SURVIVAL GUIDE FOR SOURCING PROFESSIONALS



CRITICAL BUSINESS INTELLIGENCE

liveSource™

5 STEPS TO TAKING CHARGE OF YOUR SOURCING ACTIVITIES



A strategic approach to sourcing will not be successful without involving improvements on all facets of the sourcing process. Often times, sourcing professionals get stuck in their old ways and forget to take a step back and look at the big picture. There are many aspects that need to be considered in order to identify the opportunities that will streamline the sourcing process, including selecting the right team members, technology and contract manufacturers. The steps below describe how to approach your sourcing strategy and how eSourcing and eProcurement tools can be instrumental in helping your company meet financial and organizational goals.

1. Align All Goals

The economic turmoil many companies went through in the last few years has led to increased focus on cost reduction. Sourcing teams are often confronted with the challenge of obtaining significant cost savings, and are evaluated or rewarded strictly based on such savings. However, experience has shown that the lowest cost philosophy can easily result in product failures and disrupt the relationship between engineering, product and the sourcing team. To prevent this, a strategy revolving around 'cost for value' is most efficient and will ultimately lead to an alignment between overall company goals and the sourcing team's goals: obtaining quality components from the right supplier, sourced and delivered on time, at the right cost.
In order for this ultimate goal to be achieved, other critical sourcing aspects must be analyzed:

- Risk – strategic sourcing should enable you to sustain continuity of supply, even when faced with major unexpected disruptions (i.e. natural disasters);
- Supplier Performance – saving money is always good, but it can become meaningless when an organization has to deal with quality issues, late deliveries or poor service;
- Competitiveness – innovation is key to preventing your competition from cutting into your market share. Your engineering team and your suppliers can be great sources for innovative ideas. A good strategic sourcing process can ease the flow of ideas and create a path toward achieving organizational goals.

2. Involve the Right People

Many potentially successful products never reach the market because of lack of communication between engineers, sourcing professionals and contract manufacturers. Most often, engineers design a product or component, hoping the sourcing team will be able to find it at or below target cost. If nobody takes the time to consult with suppliers, the results can range from decreased profitability, to failure to launch the product.

Involving contract manufacturers in shaping the components that go into a product should reduce lead time, decrease cost and create a competitive edge. Make sure the manufacturers you choose are up to speed with the latest technology, equipment, trends and production processes. eSourcing and eProcurement tools, such as LiveSource, offer the possibility to securely share design documents in an interactive environment that facilitates communication and increases your chances of meeting your quality, performance and cost requirements. Using such tools will allow you to leverage your suppliers' knowledge to your advantage.

3. Control Who is Part of Your Supply Chain

Considering that over 76% of sourcing professionals indicate that the purchases they make are recurring, dealing with the right supplier from the start, helps to reduce the risks of poor quality goods or delivery problems and can lead to significant savings in the long run. Just because a supplier has the right equipment and capabilities, doesn't necessarily mean that they will be able to deliver the products you need, on time and in accordance with all of your requirements. Make sure the company you choose has previous experience in manufacturing products similar to yours and can meet your tolerances, material specifications, finishing and packaging requirements. Although certifications aren't always a must, a certified manufacturer is more likely to deliver a higher quality product.

A company's reputation will give you an overall idea of what kind of partnership you can expect to have with a manufacturer. Online marketplaces and eProcurement tools, such as MFG.com and LiveSource, provide detailed information and customer ratings, based on quality, responsiveness and delivery. Client testimonials are an important part, but go beyond reading them on the supplier's website. Ask for direct contact information for one of their previous customers and have a conversation with them. Look up additional information about the supplier such as: ratings with the Better Business Bureau, press releases and information about the company's affiliation to different professional organizations.

If the manufacturer you choose sub-contracts some of the work, make sure you go through a similar process with their sub-contractors. After all, being directly or indirectly associated with the wrong company can seriously affect your company's reputation as well.



4. See the Big Picture

Even if you are currently have a long-term partnership with a supplier, make sure you always stay up-to-date with current market pricing and costs. Keep your options open and always request more than one quote on each project. Competition is a major motivational factor for manufacturers. Next generation sourcing platforms enable you to systematically analyze suppliers based on cost, performance and risk. Sourcing professionals that requested multiple quotes through LiveSource have seen savings of over 30%. Customizable online quoting templates

help you see beyond the cost of the parts you are trying to source, and can include details about shipping, packaging or any additional charges. In a survey conducted by MFG.com, 49.5% of sourcing professionals surveyed, indicated concerns that logistics and shipping costs could threaten their sourcing or supply chain strategies. Make sure you take into consideration all these costs and do the math before making a sourcing decision.

Adjust the payment and shipping terms according to each manufacturer you deal with. Consider your history with that company, their credit worthiness and the overall cost of the project. Make sure everything is in writing and that you have proper documentation to protect your finances and intellectual property in case there are any issues. Building a solid fact base goes past assessing the part cost. Quality of materials, capacity, lead time, and a manufacturer's ability to recover from disruptive events must be weighed alongside the part cost. It may be that the more expensive option turns out to be the right choice. In order to be successful, sourcing professionals must be able to balance all the factors influencing their choices, and to articulate the reasons that make their choice the best path to achieving company goals.

5. Standardize and Automate Your Sourcing Process

Many sourcing professionals still rely on static spreadsheets. They often prefer quoting spreadsheets due to force of habit, but also because they're so easy to save, attach and send. However, many errors can appear on the back end. First of all, spreadsheets make it very difficult to standardize, consolidate and analyze all the data. A lot of time is wasted trying to keep track of different versions of the forms received, keeping all the information updated and creating accurate quote comparisons that include all the information needed to reach an informed decision. Furthermore, this makes auditing extremely cumbersome and breeds inefficiencies that can have ripple effects throughout all stages of production.

Technology now helps streamline the sourcing process. Purchasing teams are able to use eProcurement tools to generate custom quoting forms, initiate online auctions, perform advanced quote analysis, manage their orders and track them in real-time. The same tools also generate a clear X-ray of any supply chain by centralizing and highlighting information crucial for supplier management. Many of the companies that turned to LiveSource as their main sourcing and eProcurement tool were able to significantly lower costs in the buying process, increase their sourcing activity without adding new members to their teams, and save a significant amount of time.



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Revolutionizing eSourcing Adoption

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liveSource

Revolutionizing eSourcing Adoption

Executive Summary

To keep pace with competition and deliver against strategic objectives Procurement must employ state-of-the art technologies. History has proven that eSourcing is among the most powerful Procurement solutions, offering compelling ROIs when compared to other enterprise-level applications. Despite overwhelming evidence of eSourcing benefits, organizations still face significant adoption challenges.

Software implementations are really about influencing organization change and, unfortunately, the vast majority of change efforts fail. This paper examines a revolutionary change management approach: *Influencer*. *G*round-breaking research conducted by VitalSmarts sheds light on eSourcing adoption challenges. The principles and skills presented in their *New York Times* bestseller, *Influencer*, provide a comprehensive change management methodology, and may well be the solution for lasting positive change.

There are a number of unique aspects to VitalSmarts' approach. The *Influencer* methodology*:*

1. Emphasizes that organizations are comprised of individuals, and that individuals' behavior must change for an organization to change.
2. Focuses on vital (high leverage) behaviors that lead to rapid and profound change.
3. Identifies crucial moments where individuals decide to implement change, or not.
4. Seeks examples of Positive Deviance – situations where behavior change was successful.
5. Applies strategies that broadly target Six Sources of Influence™ focused on both motivation and ability, in order to improve chances of success exponentially.

As you consider implementing eSourcing, or perhaps revitalizing your existing eSourcing effort, you can avoid costly adoption failures by selecting the right technology, engaging an expert service partner and applying the revolutionary *Influencer* methodology.

Overview

Procurement has rightly earned a respected position within corporate America. After all, they are responsible for managing the majority of corporate spend and their decisions have a huge impact on the overall supply chain. Every dollar saved on purchased goods and services represents a dollar of increased profit, and the strategic relationships Procurement crafts with suppliers can enable critical competitive advantages. Procurement's visibility has never been greater nor have their challenges.

To keep pace with competition and deliver against strategic objectives Procurement must employ state-of-the art technologies including eSourcing and Supplier Relationship Management (SRM). Although some view technology *selection* and *implementation* as the major challenges, in reality long-term technology *adoption* is a much tougher task.

A successful technology implementation that "sticks" over time is generally the outgrowth of an effective change management process.

There is strong consensus among experienced practitioners that software implementations are not primarily about the technology. They are really about influencing organization change. (1) Typically, less than 15% of your users will be "Early Adopters" – those who readily embrace the change. The balance will either take a "wait and see" posture, be "foot draggers" or, worst of all, even "saboteurs". As a result of these user demographics, the biggest challenge you face in software implementation is the culture change required to drive and cement adoption. A successful technology implementation that "sticks" over the time is generally the outgrowth of an effective change management process.

Research has found that 72% to 91% of organization change efforts fail. (2) And, apparently, this is a recognized deficiency within the Procurement community. A recent study determined that 98% of CFOs believe business [stakeholder] engagement and change management are critical capabilities for Procurement, yet 60% of these same CFOs expressed dissatisfaction with Procurement in these areas (3). Since software implementations are likely to increase and are critical for Procurement's success, we must examine how we, as Procurement leaders, can foster successful technology adoption within our sphere of influence.

Much has been written on the subject of change management particularly as relates to technology implementations. eSourcing has been around for well

over a decade so there is significant experience. Why then is change so elusive and eSourcing adoption so anemic?

Ground-breaking research conducted by VitalSmarts (www.VitalSmarts.com/Influencer) sheds light on these challenges. Their *Influencer* methodology is based on 30 years consulting experience and a literature search including 17,000 journal articles covering over five decades of social science learning theory. The principles and skills presented in *Influencer* provide a comprehensive change management methodology, and may well be the solution for lasting positive change. There's more good news! This revolutionary approach doesn't just fix eSourcing adoption. It can be applied to any personal or organization change challenge.

eSourcing Value

The data are overwhelming! eSourcing solutions are among the most powerful Procurement solutions available, and offer compelling ROIs when compared to other enterprise-level applications. eSourcing enables numerous and important benefits which typically include:

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- Increased strategically sourced spend
- Increased savings identified and realized resulting in improved cash flow and increased shareholder value
- Streamlined sourcing process and reduced cycle times
- Improved data for greater options analysis and improved best value purchases
- Standardized and rigorous sourcing best practices
- Enhanced internal collaboration
- Improved supplier management and collaboration, and reduced supplier risk
- Better knowledge management and organization continuity
- Increased management visibility

Aberdeen Group reports that:

> Best-in-Class companies [are] 30% more likely than all others to leverage e-sourcing. In fact, users of e-sourcing technology report the following advantages over those not currently relying on this sourcing enabler:
>
> - 57% lower rate of savings leakage
> - 21% higher rate of procurement contract compliance
> - Nearly 20% higher rate of spend under management [(4)]

The bottom line is the bottom line. "For every dollar of spend under management, Aberdeen has historically quantified 5% to 20% cost savings. [5] Experience at numerous clients over the past decade confirms these savings.

Situation Analysis

Despite the overwhelming evidence of eSourcing benefits, organizations will still face adoption challenges. There *will* be resistance. This different way of sourcing challenges buyers and the organization since it requires behavior changes for everyone involved in the process. eSourcing introduces greater rigor into the sourcing process. It challenges incumbent suppliers. It creates "buyer transparency" – the buyer's exposure to much greater visibility and scrutiny of their work. Sourcing professionals may perceive a lose-lose scenario.

> "If I save 20+% through eSourcing my management will question my past actions. If I only save 10%, my management will question why I'm below the industry average!"

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Research indicates that:

> 40% of SMBs [small to mid-size businesses] and 45% of large organizations have actually deployed an e-sourcing tool. However the problem is not deployment, but automation [adoption] …a large percentage of organizations (large and SMBs alike) do not make effective use of their eSourcing applications and thus continue to rely on spreadsheets as part of an ancillary or even primary function. [6]

Despite the significant quantifiable results, eSourcing (which is now over a decade old) remains at unimpressive penetration levels. It is employed only 57% of the time by Best-in-Class companies and only 41% by all others [7]. On average, only 29% of total spend benefits from an eSourcing process. [8] Spend Matters' editor Jason Busch further observes: "It is correct that many organizations have adopted sourcing solutions in some capacity. But most procurement organizations have only scratched adoption, compliance and the category management surface with their sourcing toolsets." [9] And there are far too many examples of companies who have experienced positive results yet reverted back to "the old way" of sourcing because of poor technology adoption. Despite the rewards of success and the consequences of failure, the required change just didn't stick long term.

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The reasons are varied and many. Diagnosis of failures includes issues like:

- Low leadership priority
- Organization changes
- Staff turnover
- Inadequate training
- Unfriendly technology
- Internal stakeholder resistance
- Disappointing event results
- Supplier resistance
- Conflicting organization priorities
- Lack of accountability

Whatever the reasons, the consequences and the potential opportunity are enormous!

Influencer

If you Google "eSourcing adoption", you will find numerous articles and white papers on this change management challenge. Generally speaking, the suggestions are well-reasoned. Various authors "package" their advice differently but it contains the traditional guidance regarding a shared vision, goals and measures, communication, organization structure, documented processes, stakeholder engagement, etc. The focus is on the ultimate goal – eSourcing adoption, and there is heavy reliance on verbal persuasion aimed at getting commitment. But commitment is typically only the first step.

Influencer is based on 30 years experience and examination of peer reviewed journals over the past 50 years.

In 2008, the VitalSmarts author team published the *New York Times* Bestseller *Influencer*. VitalSmarts is a world-class training and advisory services group that improves key organizational outcomes by focusing on high-leverage skills and strategies. In VitalSmarts' work with clients they had also seen dismal success rates with various change efforts. [(10)] This prompted an extensive research project to explain why change efforts fail so often, and what could be done to improve results. *Influencer* is based on 30 years experience from their own change interventions as well as examination of peer reviewed journals over the past 50 years. *Influencer* documents that research and defines a practical approach which provides the power to change anything – including eSourcing adoption. It is a fresh approach to affect profound, persistent and resistant organization change. It teaches principles and skills that make change not only achievable and sustainable, but inevitable. This work is absolutely applicable to the eSourcing adoption challenge!

Influencer defines a practical approach to affect profound, persistent and resistant organization change.

There are a number of unique aspects to VitalSmarts' approach. *Influencer:*

1. Emphasizes that organizations are comprised of individuals, and that individuals' behavior must change for an organization to change. All individuals and organizations are different. Therefore, they require tailored actions to affect change.
2. Focuses on vital (high leverage) behaviors that lead to rapid and profound change.
3. Identifies crucial moments where individuals decide to implement change, or not.
4. Seeks examples of Positive Deviance – situations where behavior change was successful. It analyzes the reasons for this unexpected success.
5. Applies strategies that broadly target Six Sources of Influence™ focused on both motivation and ability. Their research demonstrates that: "By combining multiple sources of influence, they are up to 10 times more successful in producing substantial and sustainable change". (11)

Vital Behaviors

Much of the current change management literature suggests a "cookie cutter" approach – do A, then B, then C and, voila, organization change happens. These standard approaches ignore a couple of important considerations:

1. Organization cultures are different as are the individuals within those organizations. A "one size fits all" model just won't work.
2. We tend to be laser focused on results when what we really need to address are behaviors.

Although we talk about *organization* change as relates to technology adoption, what we really need to affect is the behavior of *individuals* in the organization. Human behavior is the most fundamental element in the production of results. When you have sufficient individual behavior change it, de facto, changes the organization.

Elaborate change management plans might actually work against you. There's no sense crafting a complex plan aimed at the wrong actions or diluting our effort by focusing on too many things at once. We must study our organization and implement targeted high-leverage actions focused on changing individuals' behaviors.

We tend to be laser focused on results when what we really need to address are behaviors.

Influence geniuses have discovered that most long standing problems will yield to changes in a handful of what we call vital behaviors. Vital behaviors are the smallest number of high-leverage actions that, if routinely enacted, will lead to the results you want. To be successful, you need to concentrate your effort on the right behaviors.

Assuming you have defined specific and measurable results (what you want, why you want it and when you want it) your first challenge is to identify those few vital behaviors that will solidify eSourcing adoption. To be clear, a behavior is not an outcome or result (e.g. 90% of RFxs executed via eSourcing). Behaviors lead to results. A behavior is demonstrable with a specific action, a specific actor and a specific setting. You might ask yourself: "What must individuals actually *do* to affect the desired change?" What would a video camera see or a microphone hear? These are behaviors.

Vital behaviors are sometimes difficult to spot. We know we need to change behavior, but which ones should we target with our influence strategies? Vital behaviors tend to share three characteristics:

1. They lead directly to better results.
2. They often break out of self-defeating patterns of behavior.
3. They frequently start a reaction of other positive behaviors that lead to good results.

What are some possible examples of vital behaviors in the context of eSourcing adoption?

- An inexperienced user consulting with an eSourcing expert before beginning their first event is a vital behavior that would likely lead to a better result.
- Taking time to understand stakeholders' needs and concerns at the beginning of the eSourcing process could break a pattern of resistance, ill-defined decision criteria and the resulting inappropriate or unfeasible award decision.
- The sourcing professional who ensures requirements are clearly documented before issuing an RFQ reduces confusion and frustration among potential bidders thereby improving results via increased competition.

Remember, these are only possible examples. It's important for you to determine specific vital behaviors for your organization.

When searching for vital behaviors, there are some actions that can help bring them to light. We can investigate crucial moments and study positive deviance (uncommon successes).

Crucial Moments

According to *Influencer*, a crucial moment is: "The point where the right behavior, if enacted, leads to the results you want." Whereas a vital behavior addresses the "What" (what to do and how to do it), a crucial moment addresses "When" (when is it time to act?). The choices made in crucial moments will have a disproportionally positive effect on everything that follows.

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In the context of eSourcing, crucial moments might include the point in time when the user decides which tool to use for sourcing (e.g. phone, email, spreadsheet, eSourcing solution, etc.). Time pressure to complete a sourcing event could make this moment particularly crucial. Stress tends to uncover crucial moments. A crucial moment might also be when a user is faced with frustration or confusion while using an eSourcing solution. Perhaps resistance from an internal stakeholder or a key supplier is a crucial moment. Or maybe it's when the user anticipates buyer transparency for the first time. Ask yourself: "When is failure most likely to occur?" Vital behaviors lurk in these crucial moments.

Positive Deviance – Examining Uncommon Successes

Positive deviance provides another clue to vital behaviors. Positive deviance is the study of situations where people's uncommon behaviors allow them to deliver better solutions despite experiencing similar challenges and limitations as their peers. Positive deviance looks to identify circumstances where you expect to find problems, but you don't. This approach can be extremely helpful in discovering vital behaviors.

There are three steps to identifying positive deviance:

1. Dive into the center of the organization you want to change. In the case of eSourcing adoption, this would be your sourcing community.
2. Discover or study settings where the targeted problem (little or no adoption) should exist but doesn't.
3. Identify the unique *behaviors* of the group that succeeds.

When searching for positive deviance, you should be alert for recovery behaviors. What do people do when there is a failure? People are going to

make mistakes. Successful people and organizations employ effective recovery behaviors. An example might be a "post mortem" process for eSourcing events that don't meet expectations. A potential negative is turned into a positive by extracting, documenting and publicizing learnings.

Be careful to test your positive deviance hypotheses. Immediately follow your conclusions about cause and effect with a test. Teach your newly discovered vital behaviors to the "failed" group and see if these behaviors cause a positive change in results. However, be cautious about the "paralysis of analysis". Don't hypothesize forever. Conduct rapid, low-risk mini experiments to validate results. Set short-term goals, try the behaviors within low-risk environments and see what works for you.

Sources of Influence

When it comes to influencing others, we often rely on the power of the tongue – persuasion, fact and figures, rationale. Unfortunately, when it comes to resistant problems like eSourcing adoption verbal persuasion rarely works. Ironically, the more we speak the more we can breed greater resistance.

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We also live in a "quick fix" society. We're all looking for the magic bullet to solve the problem once and for all. All we need to do is provide training or to change the rewards system. For complex problems a single strategy rarely works. Although we need only focus on a few vital behaviors, we need to employ a number of influence strategies to encourage desirable action and discourage undesirable actions. It takes a combination of strategies aimed at a handful of vital behaviors to solve profound and persistent problems.

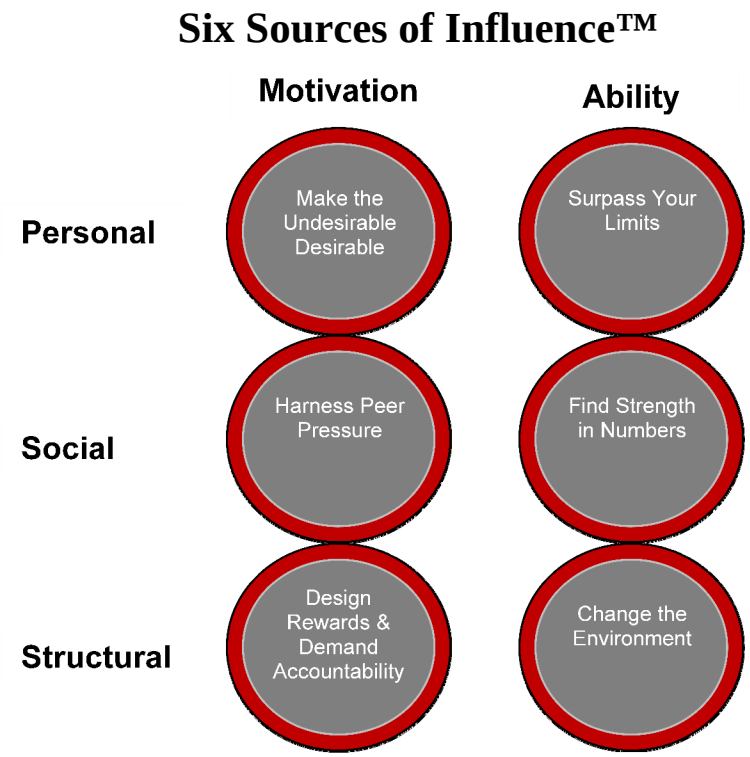
When striving to influence behavior, you must first know what forces are driving it. You must diagnose before you can prescribe. When planning our influence strategies, we need to target two important considerations which ultimately shape individuals' behavior:

1. Can I do what's required? (addresses ability)
2. Will it be worth it? (addresses motivation)

At the most basic level, these are the questions individuals ponder as they consider making change. Therefore, our influence strategies must also address these questions.

Research shows that these questions can be further subdivided into three realms: personal, social and structural. Pictorially, we can display these Six Sources of Influence™ in the following model.

By combining multiple sources of influence, organizations are 10 times more successful in producing substantial and sustainable change.



Many of these sources account for improvements you've already considered or made. What you'll learn through *Influencer* is how to consciously draw upon this robust set of influence sources at the appropriate times to influence vital behaviors. Let's examine the six sources individually.

Source 1: Personal Motivation – Make the Undesirable Desirable

Personal Motivation addresses the question: Do I enjoy it or find meaning in it? As influence masters we need to determine how to change the feelings associated with a vital behavior from unappealing to satisfying. We can do this by creating new experiences and/or new motives.

Humans are notoriously bad at predicting what we will and won't like.

Create New Experiences

1. **Just try it.** Humans are notoriously bad at predicting what we will and won't like. Therefore, you might provide target users a trial, say through an eSourcing pilot. Alternatively, we might offer a vicarious experience by setting up a visit with an experienced user in another division or at another company.

2. **Make it a game.** People love challenges. Find a way to make eSourcing adoption reasonably challenging with defined goals and clear, frequent feedback. Break the project into smaller tasks. Set short-term goals and keep score. Make it a competition with deadlines, targets and rewards.

Create New Motives

What can you do when neither the activity itself nor the natural feedback the activity produces are inherently pleasant or motivating?

1. **Connect to a person's sense of self.** Make the activity an issue of personal significance. Succeeding becomes a measure of who they are. Tap into their professional pride. How does eSourcing help them achieve a professional recognition or a certification? How might it move your organization toward "world class"? When people are able to meet their personal standards, they feel validated and fulfilled.
2. **Win hearts by honoring choice.** Replace dictates with dialog. Take time to listen to concerns. Engage the users in problem-solving how to address these as you move forward. This doesn't put eSourcing up for a vote but rather honors users' misgivings and gathers important information and support for your implementation strategy.

Source 2: Personal Ability – Surpass Your Limits

We often assume that failure to comply is a personal motivation issue. Mary hasn't "bought in" to eSourcing. Joe is averse to change. We assume that when people don't change, it's because they simply don't *want* to change.

We often assume that failure to comply is a motivation issue when the real issue may be ability.

The real issue may be ability. We may have underestimated and/or misdiagnosed the learning required and the need for the individual to actually *practice* the required behaviors. But, you argue, we provided training! Unfortunately, people remember only a small portion of what is taught in training. Or perhaps you didn't teach the right things? Did you focus on skills required to support the vital behaviors, or was it merely software training? Did you address the techniques to handle stakeholder and supplier resistance? Was there sufficient opportunity to practice? Knowing isn't the same as doing.

eSourcing provides greater structure and increases transparency in the sourcing process. Aberdeen Group has found that process automation, process standardization and advanced sourcing expertise are key. There is a "two-to-one correlation between enterprises' approach to strategic sourcing

and the success of their e-sourcing programs (i.e., enterprises with these characteristics are twice as likely to succeed as their peers.)" [12] Spend Matters questions whether some companies may have:

> …put the sourcing cart before the horse and not looked enough at broader sourcing leadership, process, category expertise, business influence/relationships, knowledge management and related areas to get the most from a strategic sourcing program itself. [13]

Traditional sourcing methods are much more invisible and forgiving. Perhaps your user resistance is related to their discomfort with formalized sourcing. Do they really know how to source properly? Will they be embarrassed with others scrutinizing their work? This isn't an eSourcing issue per se, but it can definitely affect adoption. Addressing this critical ability issue can jump-start adoption.

Perhaps your user resistance is related to their discomfort with formalized sourcing.

eSourcing training is necessary, but it typically isn't sufficient. Engaging a coach can help to fill the gap. The coach can be internal or external to your organization, but he/she must be readily available for those crucial moments. The coach helps the user break their effort into bite sized pieces. He provides timely advice as well as rapid feedback to promote improvement and encourage continued progress.

Finally, you must prepare the user and the organization for setbacks. Build in resilience. There will be mistakes (learnings) along the way. The correct reaction should be: "Ah! We just discovered what doesn't work." Successful organizations overinvest in strategies to increase ability. They employ a combination of effort, persistence and resiliency to achieve their change goals.

Source 3: Social Motivation – Harness Peer Pressure

Human beings have an inherent need to belong – to be accepted and admired. Therefore, Sources 3 and 4, Social Motivation and Social Ability, are the two most powerful sources of influence. Learn how to co-opt social power, and you can change just about anything.

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Smart influencers ensure people feel recognized, praised, emotionally supported, and encouraged by those around them every time they enact a vital behavior. They also take steps to ensure that people feel discouraged through skillful confrontation of unhealthy behaviors. To achieve this, smart influencers spend a disproportionate amount of time with formal leaders and

opinion leaders to ensure they are using their social influence to encourage vital behaviors.

In an eSourcing context you want your formal leader, the project sponsor, to use his/her relationships with cross-functional peers and supplier management to promote eSourcing. This requires the sponsor's time and attention to help break down resistance frequently experienced with these constituencies.

You should also seek out your organization's opinion leaders because the rest of the population will not adopt eSourcing until they do. Opinion leaders are the small percentage of individuals who are typically early adopters. They are connected, and respected by peers because of their relevant knowledge and their trustworthiness. They are open to change. However, they aren't pushovers, and will need to be convinced. Once convinced, they can turn your organization tide.

You don't get to decide whether to engage the help of opinion leaders. By definition, they will always be engaged either for or against you.

To find opinion leaders, simply ask people to make a list of who they believe are the most influential and respected people in your group. You want to engage these leaders early in the planning process. Listen to their concerns. Build trust with them. Be open to their ideas. Rely on them to share your ideas. In addition to the Social Motivation benefits, you'll also get some good ideas (see Social Ability below)! Consider how you might use the Social Motivation of professional associations, conferences, case studies, etc. to influence your opinion leaders' thinking. Remember, you don't get to decide whether to engage the help of opinion leaders. By definition, they will always be engaged either for or against you.

Source 4: Social Ability – Find Strength in Numbers

Social Ability relates to interactions that affect your ability to perform vital behaviors or that prevent you from engaging in vital behaviors. Social Ability strategies tap the wisdom, skill and experience of the group to create smart and workable plans. As you build Social Ability, colleagues share ideas, provide materials, lend a hand, subordinate individuals' personal needs to the needs of the group, and willingly and ably collaborate. By playing off each other's suggestions, the group jointly comes up with methods that succeed.

We have already mentioned the desirability of involving opinion leaders in early planning to foster both Social Motivation and Social Ability. Another way to build Social Ability is to engage opinion leaders in teaching or coaching others. According to management guru, Stephen Covey, teaching is

the best way to learn. [14] So as your users teach they become more skilled. Teaching is also bonding and builds Social Motivation among your teacher group as well as between teachers and students. Get the hierarchy involved in teaching and there will be no question about their knowledge of and commitment to the program.

Source 5: Structural Motivation – Design Rewards & Demand Accountability

Structural Motivation refers to the power of *things* such as rewards, perks, bonuses, salaries, and the occasional boot in the rear. You need to be particularly cautious here because administering rewards and punishments can be tricky. Keep in mind that you should use Structural Motivation third – *after* Personal Motivation and Social Motivation. Our natural inclination is to start with extrinsic rewards. However, these rewards will often fail if they are used as the *first* motivational strategy.

There are some important considerations when using rewards. You want to be sure they come soon, are gratifying and are clearly linked to vital behaviors. Rewarding outcomes (versus behaviors) can be risky as they can hide inappropriate actions. For example, rewarding a goal of 10 RFxs completed via eSourcing by October 1 may result in sacrificing quality for quantity. Rewarding 10 RFxs reviewed with the eSourcing coach by October 1 would be more useful. If you reward behavior, results eventually follow. Also, watch for divisive incentives. For example, be cautious about pitting one business unit or region against another. You don't want to foster unhealthy competition with negative consequences like discouraging best practice sharing.

Rewarding outcomes (versus behaviors) can be risky as they can hide inappropriate actions.

Use rewards in moderation and target multiple winners. Rewards typically don't need to be large as it is often the thought that counts. It's amazing what people will do for a gold star! Nurture motivation by rewarding small improvements in behavior along the way to the ultimate goal.

In addition to rewards, you must also have accountability. An individual routinely circumventing the eSourcing process without repercussions sends a loud message across the organization and undermines adoption. For accountability to work effectively there must be clear expectations which are written, shared, fair and consistent. You also want to provide warning before doling out any punishment. Give people the time and support they need to first improve.

Source 6: Structural Ability – Change the Environment

Structural Ability addresses how nonhuman forces can provide influence. These forces include things like: buildings, space, sound, sight, reporting structure, budgets, tools, hardware/software, work procedures, job layout, etc. Are these things – the environment – helping you towards success or are they holding you back? .

Are the people who need to work together in close proximity to one another? Is the eSourcing coach in the next cube or in a different time zone? It matters. Do work procedures support eSourcing or work against it? Have you defined and documented your sourcing process? Are you exploiting your eSourcing solution's capabilities to facilitate adoption? Do users have ready access to sourcing project templates and RFx templates? Does your on-line reference library include best practice and process documents, checklists, etc.? Have you made doing what's right (eSourcing) easier than traditional methods?

The good news is that *things* are far easier to change than *people* and things can have a permanent impact on how people behave.

If you want to guarantee a positive behavior, build it into a special meeting or hardwire it into an existing meeting agenda. Consider a monthly meeting with management describing progress against vital behaviors. Put eSourcing on the weekly agenda for team meetings. It's amazing how much progress occurs just before the weekly update!

The good news is that *things* are far easier to change than *people*, and things can have a permanent impact on how people behave. Don't ignore this powerful influence strategy.

Application

As you consider implementing eSourcing, or perhaps revitalizing your existing eSourcing effort, how can you make long-term adoption inevitable?

1. **Apply *Influencer*.** Study the *Influencer* methodology. Send the project team to *Influencer* training. Diagnose crucial moments, focus on vital behaviors and utilize multiple sources of influence. Remember, combining multiple influence sources make you up to 10 times more successful in producing substantial and sustainable change!

2. **Engage an experienced service partner.** Select a service partner experienced in Procurement, eSourcing *and* the *Influencer* methodology to help with your planning and implementation. The

right partner will bring a vast amount of expertise and experience across multiple customers and industries. They know where the "pot holes" are. They will model best practices and stack the deck for early and sustained success through their guidance and expertise.

3. **Select an enabling eSourcing solution.** Make doing what's right the easiest thing to do. Chris Peters of The Lucrum Group counsels:

   > …your new tools and processes must be 'easier to use than not to use'. If the old, comfortable means of doing business is easier, individuals will fall back on their tried-and-true ways. (15)

   Choose a solution that is intuitive and easy for buyers, internal stakeholders and suppliers to use. The tool should be robust but not complex. Ensure it streamlines processes and facilitates both internal and external collaboration. Look for features like RFx and project templates that embed state-of-the-art content and best practices, and that guide the user through the process while providing visibility to management. Consider what type of buyer and supplier support your provider offers. Is help readily accessible in a variety of ways (phone, email, chat, online searchable knowledge base, tutorials, etc.)? Does your software provider have a large supplier network? Is the solution already being used by your trading partners (suppliers)? All of these features reduce resistance.

Choose a solution that is intuitive and easy for buyers, internal stakeholders and suppliers to use.

In today's competitive environment, your company cannot afford for your Procurement organization to lag behind the technology curve. It cannot afford the poor efficiencies, the outdated practices and the resulting sacrifice to competitive advantage and profits. It cannot afford another ineffective change management effort which perpetuates failure, furthering your downward spiral into the status quo abyss. Many have learned the painful lesson: "if you're not moving forward, you're falling behind!" You can avoid this by selecting the right technology, engaging an expert service partner and applying the revolutionary *Influencer* methodology.

The Authors

Barbara Ardell is Vice President at Paladin Associates, Inc. She brings a unique perspective to the eSourcing adoption challenge with her intersecting skills in strategic sourcing, change management, training and eSourcing. She brings over 20 years experience as a strategic sourcing professional having spent the early part of her career with Procter & Gamble's world-class purchasing organization. She later owned and ran a training and consulting firm which focused on both hard and soft skills including: Interpersonal Communications, Leadership, Teamwork, Diversity and Total Quality Management. In 2002, Barbara joined eSourcing pioneer, Procuri (since acquired by Ariba, now SAP), where she trained and coached clients through the eSourcing implementation process. In recent years, Ms. Ardell has provided "voice of the customer" perspective to eSourcing solution companies striving to improve user experience and adoption.

David Maxfield is Vice President of Research at VitalSmarts. David is coauthor of the *New York Times* bestsellers *Influencer* and *Change Anything*. David completed doctoral work in psychology at Stanford University and has since taught at Stanford University and the Marriott School of Management at Brigham Young University where he received the Motorola University's Distinguished Teaching Award and Stanford University's Dean's Award for Innovative Industrial Education. As vice president of research at VitalSmarts, David leads an ongoing series of research projects uncovering the negative impact of cultures of silence in organizations around the world. His research has been published widely including in the *MIT Sloan Management Review*, where his article "How to Have Influence" was awarded The 2009 Richard Beckhard Memorial Prize for the most outstanding article on planned change and organizational development.

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2012 Results
2013 Forecast

MFGWATCH

2013 Forecast

Sourcing Survey Results



The MFGWatch report provides economists, manufacturing and non-manufacturing professionals an annualized snapshot of the North American manufacturing ecosystem

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About the Report

The report analysis provides the responses from the most recent MFGWatch survey sent to 8,840 North American sourcing professionals who have used the MFG.com marketplace to expand their supply chain and award jobs to contract manufacturers online. The survey focuses on determining different sourcing patterns, as well as predicting 2013 manufacturing industry trends.

The questions included in the survey, as well as a detailed analysis of the responses we received, are included below.



Overview

The results from the MFGWatch Survey heading into 2013 are very encouraging. It is showing that many product development companies are viewing 2013 as a growth year with many expecting to make investments in new technology and continuing to hire.

An additional positive sign is many are expecting to add to their existing supply chains in 2013 and 76% of the respondents expect to spend the same or more on contract manufacturing services. This is a great outlook for manufacturers as we head into 2013. Also, there is a continued focus on ensuring supply chains are able to provide the best quality product at a competitive price. Quality of product is seen as the most important attribute when selecting a new supplier. This is encouraging because it demonstrates that many sourcing professionals are looking past price to understand the true value that a supplier offers.

76% of survey respondents expect to spend the same or more on contract manufacturing services in 2013

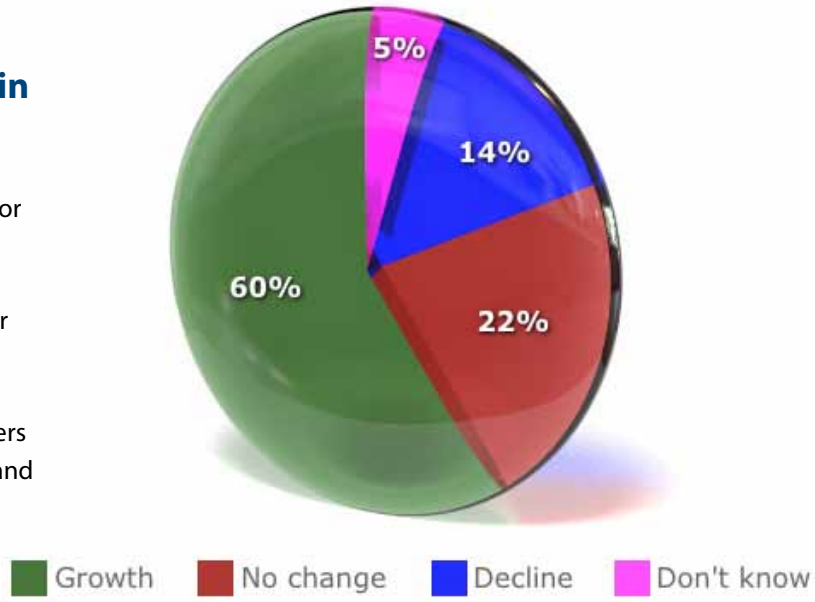
In closing, the results indicate that 2013 will be a strong year for manufacturing. Many companies will look to expand their supply chain and try to align themselves with the best quality suppliers.

How did your company's sales evolve in 2012?

Over 60% of respondents indicated an increase in sales for 2012. This number is up from 52% at the end of 2011.

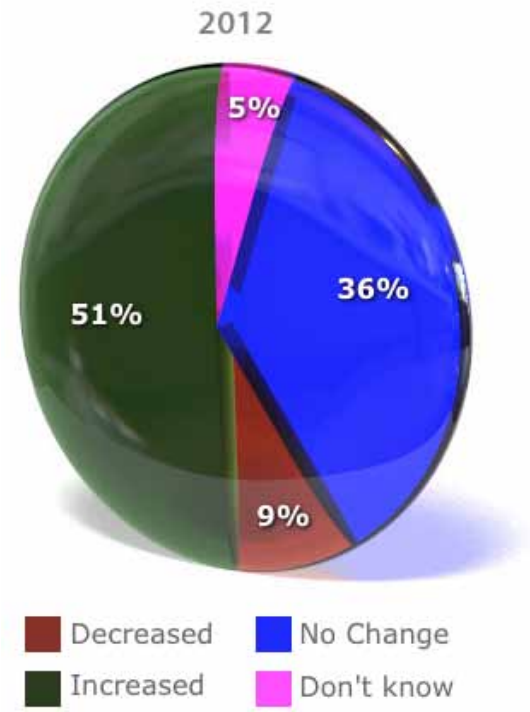
Comparatively, at the beginning of 2012, only 30% of our members expected an increase in sales.

This increase is good news for MFG.com supplier members because an increase in sales means an increase in RFQs and awards in the marketplace.



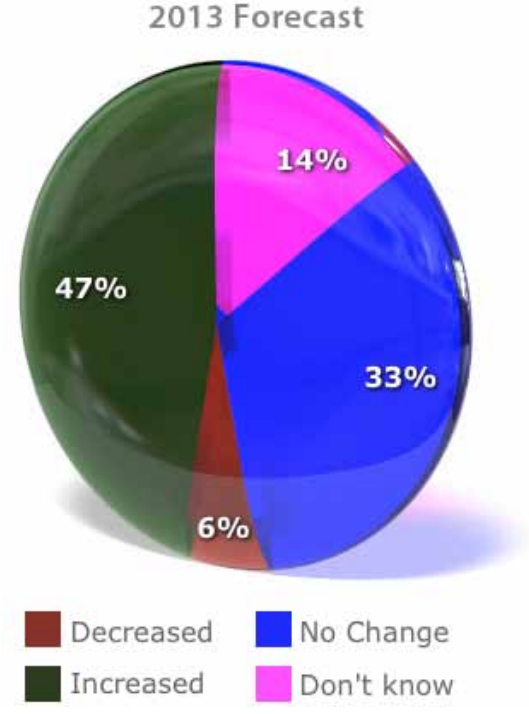
In 2012, how did the number of suppliers in your supply base change?

51% of sourcing professionals indicated that their supply base has expanded in 2012. This represents a significant rise from 2011, when only 30% of respondents indicated an increase in the number of suppliers.



In 2013, how do you expect the number of suppliers in your supply base to change?

Overall, MFG.com sourcing members expect to continue growing their number of suppliers in 2013. 80% indicated they expect to either maintain or expand their current supply base.



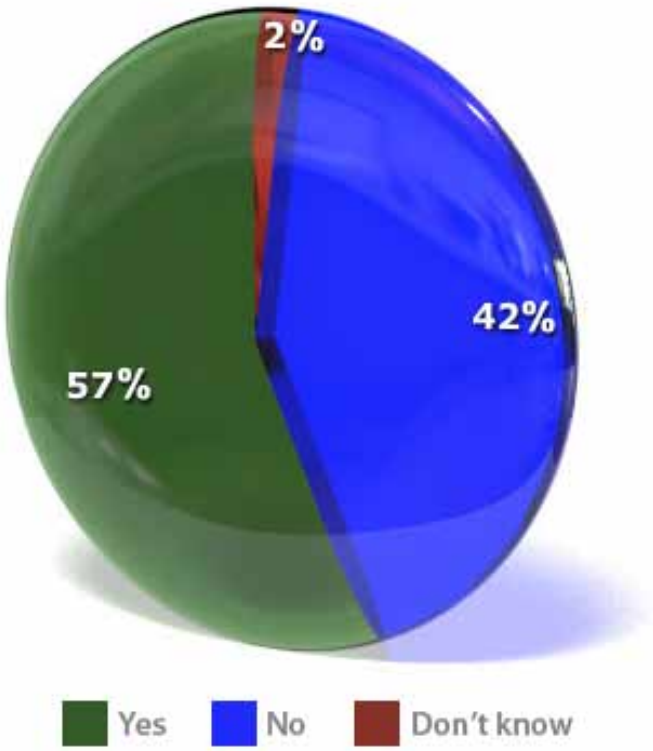
North American product manufacturing companies continue to seek out new suppliers and expand their supplier resources. In last year's edition of the MFGWatch survey, 42% of companies expected to increase their supply base during 2012.

42% of participants indicated that they experienced a supply chain disruption in 2012

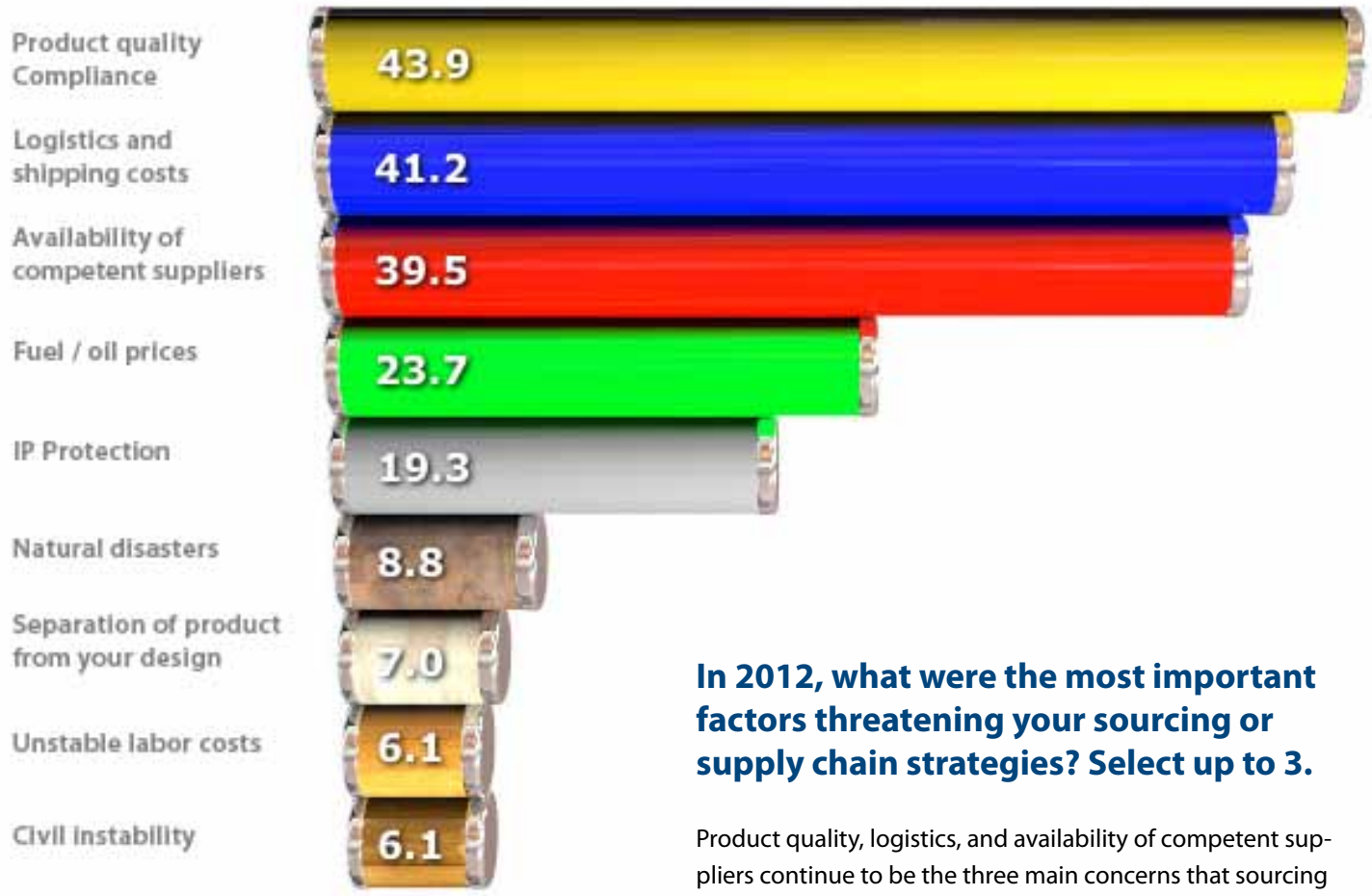
In 2012, did your company experience a significant supply chain disruption that caused you to investigate or select new suppliers?

We asked our members to consider different factors when answering this question: failed supplier, quality issues, civil unrest, natural disaster, rising costs, etc.

42% of participants indicated that they experienced a supply chain disruption in 2012. This number spiked from 34% in 2011. This could explain why a lot of sourcing specialist had to expand their supply base in 2012. However, historical MFGWatch data indicates that over 40% of North American product manufacturers have reported supply chain disruptions.



Fuel and oil prices continue to be perceived as a major threat



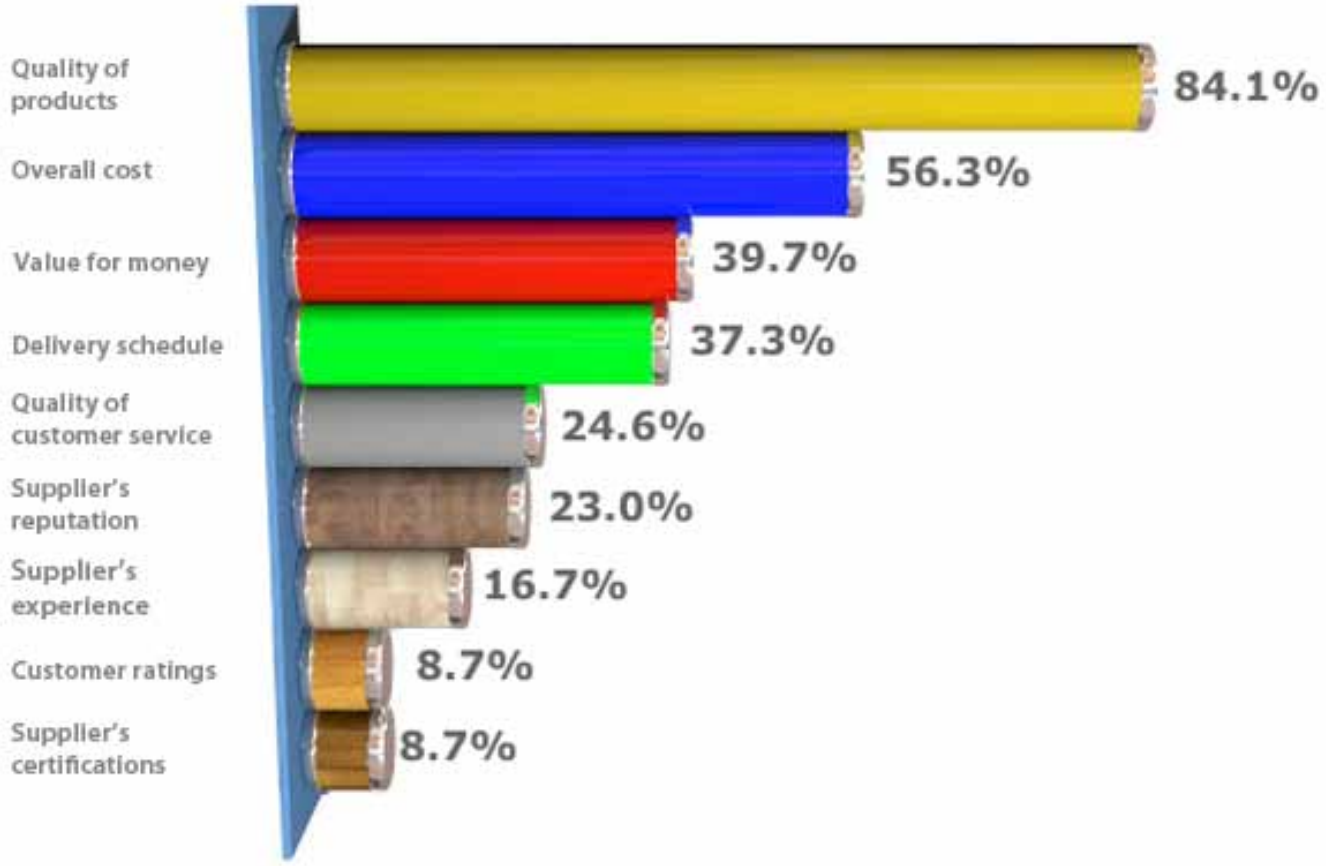
In 2012, what were the most important factors threatening your sourcing or supply chain strategies? Select up to 3.

Product quality, logistics, and availability of competent suppliers continue to be the three main concerns that sourcing specialists have when it comes to their supply chains. Historical consistency in these numbers across multiple MFGWatch Survey editions lead us to believe they represent intrinsic concerns in managing a supply chain.

Fuel and oil prices continue to be perceived as a major threat, though the percentage of companies concerned about this factor has dropped from 28.9% to 23.7% during the last year. At the same time, the concern for protection of intellectual property increased by over 5% compared to 2011.

What are the most important factors you take into consideration when adding a new supplier to your supply chain? Please select up to 3.

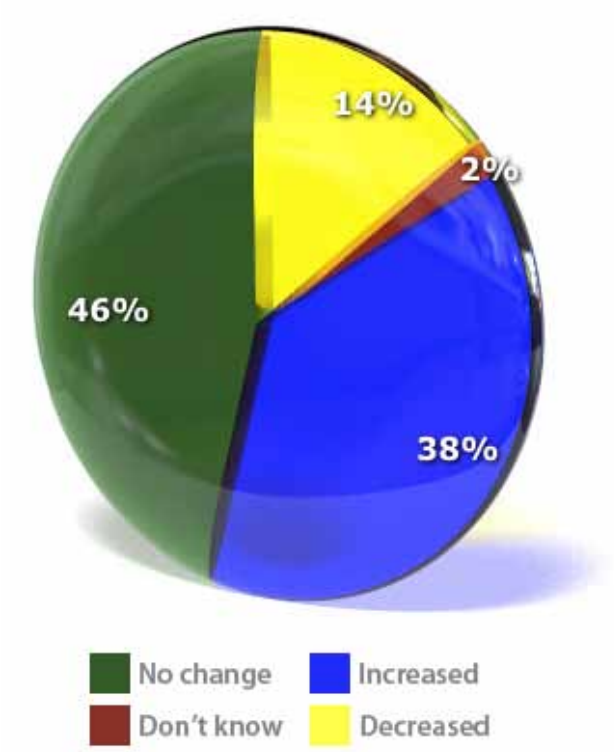
The quality of products is by far the leading criteria for selecting a new supplier, as indicated by 84% of the respondants. The overall cost is also a major factor, but falls in second, by approximately 28%. When this response is stacked up against the intent to reshore more in 2013 (see question 12), it is clear that many companies are investigating supply chain alternatives that don't require them to compromise on product quality in order to reduce costs.



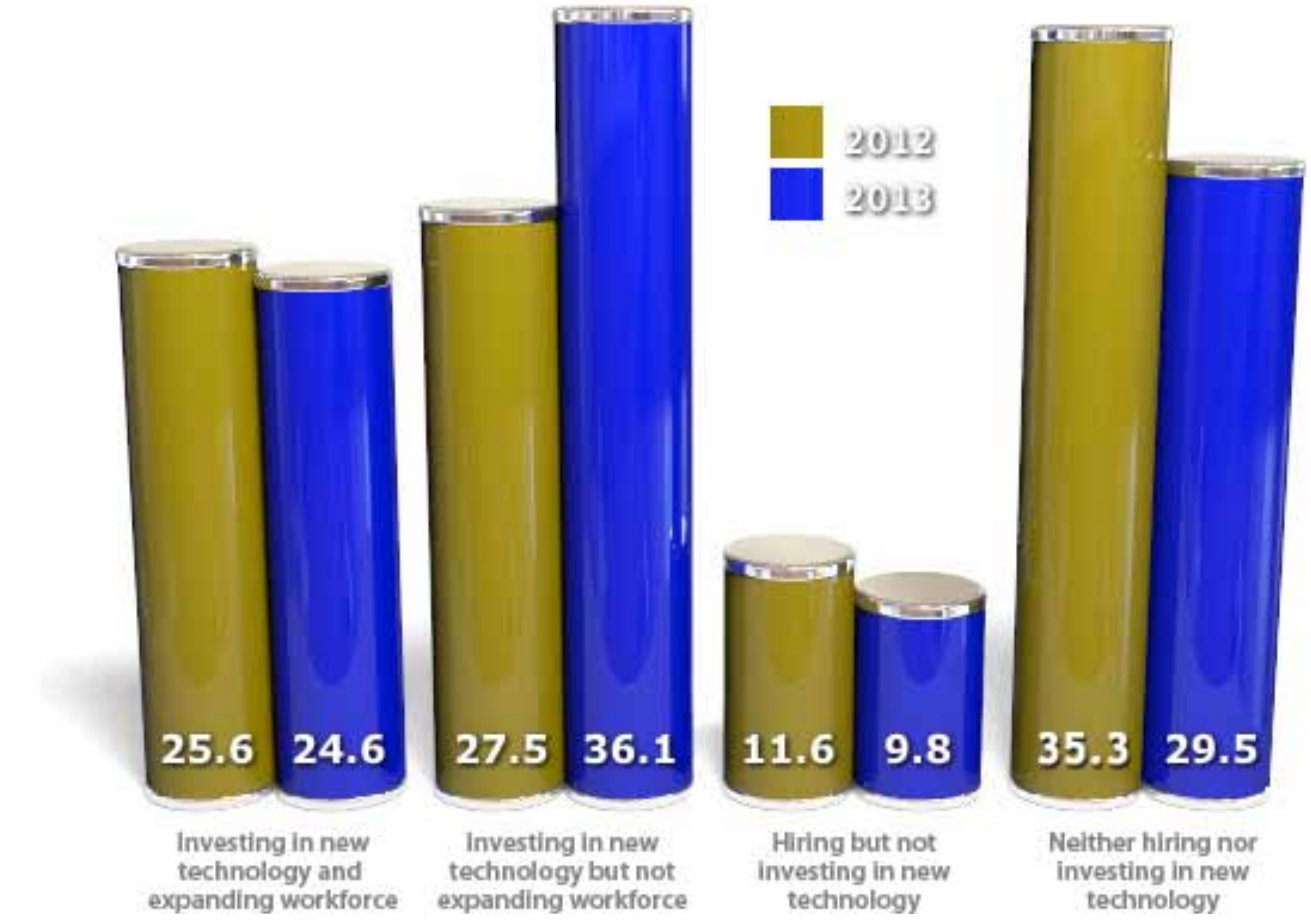
In 2012, how did your company adjust staff?

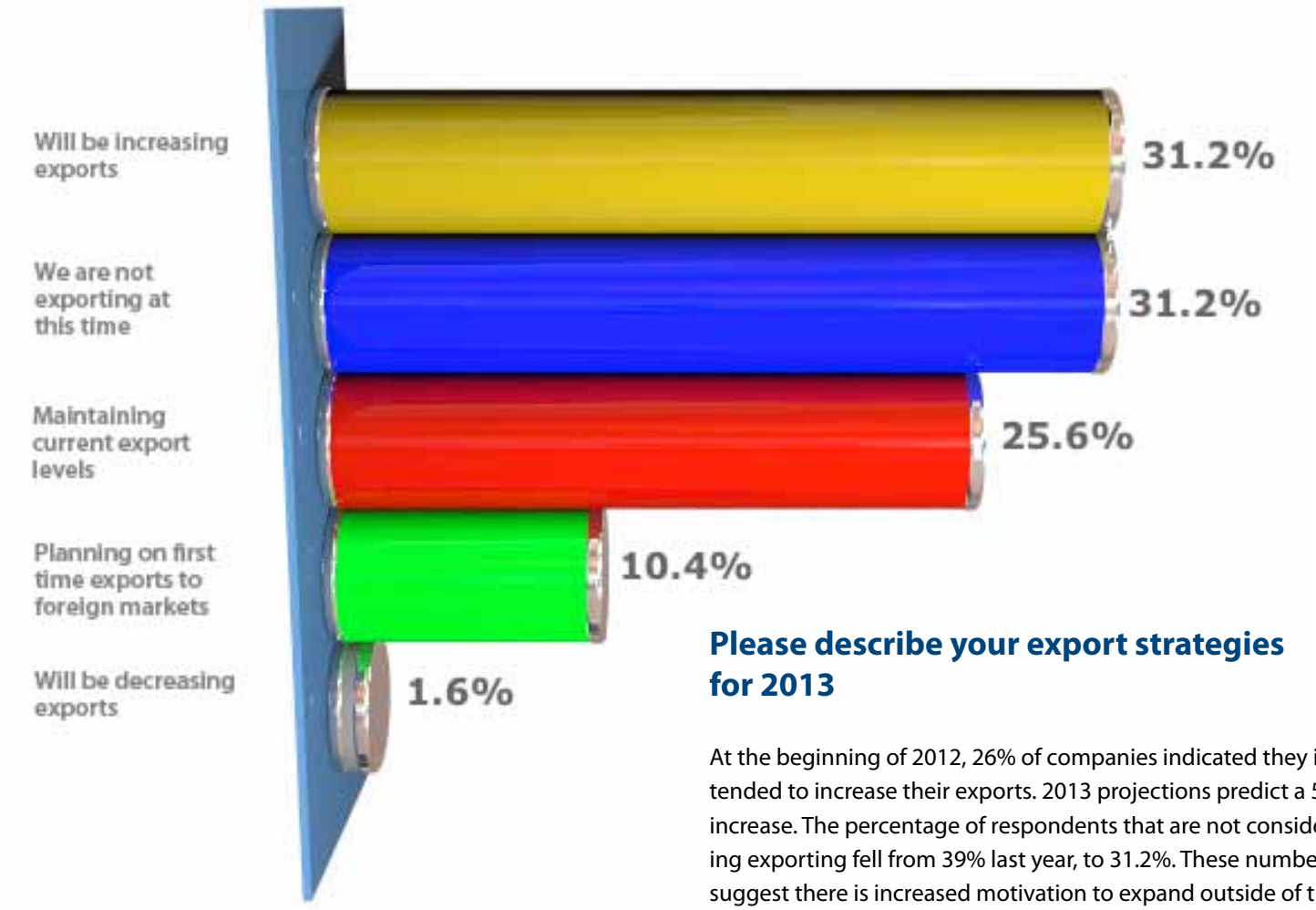
In 2012, more than 38% of companies indicated an increase in the number of employees. This is up from 25% in the previous year.

Hiring is expected to be stable in 2013. Investing solely in new technology seems to be the top priority for the new year. 36.1% of sourcing specialists indicated their companies will invest in technology and not expand their workforce, compared to 27.5% in 2012. North American product manufacturers have increased their investment intentions for 2013, as fewer state they are taking a "wait and see" approach to expansion.



In 2013, which of the following best describe your company's intentions for hiring, investment and expansion?





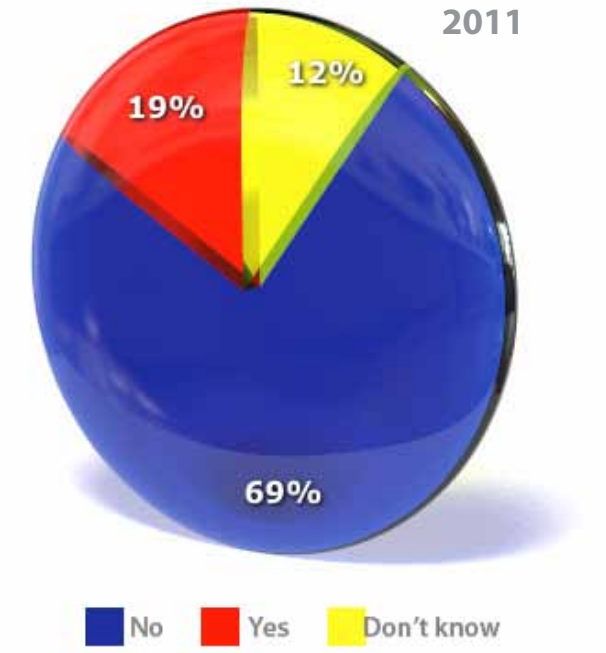
Please describe your export strategies for 2013

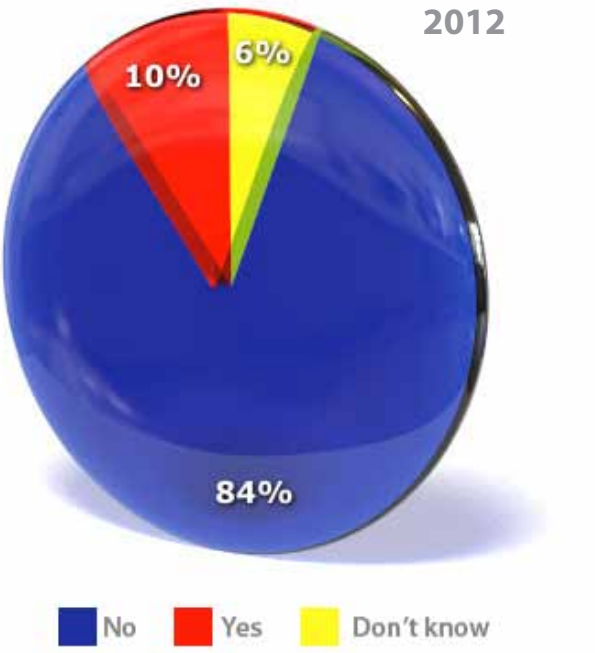
At the beginning of 2012, 26% of companies indicated they intended to increase their exports. 2013 projections predict a 5% increase. The percentage of respondents that are not considering exporting fell from 39% last year, to 31.2%. These numbers suggest there is increased motivation to expand outside of the North American continental markets, and an increased trust in global economic recovery.



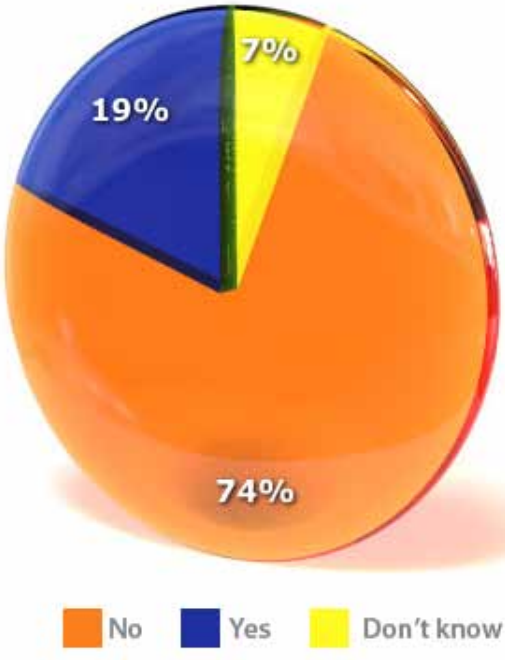
In 2012, did your company adopt a strategy to establish production of your products closer to their markets of consumption?

Manufacturing closer to consumption was not a focus of the 2012 production strategy. An unexpectedly low number of companies adopted strategies to produce within the markets they sell. This number dropped from 19% for 2011, to 10% in 2012.

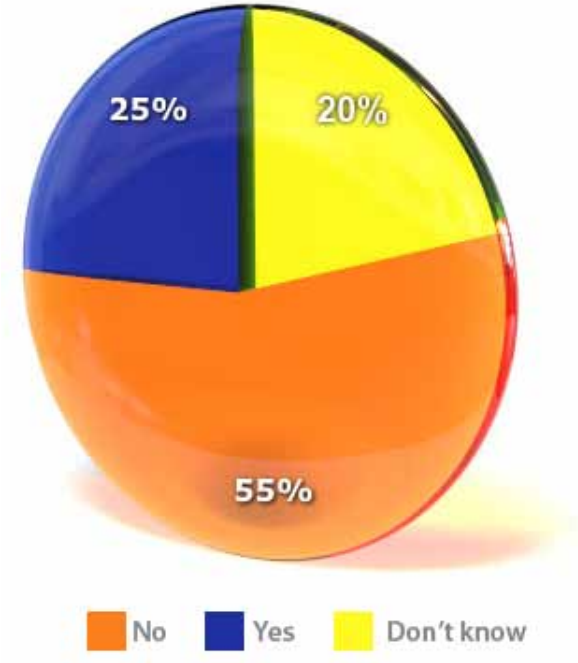




In 2012, did your company reshore any portion of production from a low cost-country to North America?



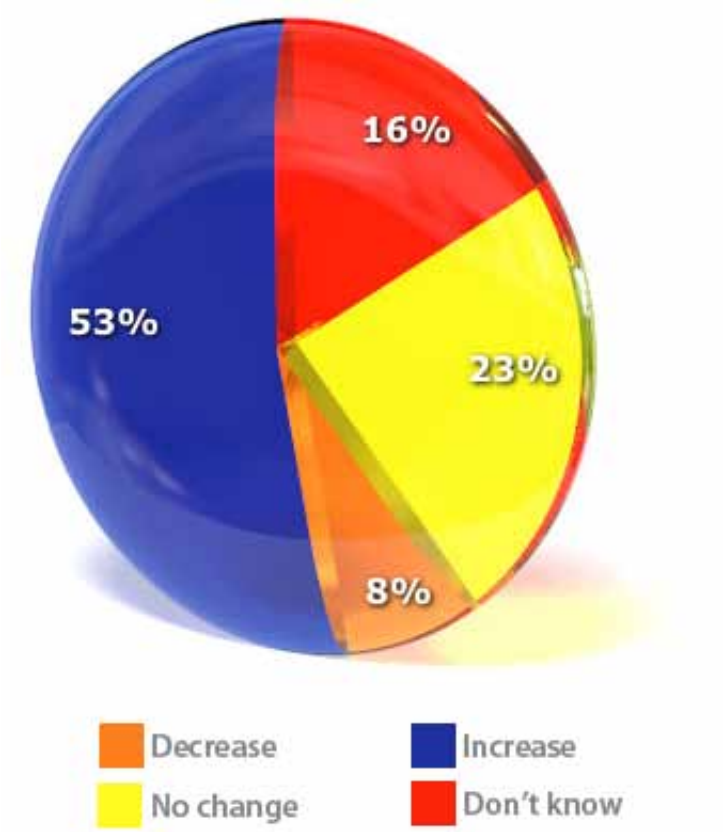
In 2013, does your company expect to reshore any portion of production from a low cost-country to North America?

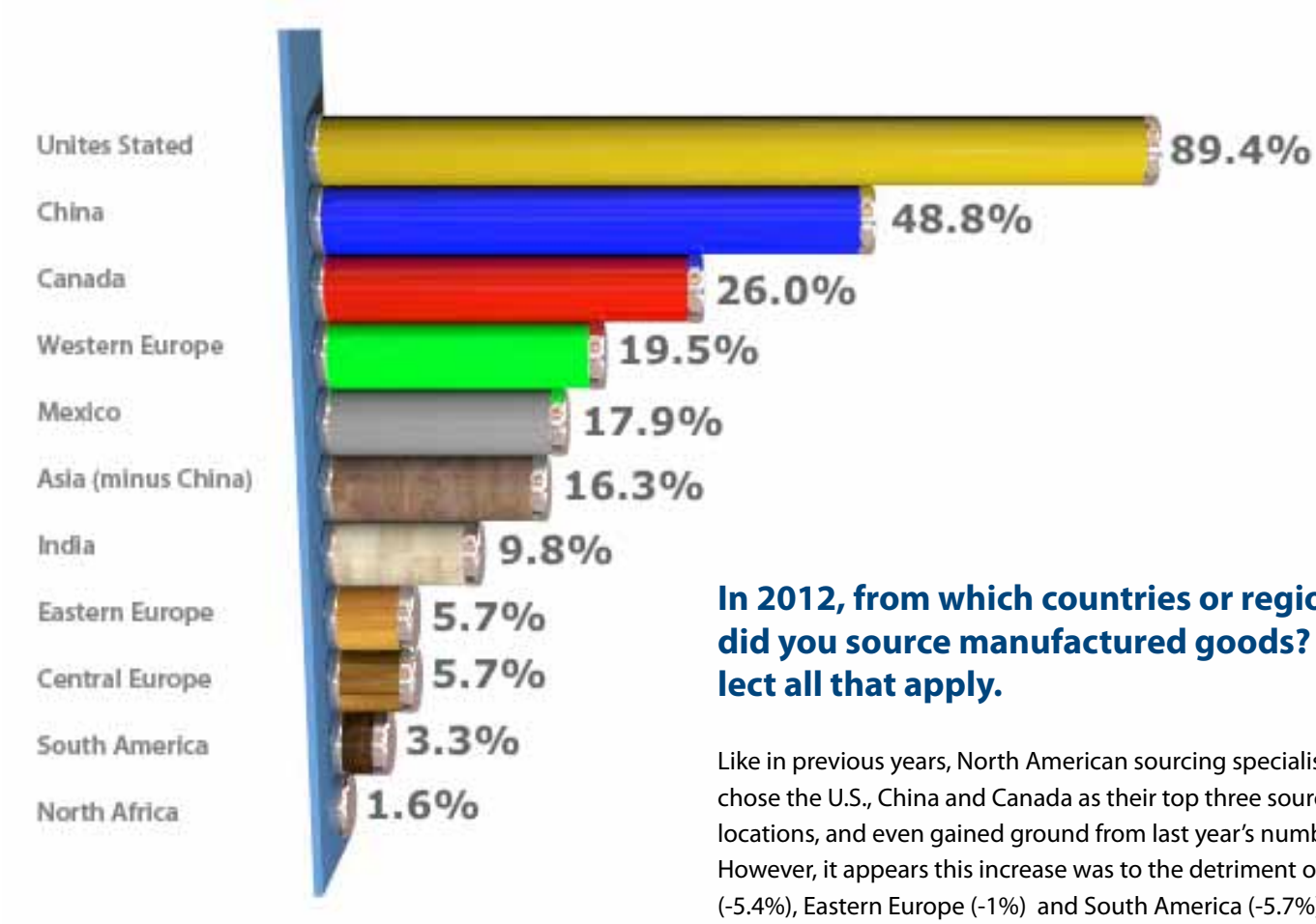


Reshoring is noticeable, but not a strong enough trend to balance offshored production. 25% of U.S. companies intend to reshore production in 2013, compared to 19% in 2012.

In 2013, how do you think your spend on contract manufacturing will evolve?

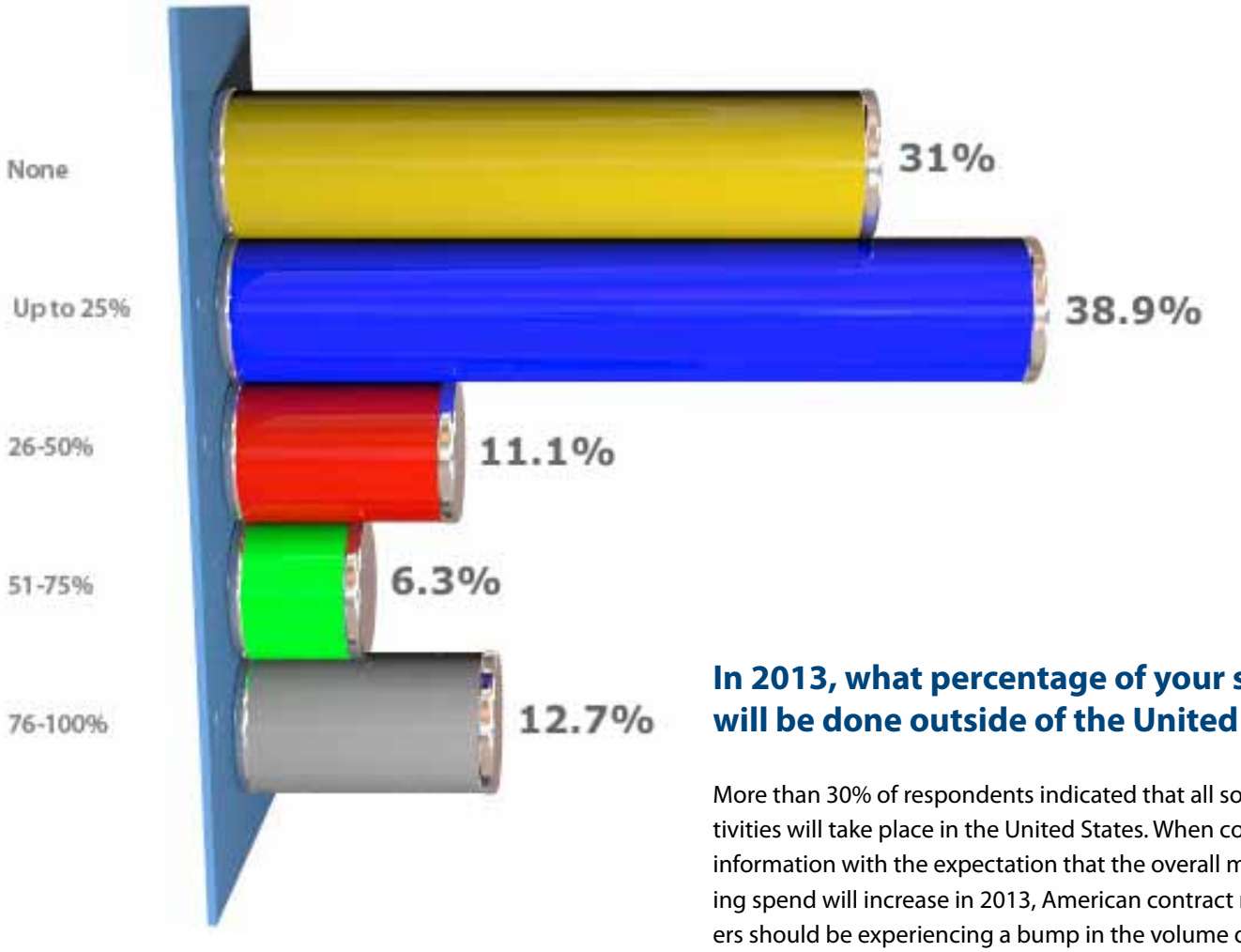
53% of the companies we surveyed indicated they expect to increase their contract manufacturing in 2013. Only 8% expected to spend less on contract manufacturing in 2013.





In 2012, from which countries or regions did you source manufactured goods? Select all that apply.

Like in previous years, North American sourcing specialists chose the U.S., China and Canada as their top three sourcing locations, and even gained ground from last year's numbers. However, it appears this increase was to the detriment of India (-5.4%), Eastern Europe (-1%) and South America (-5.7%).



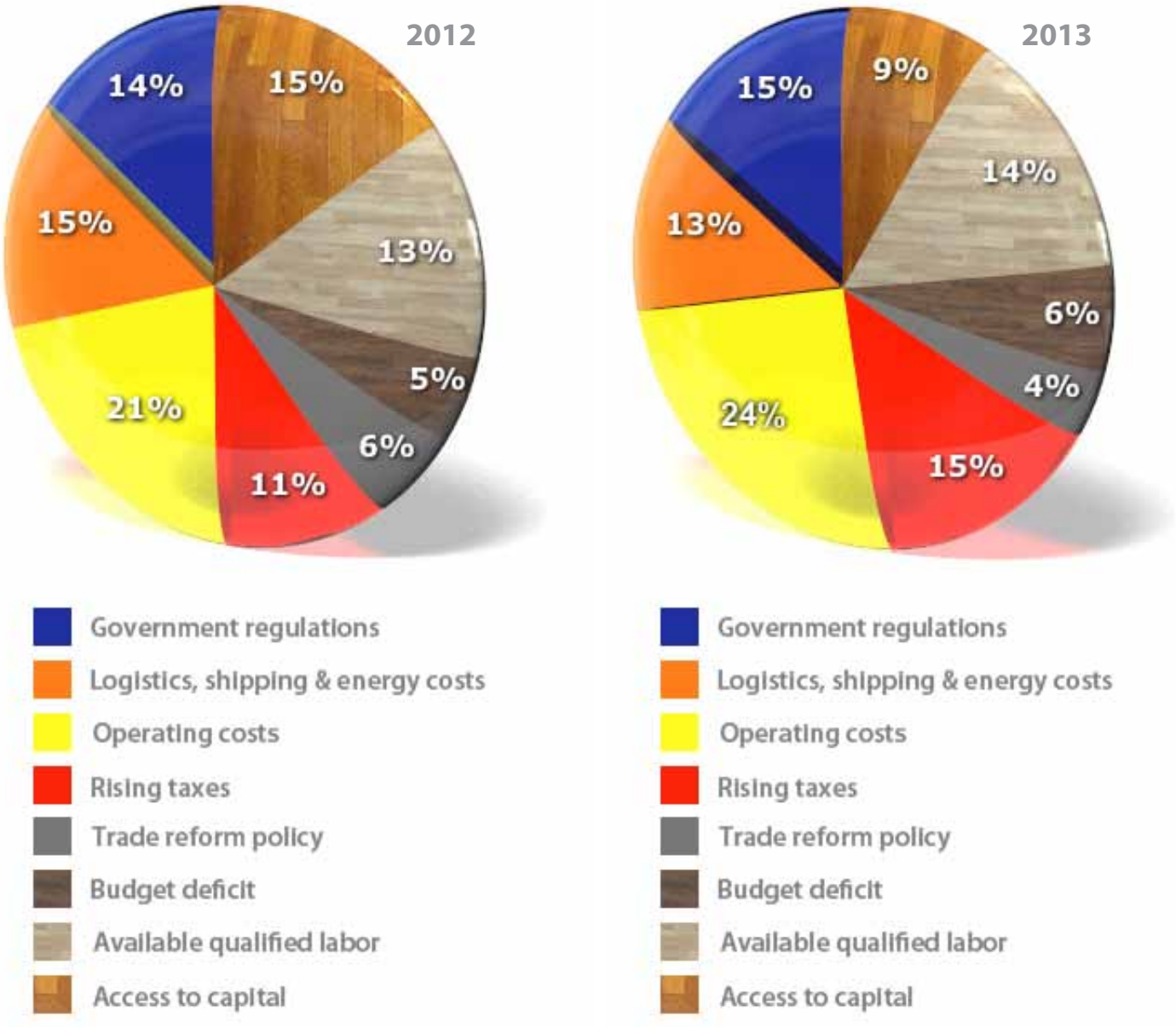
In 2013, what percentage of your sourcing will be done outside of the United States?

More than 30% of respondents indicated that all sourcing activities will take place in the United States. When coupling this information with the expectation that the overall manufacturing spend will increase in 2013, American contract manufacturers should be experiencing a bump in the volume of business this year.



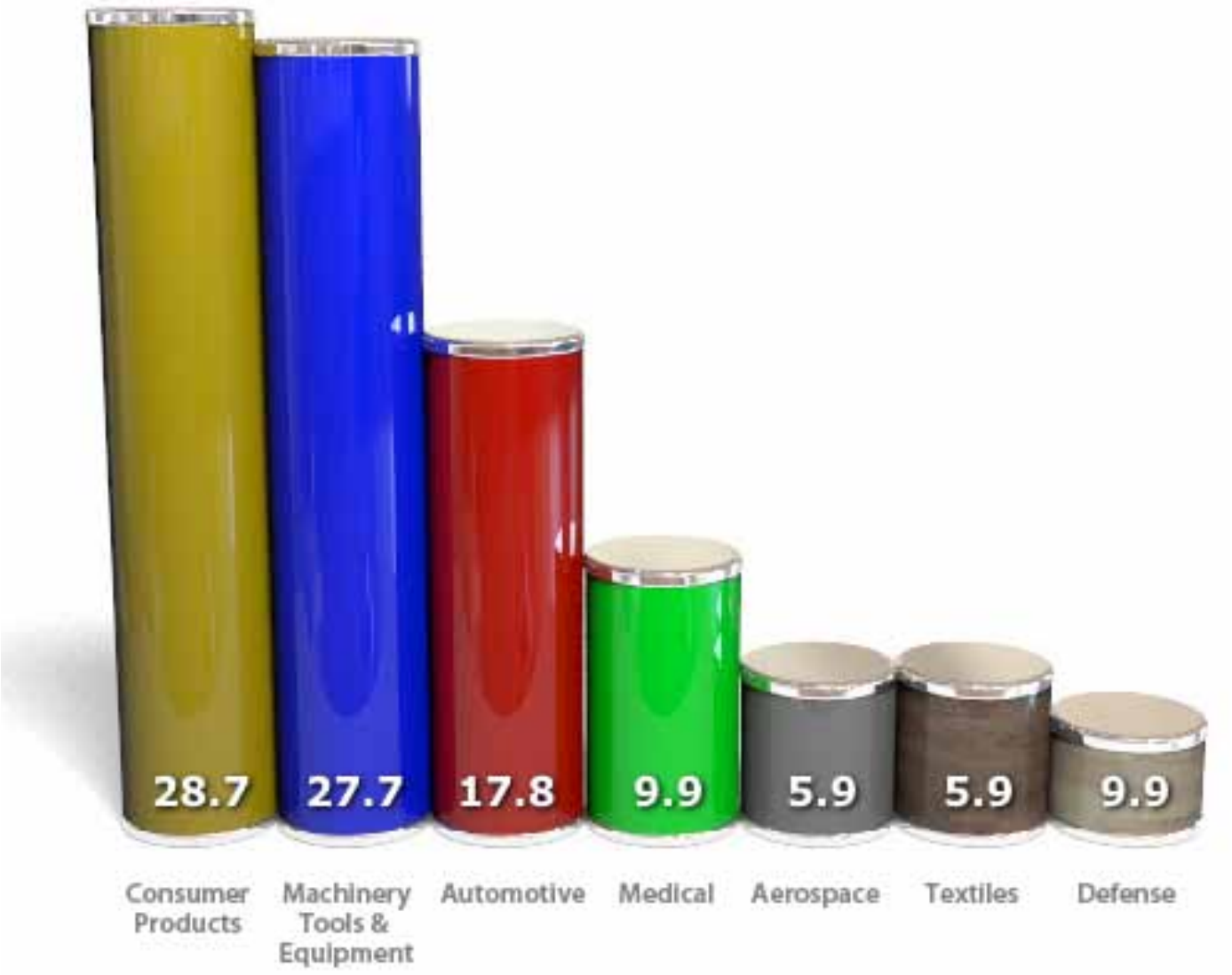
In 2013, which of the following issue(s) will have the most impact on the economic and competitive future of manufacturing in your region?

The concern that operating costs might affect the manufacturing industry has remained relatively steady year after year – 50% at the beginning of 2012, 51.2% for 2013 – and continues to be the main focus of North American contract manufacturers. However, more sourcing specialists feel that rising taxes and government regulations could impact their ability to be competitive.



Select the industry that you are most closely affiliated with:

According to our member's responses, the top five industries with the largest sourcing volumes in the MFG.com marketplace are: Consumer Products, Machinery Tool & Equipment, Automotive, Aerospace and Medical. Other industries, such as Oil & Gas, Agriculture & Forestry, Energy, and Power Generation are also well represented in the MFG.com marketplace, as sourcing professionals from all major industries use MFG.com to manage their sourcing activities.



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LiveSource is the MFG.com cloud-based sourcing tool that combines the power of advanced supplier management with the global reach of the world's largest manufacturing marketplace. LiveSource helps companies discover, collaborate and work with qualified global suppliers, resulting in smarter spending, reduced product costs, shorter delivery times, and a more flexible supply chain.

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Move Past Price to Best Value
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Increase Sourcing Productivity
Category or geography-specific workflows to standardize efforts

Generate Actionable Sourcing Insights
Complete power to assemble and analyze spend data across multiple categories and industries

Optimize Supplier Performance
LiveSource provides current data and insight into your supplier base and increases your ability to examine performance and manage risk

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Developed for a global economy, LiveSource supports **eight languages** and **30 currencies**. With more than **150,000 manufacturers** in its worldwide marketplace, it's even easier for companies to find, engage and manage suppliers closer to points of manufacture, assembly and distribution.

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Move Past Price to Best Value

- Sophisticated capabilities in RFx and auctions give you greater control in considering not just cost, but risk, performance and best value when selecting key suppliers

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Generate Actionable Sourcing Insights

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- Graphic presentation to gain key insight

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- LiveSource provides current data and insight into your supplier base and increases your ability to examine performance and manage risk
- Supplier Intelligence System lets you dissect and analyze your supply base to look for savings potential and plan for contingencies

Take Control of Your Documents

- Automated document management process
- Records can be stored at a supplier level with automatic alerts for activities such as renewal or re-certification
- Centralized maintenance improves access across your organization and simplifies compliance with your document retention policies

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