



Beyond Price:

Finding the Right Suppliers

with Sophisticated Sourcing Strategies

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Beyond Price: Finding the Right Suppliers Using Sophisticated Sourcing Strategies

During the sourcing process, procurement teams need to consider a range of non-price attributes, like supplier market share, supplier performance, and supplier production and delivery capabilities, in order to find the best value for their sourcing dollars. This white paper will discuss these and other non-price factors that sourcing teams can and should use to evaluate suppliers' bids, award new contracts, and be agile in today's hyper-competitive business environment.

Use eSourcing for More than Basic Price Discovery

Seasoned sourcing pros know that there is often much more to awarding a contract than price. And yet, they often hear from business stakeholders that competitive sourcing is not the right strategy for their particular category, saying “this category is far too specialized and there are too many non-price factors that must be considered in awarding the final contract. Sourcing just does not make sense here.” The reality is the exact opposite. A mature sourcing organization should be ready and able to incorporate non-price decision factors into the final evaluation and award of a supplier contract. They should also be able to weight price and non-price factors into a single evaluation. While this could be difficult in an offline sourcing process, the advances in eSourcing technologies over the past five years have made it much easier to incorporate varied and complex award criteria into a streamlined and automated sourcing process. So, those business stakeholders who offer excuses like the ones above are playing into the hands of the savvy and sophisticated sourcing teams who are prepared to run sourcing projects that incorporate non-price factors into the decision making process. After all, sourcing is not about identifying the lowest price; sourcing is about identifying the greatest value. This report continues below with a discussion of many of the most frequently used non-price attributes and how their use can help sourcing teams find the best suppliers.

Supplier Market Share

Market share is the percentage of sales (counted in revenue or units) that one supplier has in a given market. Market share is an important indication of a supplier's success within its industry and explains how competitive it is relative to other suppliers in the space. Understanding a supplier's relative position in the market can help sourcing teams understand what kind of supplier it is dealing with (i.e. global, regional, niche provider, etc.) and provide some context as to what that supplier's key differentiators are likely to be. Suppliers with a large market share usually hold some type of competitive advantage in the current market that has enabled them to become dominant. On the other hand, low market share may not disqualify a supplier from bidding, but it does indicate that other, larger, and more successful competitors exist. Reviewing the market share held by participating bidders can also be a good check to ensure that the bidding process includes an appropriate number of top or qualified suppliers. Additionally, understanding market share movements is a good way to identify shifts in the supply market and understand where value and innovation are being generated. Large drops in market share by a bidder should raise a red flag and generate some level of research by the sourcing team.

Quality

Quality can mean different things to different stakeholders and it can mean different things for different categories. No matter the stakeholder or category, it is the sourcing professional's job (and challenge) to develop a consensus view of quality for a specific project and some standard framework that can be applied to each bid or supplier. Different industries have developed different standards for quality and performance that can be used to help quantify quality but stakeholders must also be engaged. Interviews and surveys are two primary methods used to gather quality feedback. eSourcing tools are a great way to capture stakeholders' quality grades of the different bidding suppliers.

Quality Assurance & Control

If quality is an important factor, then a supplier's ability to consistently deliver it should be evaluated. Quality assurance is the ability of a supplier to prevent defects or poor delivery on a consistent basis. Sourcing teams will want to evaluate a supplier's QA programs and understand how they are applied to production and delivery processes. Depending on the industry, a supplier could also be managing the quality of its raw materials, assemblies, products and components, services related to production, and its management, production,

and inspection processes. While the level of rigor in a QA program should be defined by the production, type, and usage of the goods/services, it is important to note that QA should not be limited to manufacturing businesses only. Sourcing teams must decide which of these QA aspects are relevant to their categories and then compare and contrast supplier QA programs to industry standards, benchmarks, and other suppliers' programs.

Supplier Performance

Supplier performance, like quality, is something that can be quantifiable and highly subjective at the same time. Like quality, the components of performance are highly dependent on the situation, the supplier, and the good or service provided. And, of course, like quality, there are thousands of sources of information on supplier performance, and how it should be graded and then incorporated into future supplier negotiations. Sourcing teams can certainly use supplier performance evaluations to make smarter sourcing decisions, but they can also use this process to improve the quality of future supplier contracts by asking:

- What SLAs should be included in a contract? And,
- What were the most important factors used in evaluating supplier performance and are they reflected in the contract?

They can also improve supplier communication and relationships by trying to understand:

- What did we just learn that we can share during the sourcing process to better define our requirements? And,
- How can we build upon what worked in the past and improve upon what did not?

Production & Delivery Capabilities

While many supplier capabilities are embedded within the quality and price of the specific item or service, there may be other factors related to supplier production (and delivery) that can or should be considered when managing a sourcing project. These factors may or may not be directly related to the contract currently being negotiated. Here are a few:

- **Value-added or complementary products and services** – With many supplier bids, there are aspects of the supplier's business, like superior customer service, a more aggressive maintenance program, and longer lifetime warranties that can alter the overall value of the contract and/or extend the life of the product. These services could be included in the supplier contract. Although it is possible that they will not be

needed in the near-term, the speed of business today makes it highly probable that the services will be needed in the future. And then, there are the suppliers that offer complementary services, like a janitorial services supplier that also does landscaping, or a manufacturer that also does assembly. Each of these suppliers offers a service that enables greater flexibility in the buying company's future.

- **Capacity** – Suppliers operating at or near full capacity may be better positioned to withstand a down cycle or the loss of major customers; but they will be less able to increase production and/or less interested in changing production than those with excess capacity (in theory, anyway).
- **Production process (and technologies used)** – Regulations (current and future), customer preferences, and business trends are just a few examples of how the production process and production location can impact a sourcing decision. For example, production that occurs in regions with high levels of child labor could present a supply chain risk that is too large to bear, even if the price was right. Sustainability is another example – consider a supplier that has a distinct production process that creates a larger or smaller carbon footprint than the competition. Similarly, suppliers using the next generation of a technology for production may be more expensive today, but less expensive over time; these suppliers may also be better able to help develop new innovations.
- **Operational and technical capabilities** – Beyond the delivery of a specific bundle of items or services, having a supplier with superior operational and technical capabilities can be a huge advantage in volatile markets. For example, when “market changing” events (political, financial, weather, etc.) occur, we are often able to see which suppliers and companies were better prepared or adapted better than their competitors.
- **Geographical reach** – Global suppliers can be very valuable in helping to drive standard contracts and standard approaches to different categories across a big enterprise. One dirty little secret of global Chief Procurement Officers is that they struggle to find truly global suppliers. That said, a supplier's geographical reach can be very important to these leaders as their businesses and operations continue to evolve.

Supplier Ownership & Leadership

If "smart" stock investors think that the talents and abilities of a company's executive management team can contribute significantly to its overall performance and success, it is reasonable to believe that there are sourcing scenarios and supplier relationships where the executive team and ownership of a supplier can also be very important. A more complex aspect of understanding who a supplier is its ownership and ownership structure. Leadership often sets the tone or culture of an organization, but the history and ownership of a company can be just as important. A successful business unit within a large cash-generating conglomerate is more likely to survive the next downturn with little business continuity risk than a privately-held mid-sized operation. The European company owned by two seventy-year old brothers with no succession plan and no children is less likely to be able to support the new product line that launches in 2017 than the publicly-traded company whose new forty-year old CEO was a recent shining star at another industry leading firm. Likewise, working with the hands-on owner of a boutique advisory firm who guarantees customer satisfaction can be a very different proposition than dealing with the fast-charging, big-firm consulting partner who can only guarantee a high number of billable hours. And finally, many large enterprises have supplier diversity programs that promote and/or mandate that some business be done with women and minority-owned suppliers.

Conclusion

Using non-price attributes to make an award decision is speaking the language of the Chief Procurement Officer; it is part of the fabric of a mature procurement organization; and it is a critical strategy used by today's sourcing pros. Groups that use non-price attributes will become more sophisticated and advanced in their sourcing capabilities and in their ability to combine non-price and price factors into the overall evaluation of supplier bids. These groups will also be able to source more complex categories and engage more stakeholders. To ensure that optimal results are achieved, it will be important for these groups to leverage eSourcing tools to help quantify the qualitative and develop templates and approaches for the most frequently-used attributes.

Appendix

About The Author

Andrew Bartolini, Chief Research Officer, Ardent Partners



Andrew Bartolini is a globally-recognized expert in accounts payable, sourcing, procurement, and supply management. Andrew focuses his research and efforts on helping enterprises develop and execute strategies to achieve operational excellence within their finance and procurement departments. Andrew is also the publisher of CPO Rising, the news and research site for Chief Procurement Officers and other procurement leaders (www.cporising.com).

Advisor to corporate executives and leading solution providers alike, Andrew is a sought-after presenter, having lectured and presented more than 250 times in eight different countries. Over the past decade, Andrew has benchmarked thousands of enterprises across all facets of their accounts payable, sourcing, procurement, and supply management operations and his research is currently part of the Supply Chain/Management curriculum at several US universities. He actively covers the technology marketplace as well as trends in sourcing, procurement, supply management, and accounts payable and has been published or quoted in leading business publications including The Wall Street Journal, Business Week, Investor's Business Daily, Forbes, and Fortune, as well as the major trade publications focused on accounts payable and supply management.

Prior to becoming an industry analyst, Andrew developed, packaged, deployed, and used supply management solutions on behalf of enterprises in the Global 2000 while working for Ariba and Commerce One. Additionally, his experience in strategic sourcing (where he managed sourcing projects totaling more than \$500 million in aggregate client spend), business process transformation, and software implementation provides a “real-world” context for his research and writing.

Andrew has been named a “Pro to Know” by Supply and Demand Chain Executive three times and holds a B.A. in Economics from The College of the Holy Cross and an M.B.A in Finance from Indiana University. He welcomes your comments at abartolini@ardentpartners.com or 617.752.1620.

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