloitte is a leading accounting and advisory company with over 310,000 practitioners globally. Deloitte's Sourcing & Procurement practice is made up of over 5,000+ specialists – every day we

help our clients reach their goals through procurement transformations as well as digitalisation programmes, making us a confident choice in the industry. As one of the first global consulting firms, Deloitte

has invested in its partnerships with best-in-class procurement technology providers, to bring sourcing optimisation to life by driving efficiency and impact.



Please get in touch with us to discuss how Deloitte can support you in driving your digitalisation agenda through advanced sourcing programmes in order to drive efficiency and impact for your Procurement team.



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