WHITE PAPER

ADDING ADVANCED SOURCING TO SAP, ARIBA, ORACLE, AND OTHER PROCUREMENT SUITES

Attack the Gaps in Your Sourcing Toolkit and Capture More Spend Under Management

Over the past decade, many companies have tried out the e-sourcing offerings found in their already-implemented ERP-based Procurement suites, most commonly from SAP®, Ariba®, or Oracle®. 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 up to 30% of their organization's spend under central management through those technologies (source: Aberdeen Group 2012 benchmarking report). As those organizations are tasked to work harder to meet corporate objectives for increasing their control over enterprise-wide spend and find new opportunities for savings, they are finding that the existing ERP-based sourcing solutions are unable to efficiently support centralized sourcing processes, expressive negotiations with suppliers, strategic spends, and the needs of local spend owners.

Customers who are achieving the next level of spend under management and cost reductions are those using a more advanced sourcing solution, like that offered by CombineNet, to augment their existing procurement investments. With 70% of CombineNet's customers already using the CombineNet ASAP® advanced e-sourcing product alongside SAP, Ariba, or Oracle, it is clear that there is an un-met need in the market to attack the gaps found in e-procurement investments.

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THE LACK OF SPEND UNDER MANAGEMENT

SPEND UNDER MANAGEMENT WITH GENERAL SOURCING SUITES

"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.

Most large companies today have in place an ERP application that provides solutions to support Procurement and Sourcing business functions. Those ERP and Procurement Suite applications most commonly include: SAP® Supplier Relationship Management (SRM) and its SAP Sourcing module; Ariba® through its Ariba Sourcing or Ariba StartSourcing products; Oracle® E-Business Suite or Oracle Fusion Procurement, which each include sourcing components; Oracle PeopleSoft; Emptoris®, an IBM® company; and Microsoft Dynamics® ERP.

Those vendors, and others, offer customers a variety of solution components in addition to managing e-sourcing events, including spend analysis, contract management, procure-to-pay, 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. In the area of e-sourcing, they are designed to address the "low hanging fruit" – sourcing events that have little complexity and mainly involve a lowest-price decision. They do not provide a deep and advanced focus on addressing the greater range of requirements faced by today's more complex sourcing activities and spend categories. Further, those offerings see very little additional product enhancement investment from the software providers, because e-sourcing is not a revenue focus for those companies.

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% on average of their corporate spend under centralized management. In a recent Aberdeen Group benchmarking report titled, "Advanced Sourcing: Maximizing Savings Identification" (June 2012), Aberdeen found that even best-in-class companies were only supporting 33% of total spend with their e-sourcing tools, with 29% for industry average companies, and a very low 12% among those classified as laggards.

The remaining spend continues to be managed using ad-hoc processes outside of the ERP-based e-sourcing tools.

THE SPEND PLATEAU

Early gains in capturing spend under management – reducing costs while increasing efficiency and productivity – provided compelling returns on investment. Next for leading organizations is to focus on the "the spend plateau," which is about capturing the remaining 70% of spend not under central e-sourcing management. In doing so, customers are proving that they can significantly improve procurement's ability to control costs and improve spend management, visibility, and analysis.

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

- A 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, disaggregated, and unleveraged sourcing activities, thereby 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.
- More time is being spent on the mundane "mechanics" of collecting, aggregating, and formatting bid data, as opposed to strategic analysis, stakeholder collaboration, and planning.

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

Those 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 ERP ROCUREMENT SUITE SOLUTIONS

So why, after more than 12 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.

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 before-mentioned low hanging fruit – the simple, less strategic spends that most organizations shared: office supplies, simple commodities, and common services as examples. Such spends represent easy targets, because the outcomes of those sourcing events (which suppliers would win, how they would be managed) often have little strategic impact on a business's operations, yet provide 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. Many of those sourcing events were run in e-auction formats, as opposed to RFPs, further simplifying the bid process by making lowest price the main decision driver.

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However, the bulk of spend and largest opportunity for creating value for the business lies in those spend categories that directly impact successful execution of the supply chain and business operations, such as direct materials, packaging, MRO, business-critical services such as transportation and facility management, and corporate services like temp labor, marketing, and legal. As stated previously, those more critical spend areas remain elusive targets for the general purpose, ERP-based e-sourcing technologies found in most companies today.

Respondents to a recent CombineNet survey (2011) shed even more light on why strategic spend areas are difficult to source, as they considered the gaps left by their general purpose e-sourcing suites. The characteristics that the survey respondents gave to strategic spends include:

- Larger-sized spends, in terms of number of items, locations, suppliers, or bid components to collect.
- A more sophisticated supply base seeking to put their "best foot forward" beyond just bidding with lowest price.
- Cost is important, but not always the dominate decision factor – more important to make a total cost of ownership (TCO) and best-value decision.
- Supply quality and predictability are important to the underlying business.
- Supplier relationships are critical to reducing supply risk.

Other characteristics of spends that are difficult to capture in those first-generation ERP-based sourcing tools include:

- Need to collect and evaluate multiple cost and non-cost bid components.
- Multiple stakeholders involved.
- Spends where aggregation and consolidation would benefit.
- Numerous business rules and preferences to apply, in order to evaluate various "what-if" scenarios.
- Multiple cost models.
- Capacity considerations crucial to supplier selection.



Most ERP-based e-sourcing tools are known for their hard limits on the size of sourcing events they can efficiently support. Those limits require sourcing teams to break up sourcing events into smaller, more "manageable" sizes, which reduces the opportunity for cost savings and operational efficiency.

The inability of ERP-based e-sourcing tools 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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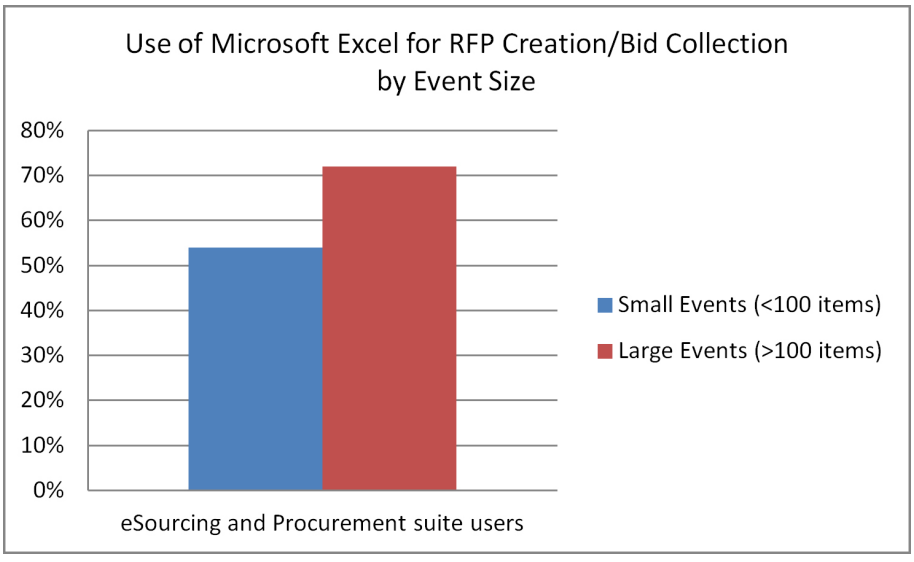
SPREADSHEETS FOR STRATEGIC SOURCING?

A little more than half of the participants in the 2011 CombineNet survey stated that they still use 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.
- E-sourcing tool places limits on the number of items and suppliers that they can include in an RFP.
- E-sourcing solution has inflexible cost model support.
- Since they plan to analyze the data in spreadsheets, they feel it is easier to collect the information in 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 ERP-based e-sourcing tools don't provide an easy to use process for creating the required breadth and depth of award scenarios that analyze supplier pricing alongside other value-adding factors, let alone understand the cost impact of what are often competing preferences between different stakeholders within the organization.

As shown in the diagram below, event size in terms of the number of items being sourced has little impact on the use of spreadsheets. Even for smaller-scale events having fewer than 100 items in the RFP, 54% are still using spreadsheets to collect bid data – and 71% use spreadsheets for events with over 100 items:



Let's face it: Excel provides a familiar and flexible solution for analyzing bids. But it is wrought with major issues as a sourcing method. While it may be "quick" for creating the RFI or RFP, it significantly bogs down the process after that point – requiring often manual sending of the file to invited suppliers, needing to aggregate the data back again and re-format much of it, and conducting cumbersome analysis off-line in a non-centralized way. (To read more about the problems with the prevalent use of Excel spreadsheets for sourcing, please download

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CombineNet's other informative white paper: "Stuck in the Suite Spot: The Prevalance of Excel Use Alongside eSourcing and Procurement Suites.")

If the sourcing organization has a mandate to use the existing e-sourcing tool for all sourcing activities, many users simply circumvent the mandate by attaching a spreadsheet-based bid sheet to an e-sourcing event. Or, they export the data collected in the e-sourcing tool into a spreadsheet to analyze bid information, also circumventing the spend under management strategy.

The bottom line: Spreadsheet utilization is not spend that is e-sourced nor 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.

ADVANCED SOURCING SOLUTIONS TO GET YOU OVER THE PLATEAU

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

See the table below for a comparison of basic e-sourcing tools and the more advanced e-sourcing solutions available on the market, as it relates to the spend characteristics they are designed to support:

Basic E-Sourcing	Advanced E-Sourcing
Supports 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.	TCO Matters: Awarding based on complex set of factors and cost models – greater analytics and optimization is 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 – few stakeholders involved.	Decisions often involve multiple stakeholders with competing priorities.

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Advanced e-sourcing solutions meet a strong market need to address enterprise-wide spends that are insufficiently supported by many of today's already-implemented procurement technologies. These solutions allow users to leverage the technology to improve their sourcing process, obtain better results, and free them up to think more strategically.

COMBINENET ASAP FOR ADVANCED E-SOURCING

CombineNet's ASAP® advanced e-sourcing solution is used by leading global companies to manage the sourcing activities that they are unable to efficiently and effectively manage within their general purpose procurement suites from SAP, Ariba, Oracle, and others.

Originally developed in 2000 to support the largest and most complex sourcing activities, CombineNet ASAP offers customers an advanced sourcing solution to manage strategic sourcing events, where the outcomes have a material impact on the organization's supply chain and finances. CombineNet ASAP's flexibility, speed, and robustness in streamlining bid collection, coupled with its fast, powerful optimization-based analysis, has since led customers to increasingly turn to CombineNet for more and more strategic sourcing activities.

Key components of CombineNet ASAP include:

- RFxpress — Rapidly create e-sourcing events (RFI, RFP, E-Auction) with item and supplier information using a 6-step wizard.
- Expressive Bidding® — Improve bid collection with greater flexibility, supplier creativity, and inclusion of extensive non-price factors.
- Expressive Feedback — Provide expressive and timely information to suppliers during bidding cycles to guide them towards more strategic and competitive RFP and E-Auction responses.
- Scenario Builder℠ — Quickly create robust "What If?" bid analysis scenarios and support better stakeholder alignment.
- Analysis and Optimization — Arrive at the best sourcing award decisions based on costs, value, risk profiles, business rules and other preferences
- Template Management — Improve overall productivity through re-use of existing RFI/RFP/E-Auction configurations for other sourcing events and spend categories.
- Reporting and Dashboards — Increase visibility and improve decision making with robust reports on event activity and scenario results with Excel-like navigation and reporting.
- Data Management: Import & Export, APIs – Integrate data from and into other procurement applications through import and export utilities, flat file integration, and the ability to create custom integration through APIs.

CombineNet ASAP® today delivers a best-of-breed cloud-based complement to ERP Procurement Suite investments – to help you extract even more cost savings and supply chain improvements with our different yet distinctly advantageous advanced sourcing capabilities. In fact, 70% of CombineNet customers use us in partnership with one of those ERP applications.

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WHY CUSTOMERS CHOOSE COMBINENET ASAP WITH ERP & PROCUREMENT SOLUTIONS:

- They have spends not sufficiently supported by current ERP and procurement packages, causing buyers to resort to use of spreadsheets or other manual, inefficient methods.
- They have mature spend areas where they have hit a limit on reducing costs further.
- ROI can't wait: They need to provide a faster, easy-to-use e-sourcing solution to users and suppliers. Nearly 100% of CombineNet customers pay for their CombineNet ASAP investment with savings from their first sourcing event.
- They want to take a more strategic approach to sourcing, requiring more robust analytics using optimization capabilities.
- Diminishing returns of e-auctions: They want to drive new results by utilizing next-generation e-auction technology that leverages our Expressive Bidding® and optimization power.
- It's non-disruptive and complementary.

CHARACTERISTICS OF SOURCING EVENTS THAT BENEFIT FROM THE ADVANCED SOURCING CAPABILITIES OF COMBINENET ASAP:

	Without CombineNet	With CombineNet
Large # of Items	Due to event sizing limits in most ERP-based sourcing tools, buying teams often will combine large numbers of items into bundles or lots in order to reduce the size of the sourcing event. Or they may run multiple sourcing events (by region, or business unit) across the same items or similar suppliers.	CombineNet's advanced e-sourcing solution does not limit the number of items or suppliers participating in an event, with no loss of speed or performance for extremely large events. This enables broader competition and better item-level bids from suppliers. We have supported many events with over 10,000 items.
Multiple Cost Components and Non-Price Factors	With other sourcing tools, when there are multiple cost components and other non-price factors that buyers want to collect from suppliers and evaluate to understand total cost or value, they must often turn to Microsoft Excel bid sheets for response collection and evaluation.	CombineNet ASAP provides a robust and flexible platform for collecting and analyzing unlimited data, including supplier capabilities and business information; pricing information on multiple cost components for each item being sourced; and other non-price factors such as item specifications and alternate suggestions, service levels, and quality information. We call this Expressive Bidding.

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Supplier Capacity to Meet Demand on Items	A supplier's capacity to meet item demand is an extremely important supply risk factor, especially as suppliers bid across multiple similar items and delivery locations that could impact their ability to support the business. Capacity may not be captured and analyzed appropriately.	The advanced sourcing Expressive Bidding capabilities of CombineNet ASAP provides a unique ability to collect a supplier's capacity on multiple levels, ensuring that sourcing outcomes don't over-award a supplier on a mix of items that they can't supply consistently and at the right service level.
Bid Analysis and Scenario Evaluation	Understanding "total cost," beyond lowest price, in the context of the preferences of different internal and external stakeholders, requires sourcing teams to go beyond basic e-sourcing tool bid analysis capabilities to arrive at the optimal decision for their business.	CombineNet ASAP is built upon the industry's most powerful bid optimization technology, providing fast and accurate analysis of "what if?" scenarios that reflect real-world constraints on business decisions. Fast and easy scenario creation enables sourcing teams and stakeholders to quickly build an unlimited number of competing business rules that evaluate supplier proposals alongside their capabilities, business goals, individual preferences, and item attributes to understand the cost impact of business decisions.

CUSTOMER ROI AND BENEFITS WITH COMBINENET ASAP FOR ADVANCED E-SOURCING

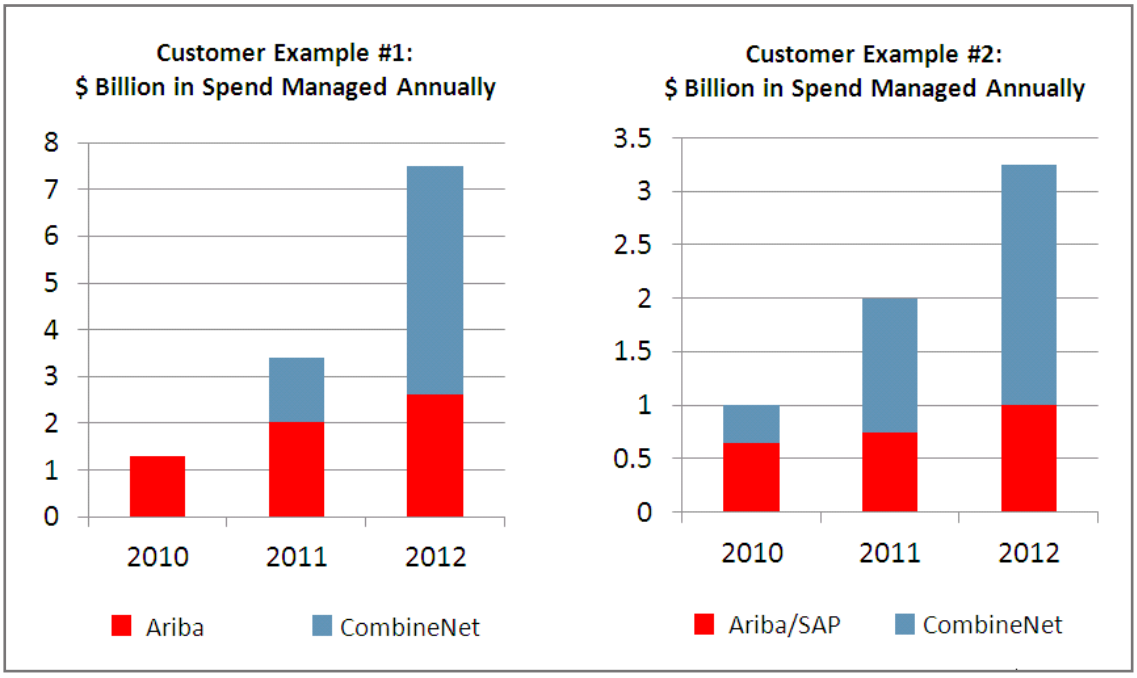
When used alongside existing ERP procurement solutions, CombineNet delivers a number of strong benefits to the organization.

- **More Spend Under Management:** One key benefit is that CombineNet makes it easier to get more spend managed through a centralized e-sourcing platform, thereby providing improved visibility and insights into activity across all categories of spend (regardless of complexity level).
- **Increased Savings:** By implementing enhanced approaches to e-sourcing, supplier competition increases and new areas for savings and innovation are discovered – even in mature spend categories.
- **Improved Supplier Collaboration:** CombineNet's Expressive Bidding provides a "supplier friendly" online bidding process, allowing suppliers to put their best foot forward by submitting more detailed information about their capabilities, competitive advantages, and any alternative, bundled, or conditional offers. This allows buyers to make sourcing decisions based on optimal value and lowest risk. Expressive Feedback also allows the sourcing team to automatically let suppliers know how they stack up in the bidding process, increasing competition and therefore improving final results.

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- **Improved Strategic Analysis and Decision Making:** CombineNet's capabilities for conducting sourcing scenario analytics mean your team is spending less time on spreadsheets, and more time being strategic. Users can create and quickly optimize sourcing scenarios based on a variety of constraints, fueled by CombineNet's proprietary optimization technology that holds 21 U.S. patents.
- **Improved Adoption and Process Adherence:** Ease of use is always a factor when it comes to software applications. CombineNet improves internal adoption with its usability and flexibility that drives best practices, standardization, data centralization, and stakeholder collaboration and consensus.

As some examples: One customer experienced a 2x increase in spend e-sourced one year after they adopted CombineNet alongside their existing procurement suite, spanning spends across multiple business units globally. In another, a long-time user of ERP-based procurement solutions reported a 225% increase in spend e-sourced two years after adding CombineNet ASAP.



Customers across all industries, spanning all types of spends, report strong savings results. 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)

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CombineNet ASAP offers flexible subscription pricing, making us easy to do business with and fast to get up and running in your ERP and procurement suite environment. We also readily work with your select Systems Integrator, BPO, or Consulting partner to support configuration, implementation, and roll out of the solution to meet your specific requirements. For example, Ariba users can experience integration that allows them to launch a CombineNet e-sourcing event from within the Ariba interface, or to leverage CombineNet's templates for expressive bid collection and anlaysis.

NEXT STEPS FOR GETTING BEYOND THE PLATEAU

Do you want your team's sourcing efforts to be spent on strategy, analytics, and driving improvement, or formatting data in spreadsheets due to existing sourcing tool deficiencies? We recommend that you begin with measuring the current state of spend managed through e-sourcing at your company. Here are a few internal questions that should be answered:

a. Which spends are being sourced outside of your current SAP, Ariba, Oracle, or other suite-based sourcing tool?
b. What constraints and limitations does the current sourcing solution impose?
c. What ROI and benefits are desired? i.e., cost savings, productivity improvement, centralization, visibility and reporting, best practices scalability, supplier rationalization, 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.

- Call +1 412-471-8200
- E-mail info@combinenet.com
- Visit www.combinenet.com for more white papers, customer case studies, and product details

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