

An e-Sourcing jumpstart:

How small and medium sized businesses can achieve 21st-century purchasing power quickly, easily and affordably

e-Sourcing is one of the fastest and easiest ways for small and medium sized businesses (SMBs) to improve their bottom line. By obtaining bids from different suppliers on a single online platform, companies can reduce their spend, save time and negotiate better supplier contracts, among other money-saving benefits. In fact, SMBs have even participated in some of these e-Sourcing events on the flip end as a supplier—providing either information (RFI), quotes (RFQ), or full proposals (RFPs) via e-Sourcing tools.

Yet, e-Sourcing is only in its infancy in the SMB world. It's not that these potential savings are lost on small businesses. A recent survey[1] by the Aberdeen Group revealed that nearly 70% of SMBs acknowledge that e-Sourcing could play a critical role in their organization. And, they've seen how Fortune 1000 companies have dramatically transformed their procurement processes with e-Sourcing technologies, reaping rapid ROI and annual savings of 15% or more over traditional sourcing approaches.

But, most SMBs are reluctant to embrace a technology they perceive as a costly and complex "big company" solution. That's a shame. Thanks to technologies like Software-as-a-Service (SaaS), e-Sourcing has actually become both accessible and affordable.

SMBs can quickly scale up their procurement prowess without adding people or IT infrastructure. And, in the process, they can improve transparency in their sourcing and negotiation processes, attracting more competitive prices and a deeper bench of qualified suppliers.

This paper lays out the five key reasons why SMBs should no longer wait to bring e-Sourcing into their operations. It also explains the three key factors to look for when selecting an e-Sourcing platform.

Getting the best market price

Procurement staff at small businesses who have traditionally relied on manual processes and personal relationships with their suppliers risk not knowing—and not getting—the best market price for their purchases. We're not knocking buyer-seller relationships per se; they'll always be needed for procuring mission-critical items that a business absolutely cannot operate without.

e-Sourcing tools do the negotiation for them, removing the potential awkwardness of direct personal negotiation. They also expand the sourcing process to more suppliers

[1] *Advanced Sourcing: Maximizing Savings Identification, Aberdeen Group, June 1, 2012*



and inject transparency into the negotiation process. When all suppliers can see a competitors' rock-bottom price for an item or service, the long-standing incumbent supplier has to play ball on a level playing field. "When the buyers finally got on board with e-Sourcing, they were shocked by how much lower they were able to procure their products and services for," he added.

Getting your spend under control

It's a core question for any business that procures products and services: *How much money do we spend, and with whom?* Yet, a surprisingly large percentage of SMBs have trouble answering it accurately using traditional paper- and email-based methods of sourcing.

A key benefit of e-Sourcing is making your spend more visible and actively managed, not just signing checks. It enables SMBs to better see what vendors are supplying its business, what products and services it buys, and how much they cost. It improves the accuracy of both supply-side and demand-side information. It enables businesses to see why purchasing decisions were made, and determine if they were the right decisions.

With this information, businesses can not only find ways to improve the efficiency of their procurement activities and the predictability of their supply chain, they can identify big cost-savings opportunities.

Do more with less

Increasing purchasing efficiency is one of e-Sourcing's most compelling values. Consider the typical retailer with thousands of active SKUs in stock, not to mention the countless non-retail supplies, equipment and services it must purchase to keep its operations running. Handling the enormous amount of RFQs and negotiations on a one-to-two year cycle would be overwhelming without some form of automation and standardization.

e-Sourcing accelerates sourcing cycle times by making it fast and easy to create auction events with the same or reduced level of staff. For instance, a report by global management consultancy A.T. Kearney[2] revealed that one of its clients reduced its procurement staff by more than 50 percent in the past eight years after putting in place e-Sourcing practices globally. Similarly, a major pharmacy chain customer of NeoGrid says it is running seven to eight times more sourcing events per year without any increase in staff or resources using the ezMarket online platform.

This efficiency translates in monetary savings and increased productivity. By streamlining workflows and automating the transaction end of the procurement process, e-Sourcing frees up staff to focus on more strategic concerns, such as supplier-base screening and relationship management, which leads us to the next benefit.

Open up the process to more qualified suppliers

e-Sourcing enables SMBs to attract and engage with a much richer base of qualified suppliers than they previously could before. "Every additional qualified supplier you can

[2] *Jumpstarting Your eSourcing Initiative, A.T. Kearney, July 2010*



bring into the auction gets you closer to the best possible market price," added a chief procurement officer customer. "And each supplier brings with them market knowledge that the others might not have, creating a more competitive event."

The transparency of online e-Sourcing platforms builds trust and ensures that each vendor participating in the event is playing by the same rules—responding to the same specs and questions as the incumbent.

To reduce risk, some e-Sourcing tools help businesses with the supplier vetting process ahead of time, enabling them to create a pre-approved supplier network of preferred vendors that they are assured can meet their needs. These pre-approved suppliers can compete when the right supply conditions make sense for them, and opt out when they are not.

Improve supplier and inter-company collaboration

e-Sourcing enables SMBs to form more collaborative partnerships with their suppliers to find new pockets of savings or help the buyer address its business initiatives. For example, a business may want to ensure a supplier's products or business practices align with its green or sustainability initiatives. Or, the business may want to expand its product line and looks to the supplier to identify which new products or versions of products may be on the horizon. Or, the business may require customized items and needs to share design specs or engineering documents. By sharing strategies, sharing risks and looking for areas of improvement together, e-Sourcing collaboration elevates the supplier to a more strategic partner.

Three important criteria to look for in an e-Sourcing solution

e-Sourcing solutions abound for the small and medium sized businesses, ranging from e-catalogs, online marketplaces, and electronic RFQs to reverse auction platforms. This paper focuses on the later.

While most tools provide the same core functionality for running auctions, not all are created the same. Here are the three important criteria you should look for when selecting the right platform:

1) Cloud, SaaS-based model for easy use

SMBs typically don't have big budgets and IT resources to bring e-Sourcing in house. SaaS-based platforms offer tremendous advantages, on the other hand. No upfront investments in equipment, staff or training are required. ROI is fast. Implementation is quick. Sourcing cycle times can be greatly accelerated with more frequent events. And, expanding the sourcing process to more suppliers is much easier.

The key is making sure that the platform provides buyers and suppliers with an easy-to-use interface that encourages user adoption while also simplifying the complex bidding and analysis processes.



2) Supplier discovery

Most e-Sourcing tools give you a database of potential suppliers and tell you to have at it. But when you consider that about 35 percent of the sourcing process is spent on identifying and prequalifying suppliers, SMBs don't have the time, staff or expertise to invest deeply in such an endeavor.

Look for an e-Sourcing solution that provides buyers with access to a team of sourcing consultants that can identify and pre-qualify new sources of supply. The time savings and risk avoidance benefits are enormous.

3) Strategic sourcing program management

Consultants provide the resources and expertise to build custom programs, minimize risks and offer best practices. Hiring an outside consulting firm can be costly, and taking it over yourself would require additional bandwidth and personal resources. You can focus on other business-critical items when you find a solution that has these services on-hand.

Conclusion

If SMBs are to stay competitive, e-Sourcing is no longer a matter of "if" but rather of "when." The common misperceptions about e-Sourcing being too costly and complex have been dispelled. E-Sourcing gives businesses visibility in the market and ensures that they're getting the best overall value on price. It gives them insight into where their spend goes so that they can make better decisions. And, by enabling suppliers to make their own bids, a more collaborative relationship can be formed between the buyer and seller.

NeoGrid

NeoGrid was born from the merger of World Wide Retail Exchange (WWRE) and Global Network Exchange (GNX) — solutions created by many of the world's largest and most prominent retailers to meet their Sourcing needs.

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