LEVVEL RESEARCH

2018 Guide to Sourcing Automation

Exploring the Value of Electronic Sourcing (eSourcing) Software for Managing Indirect Procurement

Q1 2018 | Featuring Insights On...

» Sourcing Management Trends Among North American Organizations

» The Varied Goals of Direct and Indirect Sourcing

» Features and Functionality of Indirect eSourcing Software

» Indirect Sourcing Best Practices

» A Leading Sourcing Automation Software Provider

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Introduction

Sourcing helps procurement teams evaluate and engage high-value suppliers, acquire high quality goods and services at competitive prices, and build strategic contracts with suppliers based off engagements. The sourcing process is most commonly used for procuring direct goods that have a clear impact on a company's production, and typically involves large orders from complex supply chains. Levvel Research has found that it is not uncommon that an enterprise company with a large amount of direct spend and reliance on international supply chains, such as a company within the manufacturing industry, may have a dedicated sourcing team within its procurement department. It is less likely that a company with majority indirect spend, such as a financial or consulting company, would have a dedicated team or even a formal process for sourcing. It is also less likely that these companies would understand the value in automating their sourcing process with electronic sourcing (eSourcing) technology.

Often, organizations that do not fit the mold of companies that would traditionally need sourcing teams and software tools (e.g., those with high direct spend, or supply chain reliance) do not feel they would benefit from a sourcing solution. While indirect goods eSourcing software is available for companies with high indirect spend, these companies sometimes feel little urgency to adopt the software. Many companies leave indirect purchasing management to general procurement and electronic procurement (eProcurement) technology rather than rely on sourcing teams to find strategic suppliers and establish long-term contracts. Unfortunately, these organizations are missing out on the great value and competitive advantage that strategic sourcing, particularly with an eSourcing solution, can provide.

Levvel believes that the resistance to eSourcing adoption among companies with little direct spend stems from a lack of understanding of what sourcing automation can do for indirect procurement processes. Procurement teams managing indirect spend are often concerned with systemic issues that have less impact on production but more on a company's ability to control costs, such as maverick spend among back-office professionals. eSourcing software supports these goals by offering tools that empower purchasing teams to strategically manage all types of spend management, including those involved in indirect procurement processes.

This report offers a close look at the value of indirect sourcing automation for organizations of many different types. It explores recent trends in sourcing management and electronic sourcing (eSourcing) adoption. It seeks to break down some of the misconceptions around who should or should not adopt eSourcing technology, and to show that sourcing technology has value not only in terms of improving direct procurement but in improving indirect procurement as well.

Sourcing Today

The sourcing process involves finding potential suppliers and soliciting quotes for large quantity orders of goods and services. Supplier responses to RFx are compared side-by-side so that organizations increase the likelihood of engaging with the supplier that offers the best prices with the lowest risk. Choosing the best supplier also entails conducting in-depth validation, including numerous screenings and validation tests to ensure the supplier is a compliant and low-risk company. Once bids are awarded, the organization and supplier negotiate their contract, which is why the sourcing process is often closely linked to contract management, collectively known as part of the Source-to-Settle (S2S) process.

Traditional sourcing processes involve many manual-based actions and tools. Manual sourcing processes often take away from procurement teams' time to perform important tasks related to current engagements, such as supplier evaluation and negotiation. Manual processes also lead to lengthy sourcing process cycle times, hurting the success of the business. This is because procurement teams are often preoccupied with managing paper documents, and rarely have time left to perform more strategic and value-added tasks that would help their organizations stay competitive, such as category review. Some companies improve sourcing processes by applying more precision to particular processes or hiring more staff, but ultimately, these efforts are not scalable, especially in a globalized business environment.

Globalization has made traditional, manual-based sourcing almost impossible to sustain, particularly for large, international organizations. Without sourcing technology, these companies have more difficulty remaining competitive in light of economic uncertainty, regulations, stricter compliance requirements, and environmental and geopolitical risks. In addition to the effects of an ever-evolving global economy, another fundamental shift in the sourcing process is in the expectations companies now have for their procurement teams. Increased competition, higher risk, and thinning margins brought on by globalization mean that procurement teams are increasingly measured on their ability to keep costs low while managing and growing supplier relationships and supply chains. This is not only true for teams responsible for managing direct goods and services suppliers across a variety of regions, but also for indirect procurement teams. Even within indirect goods and services purchasing, strategic sourcing and procurement are growing in relevance for many organizations, and are

now beginning to be seen as core competencies for competitive, innovative companies.

Today, there has been a shift from manual processes towards automated and streamlined processes with the help of sourcing automation technology. In general, sourcing tools work to simplify processes, eliminate redundant activities, and synchronize information across the sourcing process and supply chain. Early sourcing tools generally contained transactional information across supply chain engagements and offered a platform for suppliers. Solution functionality eventually broadened to include reverse auction/RFx capabilities, facilitating more competitive, interactive sourcing engagements. Modern sourcing solutions offer even more advanced direct sourcing, commodity management, scenario analysis, and spend optimization tools, as well as a greater focus on integrating with direct materials sourcing efforts.

Sourcing technology is typically offered as an add-on tool to an organization's existing ERP system, as a standalone solution (often cloud-based), or through a homegrown system designed by the organization to meet its own specific needs. Regardless of how an organization leverages sourcing technology, the ultimate goal is to use automation to enable greater centralization and control of data and increased visibility while supporting companies' varying needs in relation to global transactions.

When it comes to the adoption of sourcing technology, it is important to consider the respective challenges, goals, and perceptions around direct and indirect procurement. Internal stakeholders' perceptions of direct procurement are also likely different than for indirect procurement, as are the tasks performed by procurement professionals. Regarding process improvement, the goals of direct procurement often center around supplier and supply chain performance, and risk management; the more control and standardization in these areas, the greater a company's ability to operate successfully and deliver quality goods to customers. Meanwhile, indirect procurement is more concerned with internal spend management—controlling purchasing across all internal teams to keep costs down and prevent the back office from having a deleterious impact on company revenue. Keep in mind, however, that while indirect sourcing does not necessarily affect a company's bottom line, it can impact financial stability in the long run.

In all, a company would likely be more inclined to employ strategies and/or tools that support and improve direct goods and services sourcing than those that address indirect purchasing. Companies with high indirect spend often do not see the value of creating separate functions for direct and indirect sourcing or adopting an indirect sourcing tool. However, there is an increasing the belief that a strong focus on direct procurement can be detrimental to efficient indirect procurement, resulting in a loss of cost savings and competitive advantage.

The following content takes a closer look at what type of companies adopt sourcing technology, catalysts for adoption, and how an organization's procurement goals can be met by taking a holistic approach to sourcing automation.

Trends in Sourcing

To identify sourcing trends among North American organizations, Levvel Research surveyed over 300 back-office employees across various industries and market segments. Figure 1 shows the percentage of organizations using some sort of technology tool to manage sourcing processes versus those with entirely manual processes. Notably, less than a quarter of organizations are using modern, cloud-based eSourcing solutions. After manual processes, ERP-based sourcing technology is the most commonly used method. Organizations that leverage ERP-based sourcing solutions likely see value in supporting a close connection between spend data and the ERP. Levvel Research associates this finding with the large amount of data related to the sourcing process, and the precedence that proper data management has for successful procurement initiatives. Unfortunately, ERP-based software often lacks the versatility, configurability, and lower maintenance requirements provided by more modern cloud-based tools.

FIGURE 1

Utilization of Electronic Sourcing Applications

- We do not use any sourcing technology / we have a manual process
- We have a cloud-based eSourcing solution
- We use a homegrown electronic sourcing solution
- We use an ERP-based sourcing solution

45%

26%

20%

9%
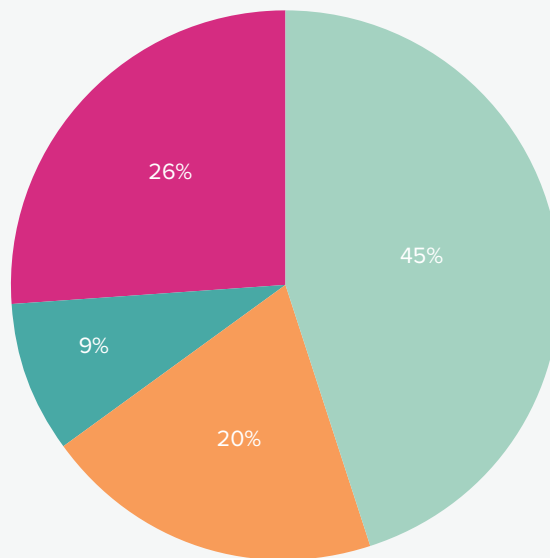
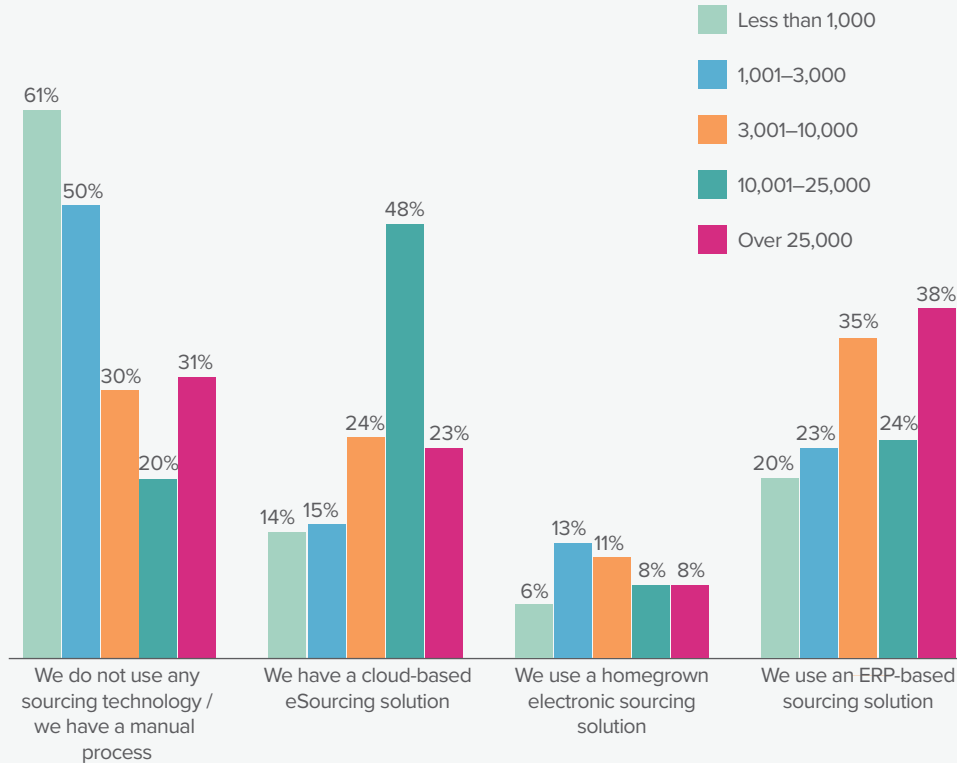**Almost Half of Organizations Are Operating Under Manual Sourcing Processes**

"Does your organization utilize any electronic sourcing / project and RFx creation applications? (eSourcing)"

Survey results show that whether a company has adopted any type of sourcing solution is related to how many suppliers it works with, see Figure 2. Companies with relatively fewer suppliers are more likely to rely on a manual sourcing process; almost two-thirds of companies with fewer than 1,000 suppliers and half of companies with 1,001-3,000 suppliers do not use any sort of electronic sourcing solution. The tide shifts when organizations have 3,000 or more suppliers, where less than one third report having a fully manual sourcing process.

FIGURE 2

Sourcing Process By Supplier Numbers

The More Suppliers an Organization Works With, the More Likely They Are Using Sourcing Technology
"Does your organization utilize any electronic sourcing / project and RFx creation applications? (eSourcing)"

&

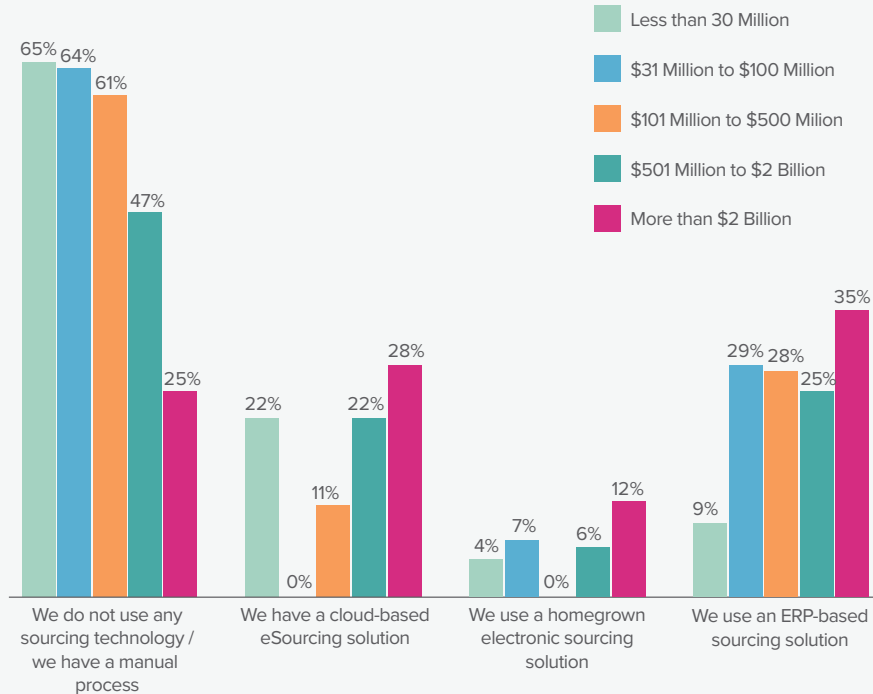*"Approximately, how many suppliers does your organization work with?"*

Again, Levvel attributes adoption trends to the amount of data that a company needs to manage, and technology's value for controlling data. The trend is also related to supply chain management—the more suppliers a company has, the riskier inefficient supplier management can be for company success. Another aspect of this trend is the fact that more suppliers means more opportunity to engage them in competitive bids on RFx. This improves an organization's odds of negotiating an appealing price and establishing strategic supplier contracts.

As with the number of suppliers, companies with higher revenue are less likely to have a manual sourcing process, see Figure 3. Again, this can be attributed to the quantity of available information—larger companies have a greater amount of data, spend, suppliers, and compliance regulations involved with procurement processes. A sourcing tool can help manage these processes and streamline a company's supply chain management.

FIGURE 3

Sourcing Process By Revenue

Legend:
- Less than 30 Million
- $31 Million to $100 Million
- $101 Million to $500 Milion
- $501 Million to $2 Billion
- More than $2 Billion

The Larger an Organization's Supplier Base, the More Likely They Are Using Sourcing Technology

"Does your organization utilize any electronic sourcing / project and RFx creation applications? (eSourcing)"
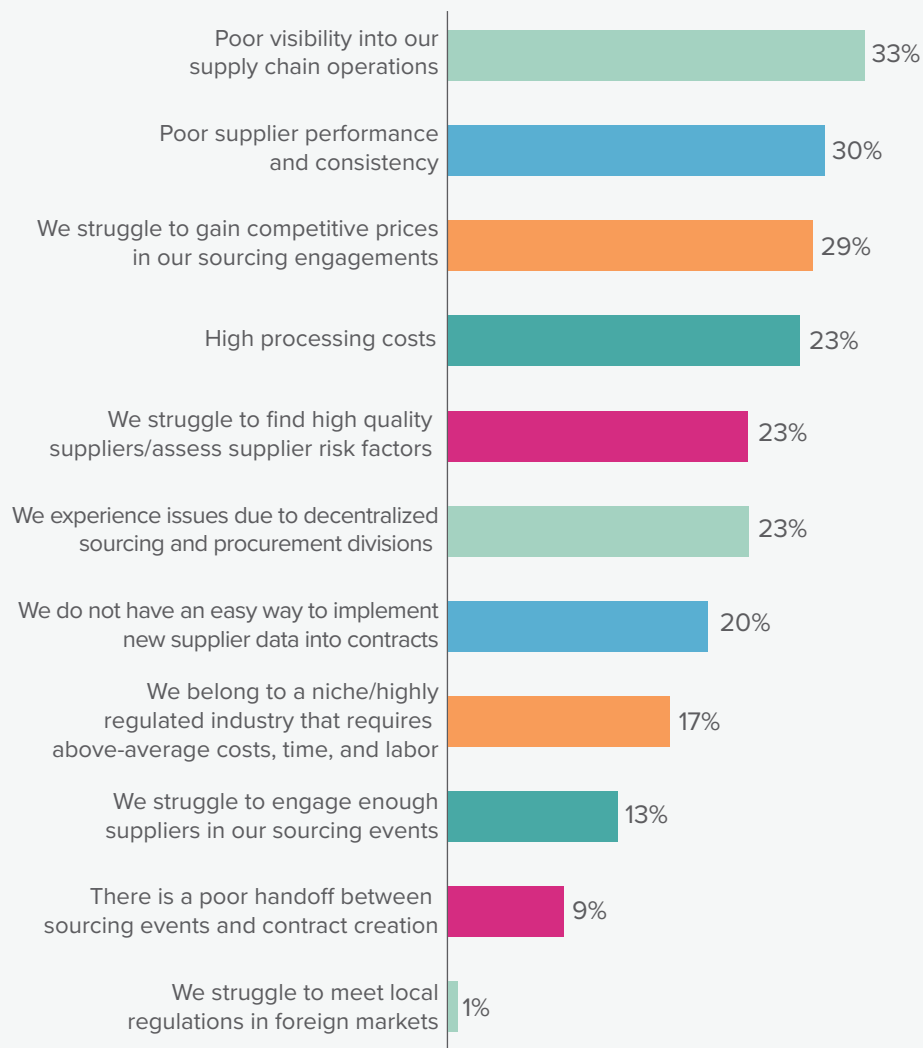
&

"What is your organization's annual revenue in the most recent 12-month reporting period?"

Manual sourcing leads to a variety of difficulties. When asked about their top pain points organizations without electronic sourcing technology indicated poor visibility across supply chain operations, poor supplier performance, and non-competitive pricing among their top challenges, see Figure 4. Once again, visibility is a major concern for organizations in their sourcing and procurement processes.

FIGURE 4

Top Sourcing Pain Points

Pain Point	Percentage
Poor visibility into our supply chain operations	33%
Poor supplier performance and consistency	30%
We struggle to gain competitive prices in our sourcing engagements	29%
High processing costs	23%
We struggle to find high quality suppliers/assess supplier risk factors	23%
We experience issues due to decentralized sourcing and procurement divisions	23%
We do not have an easy way to implement new supplier data into contracts	20%
We belong to a niche/highly regulated industry that requires above-average costs, time, and labor	17%
We struggle to engage enough suppliers in our sourcing events	13%
There is a poor handoff between sourcing events and contract creation	9%
We struggle to meet local regulations in foreign markets	1%

Poor Visibility and Supplier Performance Are Organizations' Top Sourcing Pain Points
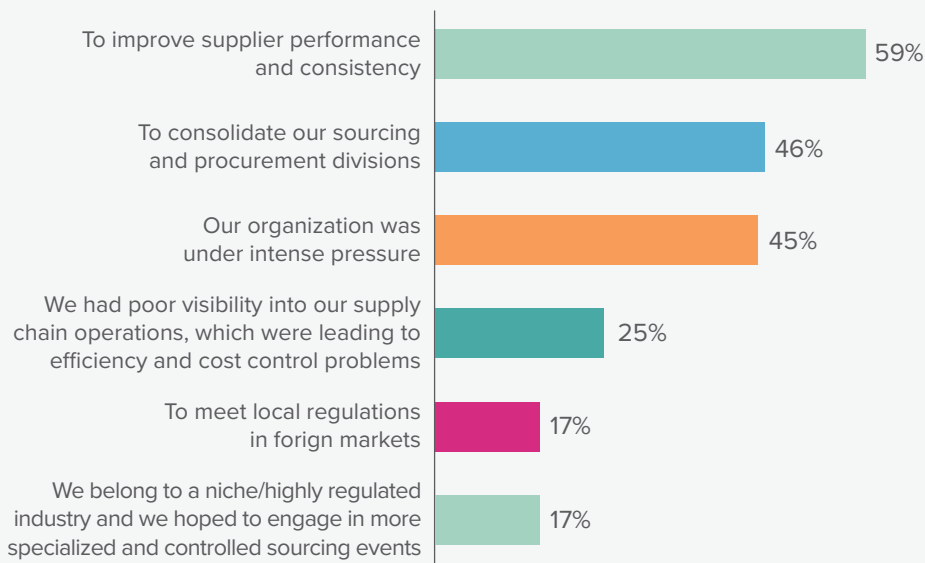
"Under your current sourcing process, what are the greatest operational pains you experience? (Select top three)"

When organizations decide to implement an electronic sourcing platform, the decision is often influenced by both their top pain points and their company goals. The most common motivations to adopt eSourcing include improving supplier performance and consistency, consolidating sourcing and procurement, and pressure to reduce costs, see Figure 5. In all, the goals that motivate organizations to adopt are based around improved control over supplier management and spend management processes. There are some exceptions to these motivations, with certain industries focusing on different pains. For example, respondents in the manufacturing industry were more likely to say they had poor visibility into supply chain operations than other industries, which reflects this industry's reliance on supply chain efficiency to operate successfully.

FIGURE 5

Top Goals Contributing to Sourcing Automation Implementation

To improve supplier performance and consistency	59%
To consolidate our sourcing and procurement divisions	46%
Our organization was under intense pressure	45%
We had poor visibility into our supply chain operations, which were leading to efficiency and cost control problems	25%
To meet local regulations in forign markets	17%
We belong to a niche/highly regulated industry and we hoped to engage in more specialized and controlled sourcing events	17%

**Improving Supplier Performance and Consistency is Sourcing Teams' Top Goal**

"What pains and/or goals led your organization to implement a sourcing solution? (Select as many as three)"

Levvel Research has found that innovative organizations are increasingly focused on spend management and analytics capabilities in their procurement processes. These organizations understand the close connection between strategic tools like eSourcing and control over indirect spend. While the data in Figure 5 highlights the motivators for adoption, Figure 6 shows the improvements that these organizations actually achieved after automating, most commonly reporting and analytics, improved visibility, decreased spend, and increased savings opportunities.

FIGURE 6

Improvements Achieved Through Sourcing Automation Implementation
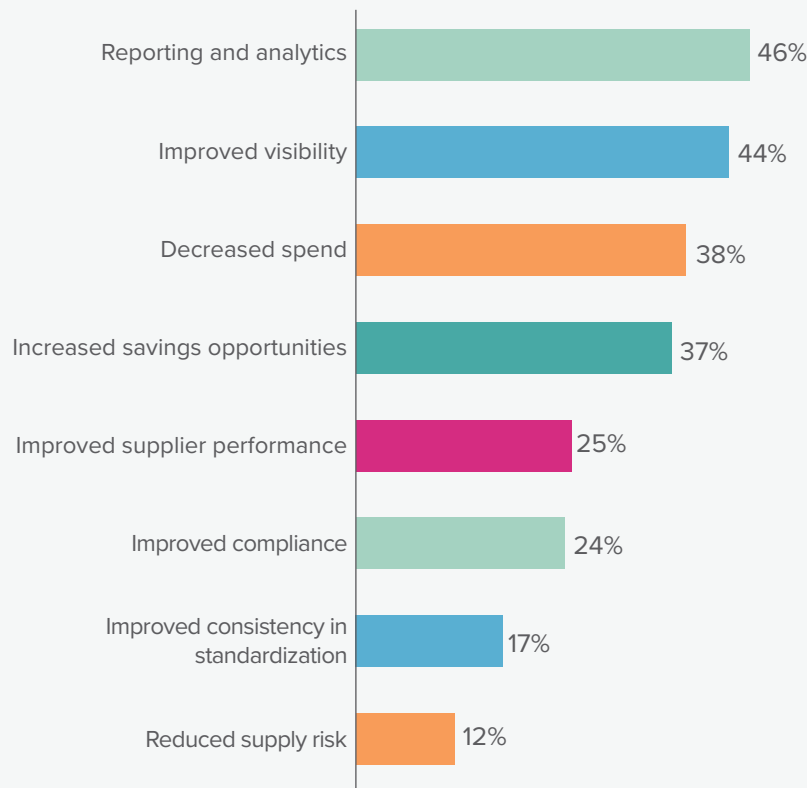
Reporting and Analytics and Visibility Are the Areas in Which Organizations See Greatest Improvement from Sourcing Automation
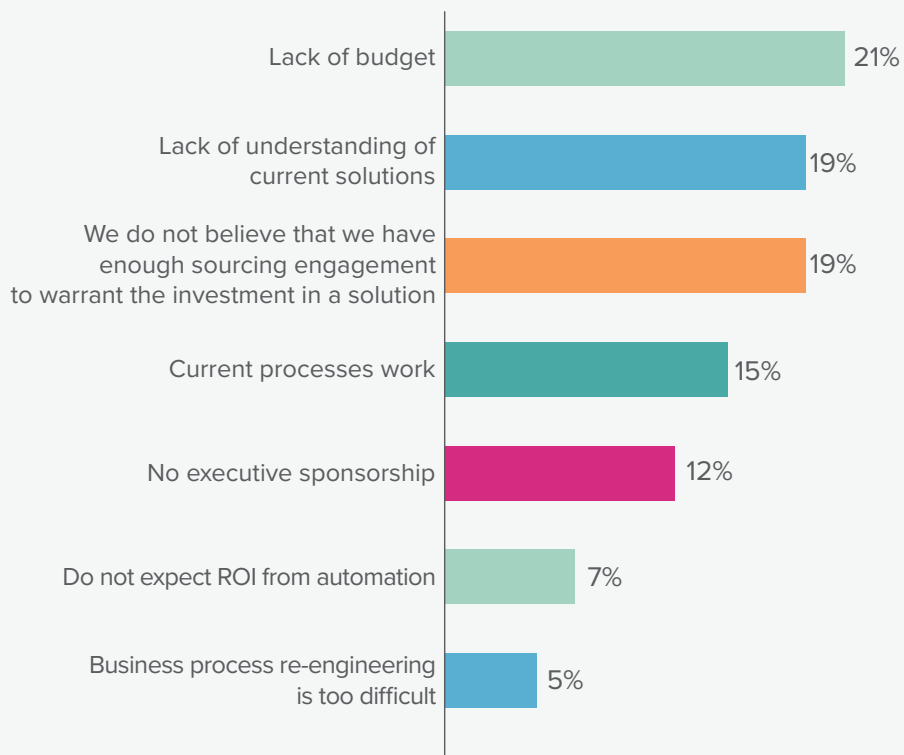
"Which of the following improvements have you seen in your sourcing process since implementing a solution?

(Select up to three)"

Given the benefits of sourcing technology, why aren't more companies adopting it? Overall, the leading barrier to adoption is a lack of budget, see Figure 7, although obstacles differed across industry. For example, a lack of budget was the lowest concern for the manufacturing and financial industries despite ranking as the top obstacle overall; the greatest obstacle for manufacturing companies was a lack of executive sponsorship. This reflects an awareness of the need for sourcing technology within the manufacturing industry, but a lack of execution within these companies in implementing the necessary tools. In finance, there was a belief that there were not enough sourcing engagements to make the investment in technology worthwhile. This likely reflects these organizations' relatively fewer direct spend and sourcing engagements, as most service-oriented organizations have far fewer sourcing events than industries like manufacturing or retail.

FIGURE 7

Greatest Barriers to Sourcing Automation Implementation

Barrier	Percentage
Lack of budget	21%
Lack of understanding of current solutions	19%
We do not believe that we have enough sourcing engagement to warrant the investment in a solution	19%
Current processes work	15%
No executive sponsorship	12%
Do not expect ROI from automation	7%
Business process re-engineering is too difficult	5%

A Lack of Budget is Organizations' Top Barrier to eSourcing Adoption
"What is the greatest barrier to sourcing automation implementation in your organization?"

The belief that there are not enough sourcing engagements to warrant adoption often goes back to the fact that many internal departments within an organization operate independently of each other. This siloed effect becomes particularly acute when making indirect goods and services purchases. This means that low-value orders can be completed ad-hoc and without the proper evaluation. Often, Levvel sees that a problem for manual organizations is a lack of consolidation in procurement. Disparate departments or locations often order the exact same goods—sometimes from the same vendor at drastically different prices. If they coordinate and consolidate their efforts, they could take advantage of the scale of a bulk order and received a better price. eSourcing software allows the organization to strategically source fewer—but larger—orders at more competitive prices and from higher-value suppliers.

The barriers of "lack of budget" and "do not expect ROI" are inherently linked, as they go hand in hand with the perception that the savings from automation do not justify the cost to automate. When it comes to sourcing automation, this is due primarily to the difficulty associated with measuring the current state costs against the future savings. One of the ways an organization can evaluate this cost is in the current spend under management.

A classic procurement practice is to focus time, resources, and attention on the largest suppliers. Known as the "80/20 rule" or the Pareto Principle, 80 percent of outcomes are attributed to 20 percent of the input or causes for a given event. In principle, what this means for sourcing is that approximately 80 percent of a company's spend comes from 20 percent of its suppliers. That 20 percent of suppliers typically holds the largest, most high-profile contracts across the supplier base. In contrast, 20 percent of the company's total spend involves 80 percent of all suppliers.

In the absence of head count, resources, or expertise to strategically manage the large number of suppliers for indirect spend, it is not surprising that organizations invest the majority of their efforts on the 20 percent of suppliers that are perceived to have the greatest impact on the bottom line. As these organizations see it, it is more efficient to take a big bite out of a single contract than to take many bites across multiple smaller contracts.

Though adherence to the Pareto model may seem logical, there is a great deal of spend control and cost savings possible through indirect spend management. A wide range of activities that contribute to—and unnecessarily increase— indirect spend, such as fragmented spend (in which items that are purchased individually should be consolidated into a single contract) and maverick spend (in which purchasing falls outside the organization's purchasing guidelines and may engage non-preferred suppliers). As such, significant benefit can be derived from greater visibility into and control of indirect spend, including the capacity to adhere to internal and regulatory standards, mitigate risk, and uphold supplier quality.

As organizations face increasing pressure to spend cost-effectively, indirect spend management offers tremendous potential value. Though they may be aware of the waste that comes with uncontrolled indirect spend, many organizations believe that these issues are too nebulous to be addressed efficiently and require too many resources to manage effectively. While organizations may not be able to clearly see the potential savings, automation solutions tailored for indirect spend can help organizations transition indirect spend management from a burdensome administrative task to a strategic priority that underpins the organization's bottom line.

The following section takes a closer look at how eSourcing technology can help organizations better control their indirect spend management.

The Value of eSourcing for Indirect Procurement

The basic workflow of an eSourcing lifecycle begins with a sourcing or procurement professional identifying a need and recognizing that this need would be best met through a sourcing event. Because sourcing is an advanced procurement function, sourcing event requests can arise from an approved requisition or a re-evaluated contract. After a sourcing request is approved, the event creation begins. The essential functionality within each sourcing automation category are as follows:

» *Event Creation*: This tool allows a user to create an RFx and set up a sourcing event. Many solutions include multi-stage RFx templates with functionality for RFI, RFP, and RFQ. Users can set up custom participation guidelines for suppliers and assign them tasks or request documents, including weighted questionnaires designed to score individual suppliers' responses. This allows organizations to evaluate suppliers based on specific data and score suppliers in many areas of business eligibility, including experience, tax and regulatory compliance, and quality of goods and services.

» *Open Event*: Once the sourcing event has begun, users can track the event's progress in real-time, with full visibility into vendor responses, tasks completed, and vendor timeliness. eSourcing solutions offer automatic scoring of responses based on questionnaires' pre-determined scoring weights, attachments, and completed or missing documents. Event platforms also allow for a comparison view of supplier responses. Once the user has made their selection, the suppliers are automatically notified of the next steps. Awarded events can often be converted into single or multiple contract.

» *Live Auction*: On occasion, a sourcing opportunity would produce better results through a live auction environment than in an open event. Users can turn an RFx into a reverse auction to increase supplier competition and receive lower prices, or to adhere to time constraints. These auctions are conducted in highly visible, interactive bidding environments that show bidding activity in real time. Auctions can be designed to run through several different bidding stages, and can be extended for longer periods of time at the user's discretion. Once the auction has finished, the same award processes apply as in open events.

» *Vendor Management*: An eSourcing solution often manages supplier master data through the use of supplier portals and self-service tools. When suppliers choose to participate in an event or wish to register with the directory, they must submit certain information and documentation, such as company history, insurance certificates, and/or tax documents. Suppliers can also access a negotiation template that tracks all changes to contracts. After an awarded event is flipped into a contract, some solutions then allow suppliers to manage contracts within the same system.

With eSourcing software, there are also many valuable actions that organizations can take, and future states they can achieve, within their indirect sourcing and procurement processes. The folowing items outline those actions.

Enhance spend data. Indirect sourcing management entails gaining control over spend data to support business initiatives and create savings opportunities. While direct sourcing is concerned with continuing production and ultimately adding to a company's bottom line, indirect procurement and sourcing requires properly managing a variety of factors that are not necessarily contingent upon time or strategy. However, while strategy is not typically considered in indirect procurement, it should not be ignored. By improving control over supplier engagements even for indirect goods and services, organizations improve the quality of their information, their visibility into processes, and their control over future spend management decisions. With robust spend and supplier data, organizations can make more competitive purchasing decisions and identify key areas to lower costs and create savings. It also greatly increases an organization's chance to use and analyze that data strategically.

Consolidate spend and improve category management. eSourcing helps companies merge many disparate purchasing processes into one streamlined operation with a secure, real-time electronic environment. This also means organizations gain holistic control over spend that is ordinarily scattered throughout the organization by strategizing their purchasing needs. Organizations can consolidate several similar purchases often made by different departments into one bulk purchase sourced by a dedicated indirect procurement team. This form of strategic sourcing also gives organizations high-volume buying power over suppliers, and thus more competitive prices.

On the whole, companies are able to better manage their spend categories and execution, while fine-tuning some higher-spend categories.

Promote greater collaboration between stakeholders. eSourcing platforms not only allow an organization to build more strategic purchasing engagements, they also support consolidation with collaborative tools. These tools bring together staff from different departments and roles with unique purchasing needs. One example is in the sourcing event creation tool. As users create an RFx, they can use a collaboration workflow to send templates to colleagues for authoring, editing, and approval. One user may complete the first stage of the template by defining the goods or services needed, while another may configure the scoring controls. The template could also be routed to the legal department for a risk evaluation, ensuring that all details are compliant.

Importantly, such collaboration extends to external stakeholders. eSourcing solutions' vendor management is made possible by self-service supplier portals. Organizations can onboard suppliers to their sourcing platform through custom email campaigns, or suppliers can register independently through the sourcing portal or the buying company's website. While the components of a supplier portal vary by solution provider, most systems offer an array of self-service controls around spend, including catalog management, profile management, and RFx event and auction participation.
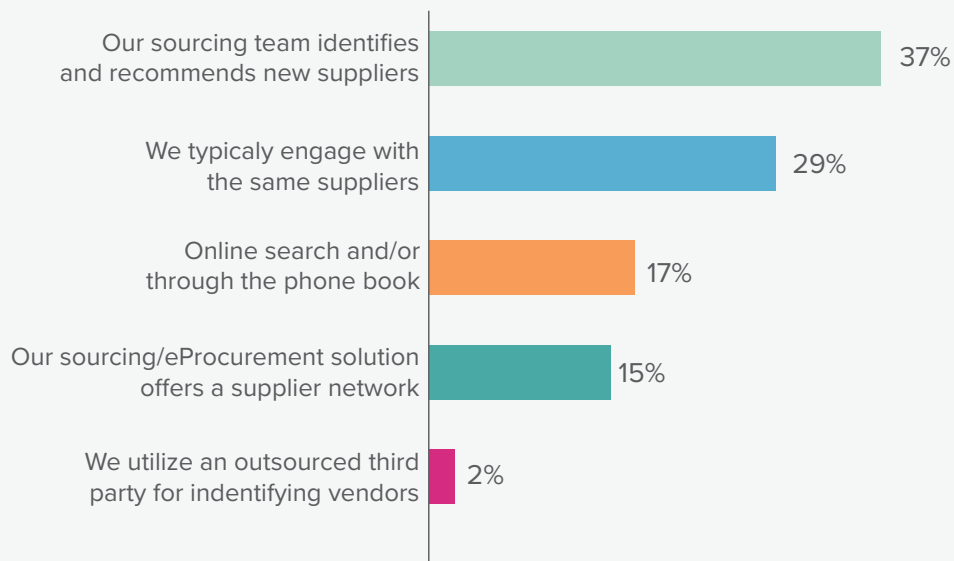
Improve supplier discovery and the value of the existing supplier base. Supplier discovery is another key factor when it comes to automating sourcing. Whereas direct procurement is focused on supporting the supply chain and maintaining relationships with preferred suppliers, indirect procurement tends to have less formality around which suppliers are used (preferred vs. non-preferred) and the sources from which purchases are made. This means organizations may not consistently use preferred suppliers, find the most competitive sources, or make purchases in compliance with supplier contracts. Additionally, direct procurement typically has a much smaller and more controlled group of members who are authorized to make purchasing decisions, while indirect purchases are requested by many different members at various levels—or completed without any approval mechanism at all. This renders indirect spend much harder to control than direct spend.

As the buyer often has less power than the supplier in indirect procurement, supplier management tools to help buyers source more competitive contracts are essential. One of the reasons sourcing teams are so vital to a company's operations is because of the supplier discovery process. Figure 8 shows that the majority of respondents have sourcing teams that help them identify new suppliers. Organizations with high direct spend were more likely to use the same suppliers for their procurement needs than those with high indirect spend. Along those same lines, the results showed that the finance and banking industry, which tends to have low direct spend, is much less likely to engage with the same suppliers than the manufacturing industry—an industry with higher direct spend and more dependency on an efficient supply chain process.

FIGURE 8

New Supplier Discovery Methods

Our sourcing team identifies and recommends new suppliers	37%
We typicaly engage with the same suppliers	29%
Online search and/or through the phone book	17%
Our sourcing/eProcurement solution offers a supplier network	15%
We utilize an outsourced third party for indentifying vendors	2%

The Majority of Organizations Rely on Their Sourcing Teams to Identify New Suppliers
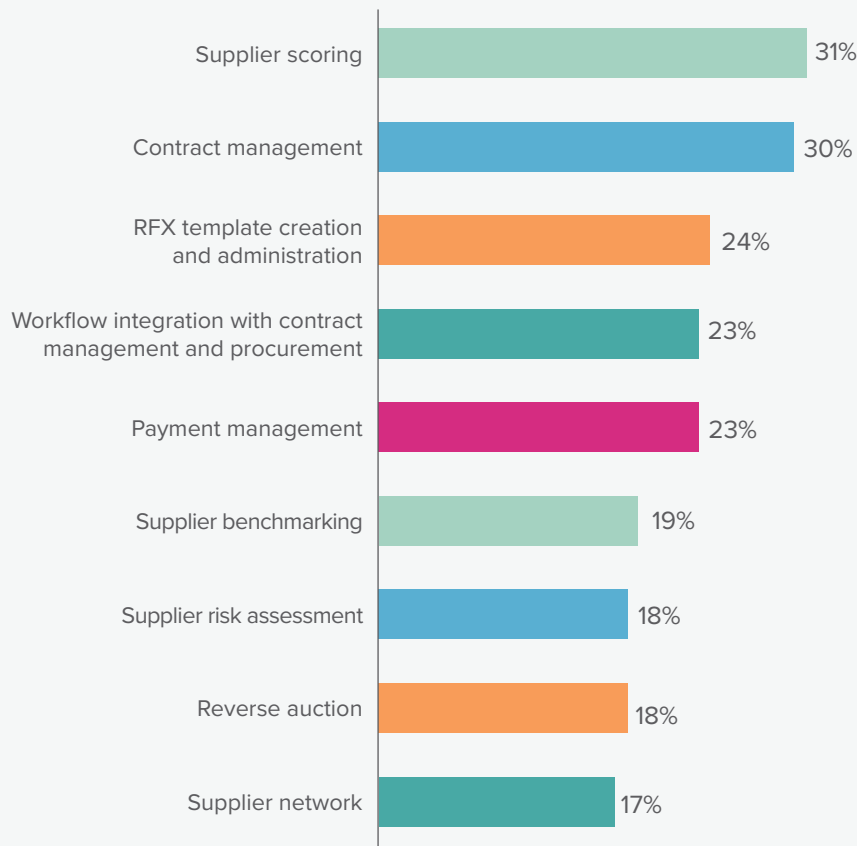*"How do you discover new suppliers most of the time?"*

eSourcing supplier discovery tools are valuable for a company's indirect procurement teams. Using these tools, organizations gain more competitive bids and increase access to suppliers more suited to their financial and logistical needs. The software often offers access to a network of eligible, local, and global supplier, which allows the organization to source goods from a more diverse supplier pool, and to potentially build new, long-term business partnerships. Organizations can engage with these new suppliers in a way that allows them to

gain the full background and viability of that supplier through workflows, scoring, and risk assessments. Organizations can also identify existing suppliers for new engagements within the searchable supplier database. Supplier management is a key benefit to eSourcing solutions, improving an organization's interactions with current suppliers, and it is a feature that is very important to organizations. For example, when asked about the most beneficial eSourcing tool, survey respondents indicated supplier scoring was the feature they valued the most, see Figure 9.

FIGURE 9

Most Beneficial Automated Sourcing Tool Services/Modules

Service/Module	Percentage
Supplier scoring	31%
Contract management	30%
RFX template creation and administration	24%
Workflow integration with contract management and procurement	23%
Payment management	23%
Supplier benchmarking	19%
Supplier risk assessment	18%
Reverse auction	18%
Supplier network	17%

Supplier Scoring Functionality is the Most Valued eSourcing Feature Among Organizations
"Which of these services/modules, offered by an eSourcing solution, has been most beneficial to your sourcing process? (Select up to three)"

In all, eSourcing allows organizations to clean and consolidate their supplier list, re-negotiate, and re-source large contracts to gain more effective prices and terms, and begin relationships with new, premium suppliers.

Leverage powerful, strategic data analytics. Some sourcing solutions include tools and services for strategically enhancing existing purchasing processes and contracts, sourcing strategies, and supplier relationships. Supplier performance management tools enable organizations to look into suppliers' past activities and make more informed decisions based on supplier characteristics. This data can be leveraged to prevent non-strategic or high-risk supplier relationships from developing. Some supplier performance management tools allow organizations to assemble supplier ratings based on an organization's internal notes and reviews from sourcing and procurement users. These review templates can be pre-built or customized based on categories such as commercial risk, safety, quality, environmental, and performance history. In addition, solutions may include benchmarking capabilities that show negotiation rates and performance history based on data from other suppliers. The system can use this performance data to reorganize supplier lists by value and category. This data is available for export, and is also integrated into the supplier directory.

Another optimization tool available through eSourcing tools is a strategic analytics engine found in some leading sourcing solutions. The engine re-evaluates an organization's sourcing activities by identifying savings opportunities in various fields, including market research, RFx processes, negotiations, contracting, and transaction activities. With this tool, organizations can restructure or renegotiate supplier contracts, and can refine future company sourcing practices to produce more competitive, higher-quality results. By consolidating indirect spend into one system that includes extensive supplier and product data, organizations can ensure they are making the best use of their volume purchasing power.

Leading sourcing solutions may also offer data and risk management through reporting and analytics tools. These tools can include commodity risk management and supplier risk analysis based on credit scores, user reviews, logistics, and delivery history. The resulting data can be compiled in interactive drag-and-drop reporting platforms, offering customizable or standard reporting.

Indirect eSourcing Best Practices

The following content contains best practices for organizations that wish to implement indirect sourcing technology in their back office.

» *Educate and align stakeholders.* Except in the most strategic and innovative organizations, indirect procurement is often perceived to be siloed from direct procurement in many ways. An organization's C-suite must understand the value of bringing a holistic and consolidated approach to indirect spend. It is important to educate different members on this value, as well as gain cooperation and enthusiasm from them. This will help the success of software adoption, but it will also ensure that all spend is properly captured, and that the organization will successfully implement strategic, transparent sourcing in the current procurement environments.

» *Understand indirect sourcing ROI.* Estimating ROI from sourcing automation can be more difficult than for other back-office, downstream processes, such as Accounts Payable (AP) automation. The value of sourcing automation lies in improvements over spend management, more competitive and strategic purchasing, and lower overall business risk—all savings that are harder to predict. For example, in some cases, organizations may already have the most competitive deal with a supplier, or may not be able to properly track overspending, meaning they would not be able to measure its decrease after automation.

However, it is important to consider the goals of the organization in order to properly understand the value of automation—namely, the desire for improved visibility and access to strategic spend data. These needs can be the greatest drivers to adopting an eSourcing solution, as eSourcing provides the transparency into current processes that manual methods lack. eSourcing tools allow companies to track and measure their processes once they are automated and identify inefficient pricing in supplier contracts, inefficient process strategies, areas of risk, and faulty data. Levvel's research indicates that an organization's total indirect spend typically decreases by as much as 15 percent within the first three years of using a sourcing platform. In the long run, organizations gain visibility into where their spend goes, which enables them to reprioritize and restructure spend management in several different ways—and achieve

great savings across their procurement operations.

» *Establish KPIs.* In order to truly understand the ROI of indirect spend sourcing, an organization must establish KPIs around the current state. For example, measuring the current lifecycles of manual sourcing processes or estimating the amount of savings lost to maverick spend each year are both current state metrics that can be established and then evaluated post-implementation. Establishing these KPIs is also a way to identify areas that could deliver the greatest return, so they can be prioritized for process improvement. For example, one organization may focus on consolidating inter-departmental purchases into sourcing engagements before they target re-evaluating their current supplier contracts, while another organization may prioritize the latter. Either scenario depends on properly evaluating the current state and establishing improvement goals.

» *Consolidate high-value suppliers.* Just as in direct sourcing, organizations can put more effort into maintaining key relationships with fewer indirect goods and services suppliers, all while reaping more value. By applying strategic sourcing optimization to supplier lists, and by identifying inefficient areas of spend, organizations are better able to leverage their current high-value suppliers or find new ones, and rid themselves of low-value and non-competitive suppliers.

» *Build a holistic Source-to-Settle ecosystem.* One of the prevailing problems in back-office processes is the siloed nature of many departments. This is especially true between direct and indirect procurement, and it extends to finance teams as well. Many sourcing technology platforms integrate with other financial automation software or offer these tools as modules within a S2S platform. Organizations should consider evaluating a software suite that offers all tools within the S2S process, including contract management and electronic payments; only then can an organization truly have complete control over spend and spend data.

GEP

GEP is a procurement technology developer with over 15 years of experience in deploying Source-to-Settle solutions. With its Source- to-Settle platform, SMART by GEP®, GEP has made it possible for all tasks in the S2S process to be carried out in one system and from any device. The SMART by GEP platform includes solutions for spend management, procurement, sourcing, contract management, order management, supplier self-service, and invoice processing. Each component of the platform can easily integrate with clients' existing systems, or can be deployed as a standalone product.

Founded	1999
Headquarters	Clark, NJ
Other Locations	London, Prague, Mumbai, Shanghai, Mexico, Costa Rica
Number of Employees	c. 3,000
Number of Customers	>250
Target Verticals	All

Solution Overview

SMART by GEP is a highly secure, cloud-native procurement platform developed on the Microsoft Azure cloud. All of GEP's development, data handling, and operational facilities and systems are certified to SSAE16 standards. GEP uses a web-based methodology to integrate with its customers' third-party systems. The solution is mobile-native and works on any browser and platform.

SMART by GEP is designed to facilitate the entire process of spend management and procurement, and GEP's sourcing solution is natively integrated in the SMART by GEP procurement platform. SMART by GEP Sourcing can also be deployed as a standalone sourcing solution, and the outputs from each sourcing event can be transferred into other systems, either via integration or through export of data files.

Sourcing Management

SMART by GEP Sourcing supports many different complex sourcing functions, from Requests for Information (RFI) to reverse auctions. The solution features an Opportunity Finder tool that helps the buyer identify savings and targets for strategic sourcing waves, and to create new events out of those opportunities.

Savings opportunities can also be identified in spend analysis and launched as savings projects, which can then be can be populated with sourcing events. In addition, GEP's supplier segmentation capability permits multi-dimensional segmentation and the application of performance improvement strategies.

SMART by GEP Sourcing employs an intuitive, easy-to-use process to create complex and comprehensive sourcing events. Users can create events from templates, copies of earlier events, Excel file uploads, or from scratch. Within each event, various components such as text- based guidelines, questionnaires, and price sheets can be stored in and retrieved from a repository. Teams of individuals can work collaboratively on sourcing events, which could involve many possible combinations of event authors, evaluators, and approvers.

Once an event is published to suppliers, the buyer has complete control over it. In RFx events, the buyer can monitor acceptance, rate of completion, and submission of each supplier's responses. Responses can be scored, evaluated, and sent back for revision. Scoring is composed of a combination of automated and manual methods using multiple evaluators. Event owners can adjust the scoring weights between di erent questionnaires and evaluators, using hypothetical scenarios to determine the best supplier or combination of suppliers.

During a live auction, the buyer can monitor all bid activity in real time, with the ability to reject individual bids and set auction extensions, safety nets, and visibility rules. All sourcing events feature a communications center that enables broadcast or one-to-one communication between buyers and suppliers. All assigned evaluators review bids, and once the final award decision is made, automatic award and non-award messages can be initiated. Awarded events can be flipped directly into contract negotiations.

SMART by GEP is a supplier portal as well as a buyer portal. Suppliers can receive and participate in sourcing events, review and sign contracts, and manage and maintain their system pro le. They can also complete forms and performance scorecards, receive and handle purchase orders, and create shipping notices and invoices.

SMART by GEP is built upon a data warehouse model for reporting and dashboards, providing the end user with access to all data across the procurement landscape. Its reporting services include dashboards and drag-and-drop, ad-hoc reporting functionality that allows users to create reports based on any parameter captured within the system.

Users can create custom reports, which can then be added to the dashboard, viewed in a graphical format, exported in multiple file formats, and scheduled at a desired frequency. The SMART by GEP platform supports customization of dashboard views per individual users' requirements.

Implementation and Pricing

Implementation of SMART by GEP solutions includes configuration to the client's business processes and robust customer support to drive end-user adoption. Post-implementation, GEP provides phone and web-based support. GEP's global customer support staff is based out of three regions (US, Europe, and Asia Pacific) and is available in 24/5 and 24/7 variants.

SMART by GEP is an annual subscription-based service priced on a function-by-function basis, largely according to the number of users of each function for each year of the contract. The different factors considered for pricing include number and type of users, interface languages, contract and template configuration requirement, and support services.

About Levvel Research

Levvel Research, formerly PayStream Advisors, is a research and advisory firm that operates within the IT consulting company, Levvel. Levvel Research is focused on many areas of innovative technology, including business process automation, DevOps, emerging payment technologies, full-stack software development, mobile application development, cloud infrastructure, and content publishing automation. Levvel Research's team of experts provide targeted research content to address the changing technology and business process needs of competitive organizations across a range of verticals. In short, Levvel Research is dedicated to maximizing returns and minimizing risks associated with technology investment. Levvel Research's reports, white papers, webinars, and tools are available free of charge at www.levvel.io

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