

Using Sourcing/Bid Optimization in Supply Management

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Acknowledgements

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Bid Optimization Outline

- Why use it?
- What is it?
- In what areas of spend is it applicable?
- Where does it fit in the strategic sourcing process?
- What are the advantages, challenges and results?

Why Bid Optimization

- The low hanging fruit has been picked
- It represents a step up the strategic sourcing value chain
- Supply situations are becoming more complex
- Reverse auctions losing steam

A Common Sourcing Situation

- Disjointed supply processes
- Multiple non-integrated systems
- Fragmented organizational responsibility
- Poor coordination of multiple business unit spends
- Changing issues on supplier relationships
- Lack of a positive benchmark

Buying Solutions

- Basic sourcing strategies provided cost savings
- Over time, basic sourcing strategies result in diminishing returns
- Continuing savings momentum requires new approaches
- Bid Optimization is a new approach

Bid Optimization

- Process to help companies buy better in complex situations
- Complexity - large number of:
 - potential suppliers
 - item/services to be purchased
 - specifications
 - constraints/business rules
 - geographic needs

A Real Example

- 2,200 shipping lanes
- 66 bidders
- Suppliers could bid on any combination of lanes
- Number of possible bids = $(2^{2200}-1) \times 66$
- Actual number of bids = 28,000

Optimization Applications

- Transportation
- Ingredients
- Packaging Materials
- Natural Gas
- Hospital Supplies
- Janitorial Services
- Displays
- Chemical

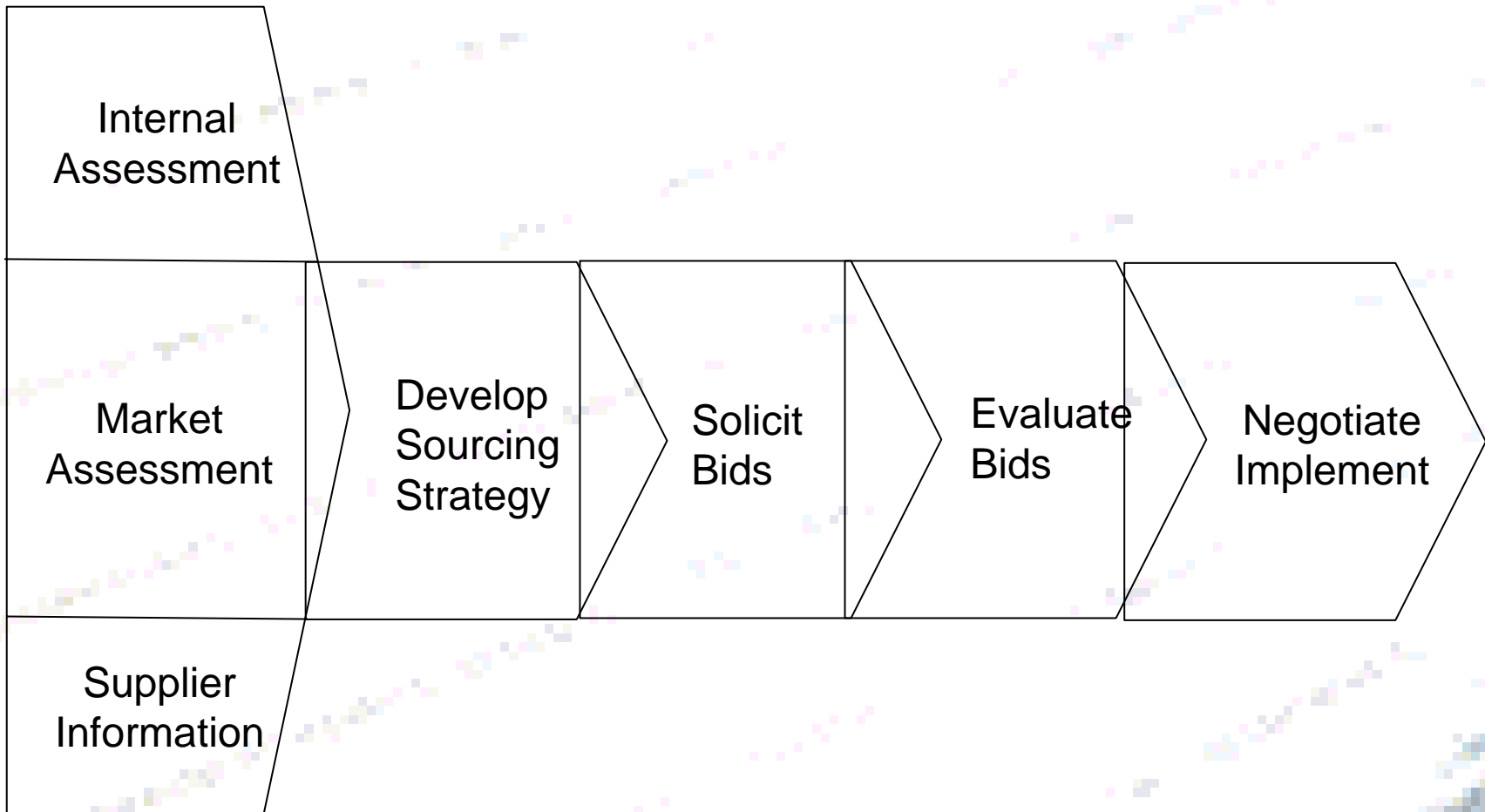
Optimization Applications

- Armor Car Services
- Retail Store Inventory Services
- Trash
- Corrugated Packaging
- Office Supplies
- Landscaping
- Store Fixtures
- Legal Services

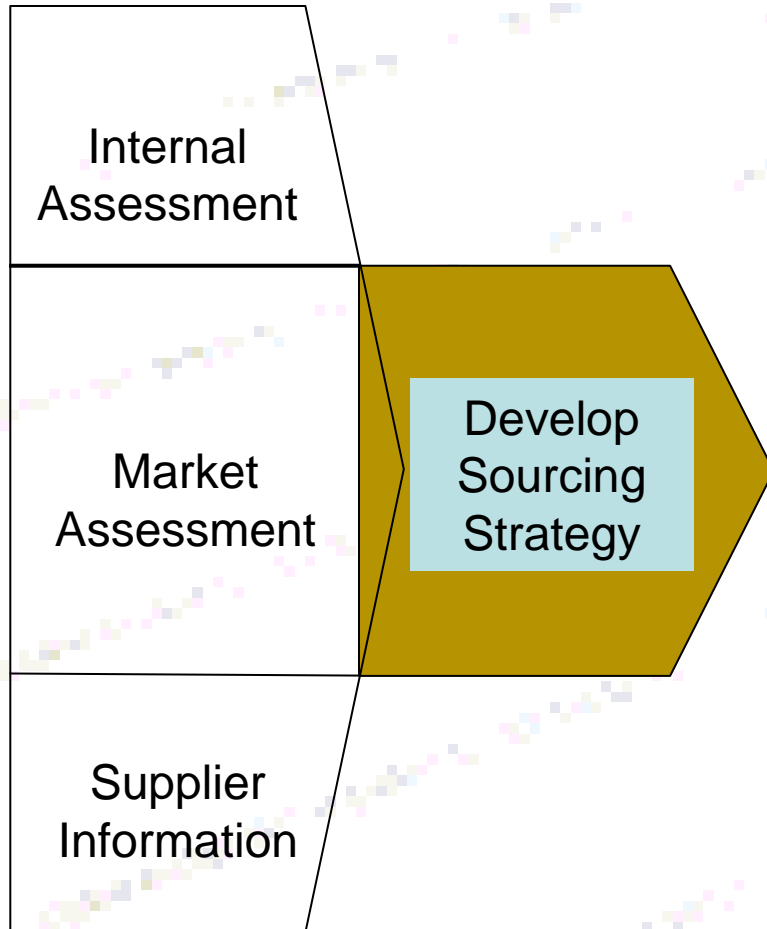
Business Rules (scenarios/constraints)

- Limit the spend with any one supplier
- Require a minimum spend with MWOB
- Allocate all of the business for a lane/part/location to one supplier
- Allocate all of the business for a lane/part/location to a specific supplier
- No single sourcing

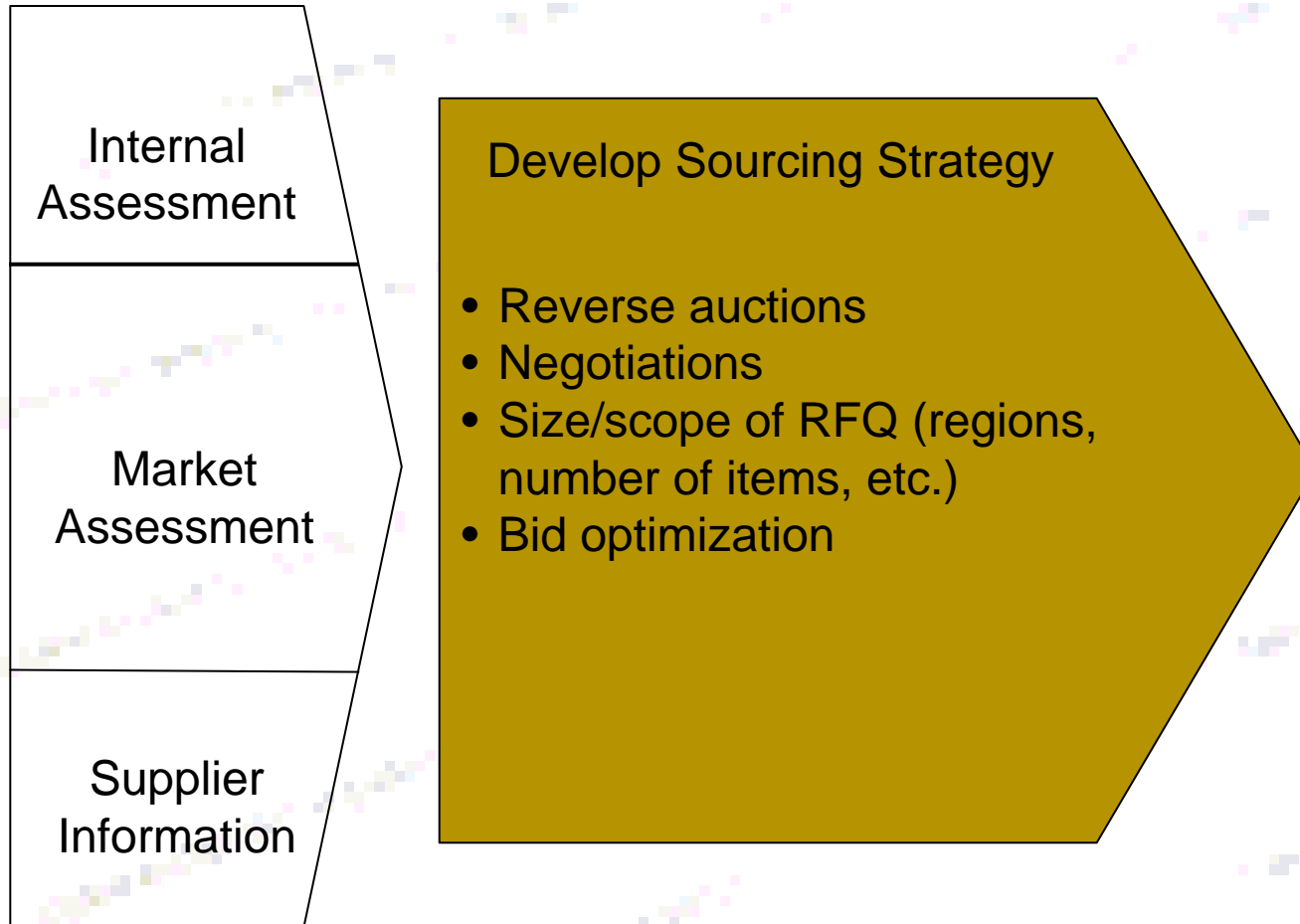
Strategic Sourcing Process



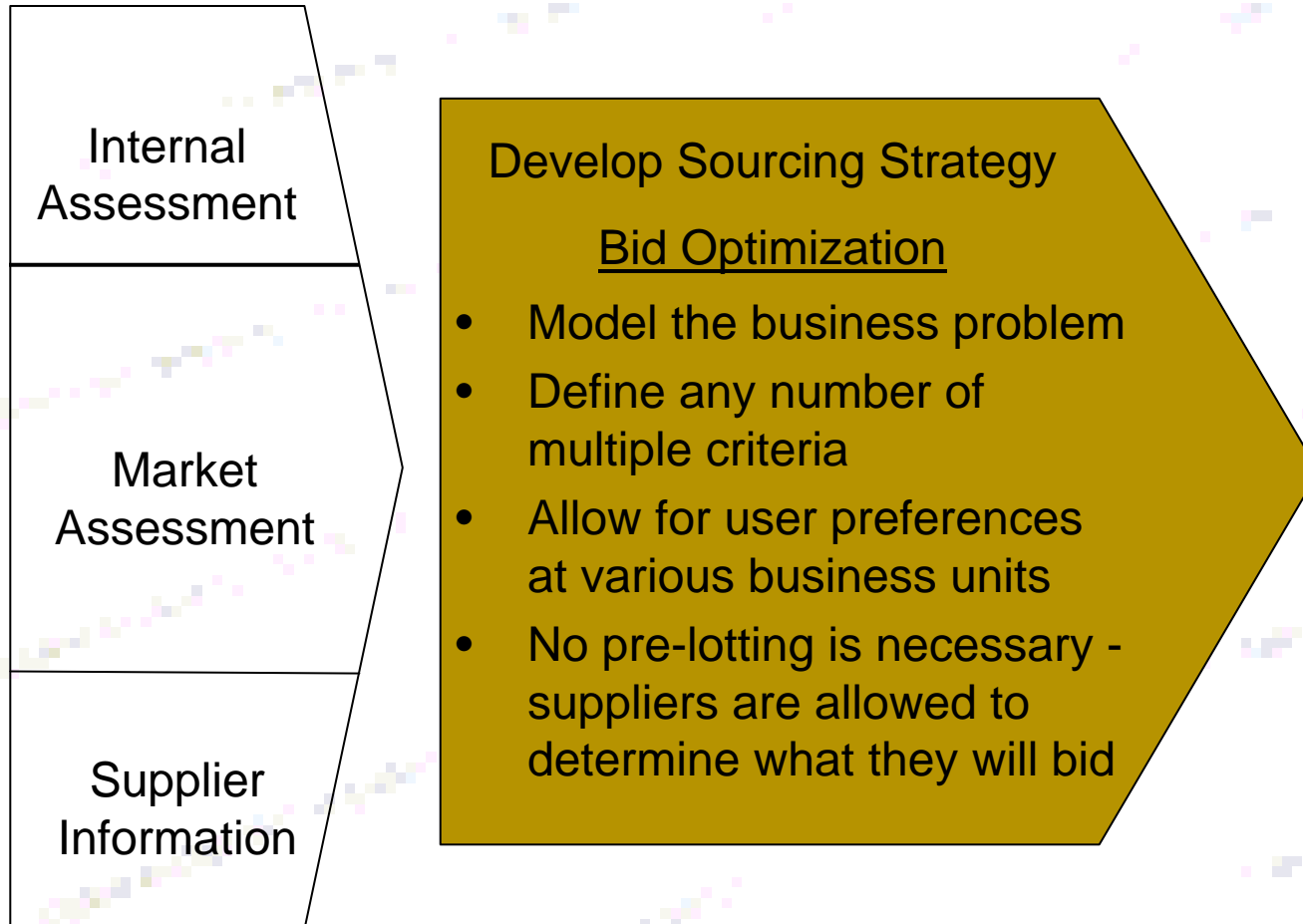
Sourcing Process with Bid Optimization



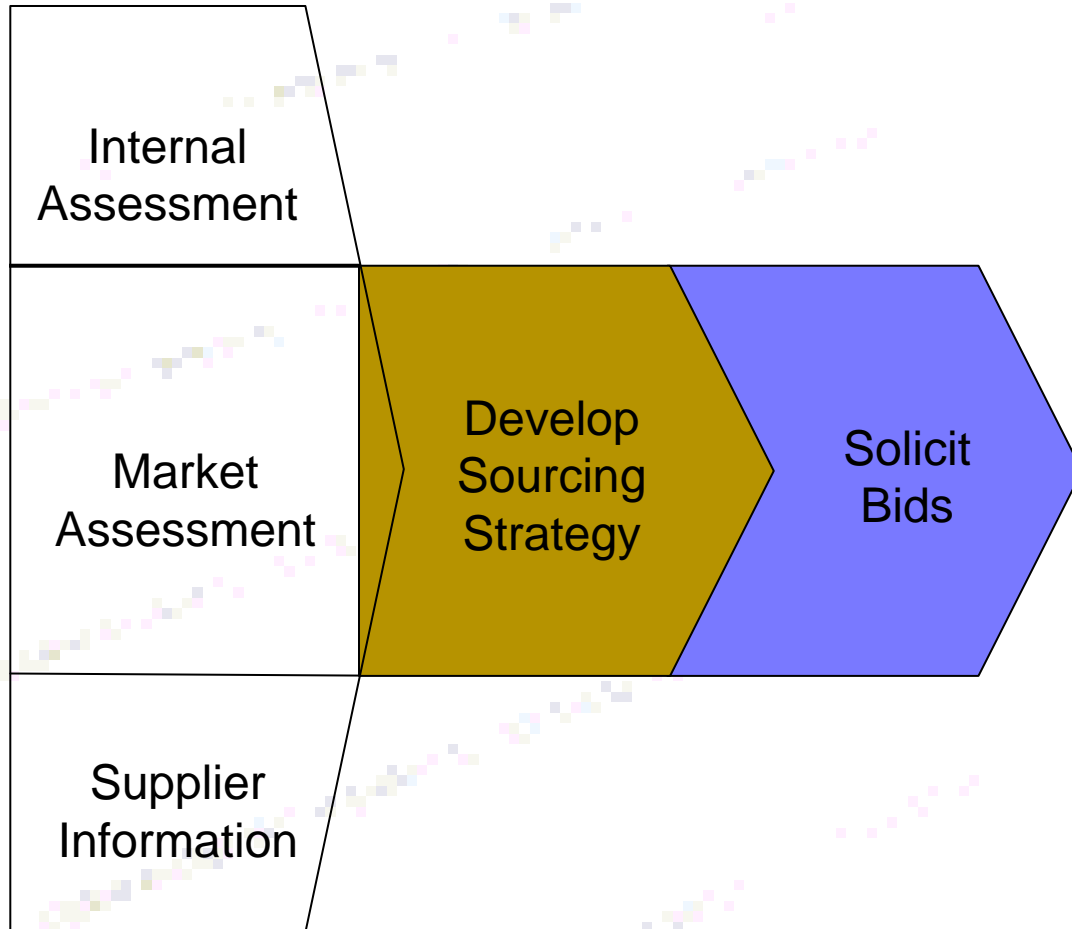
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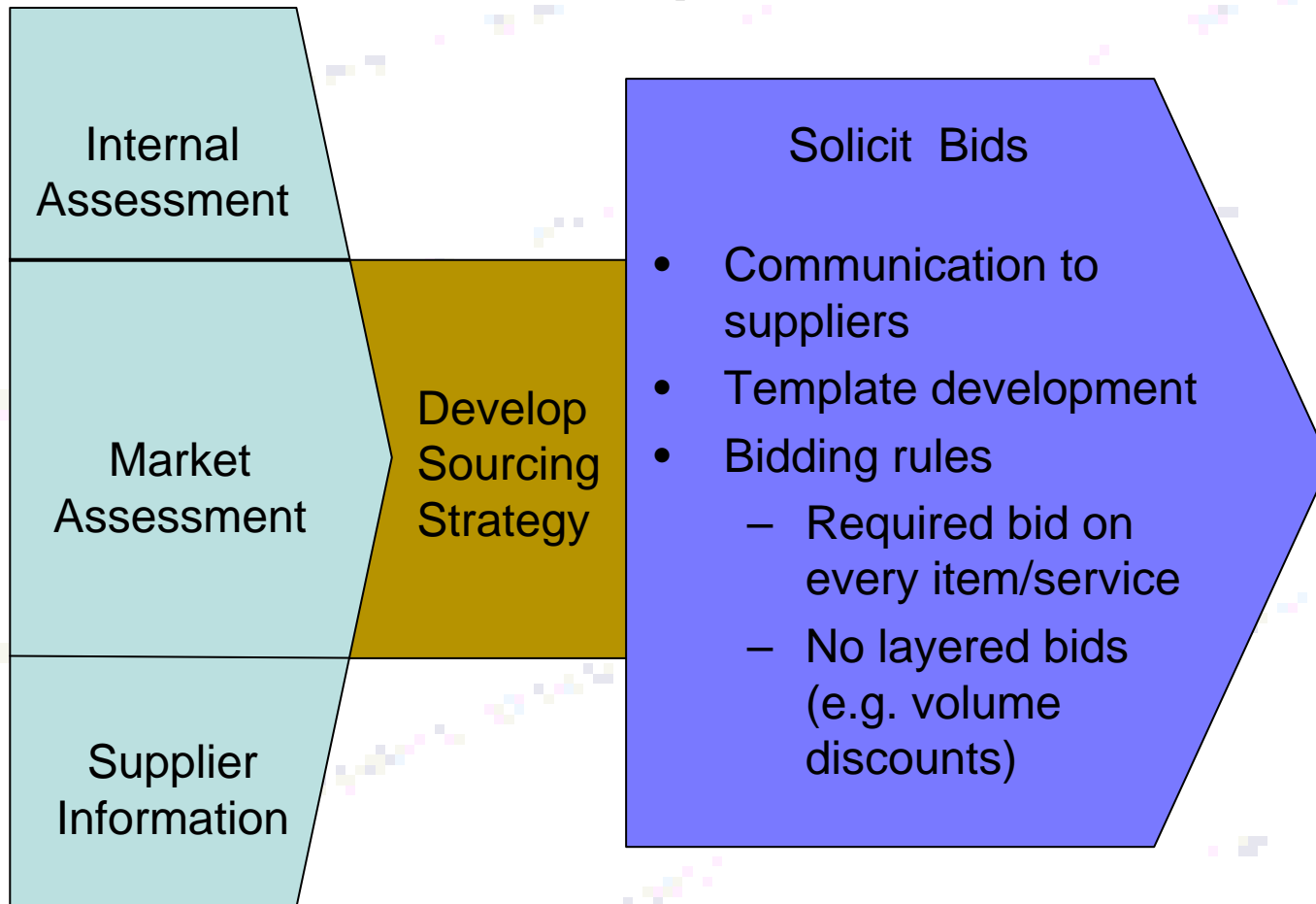
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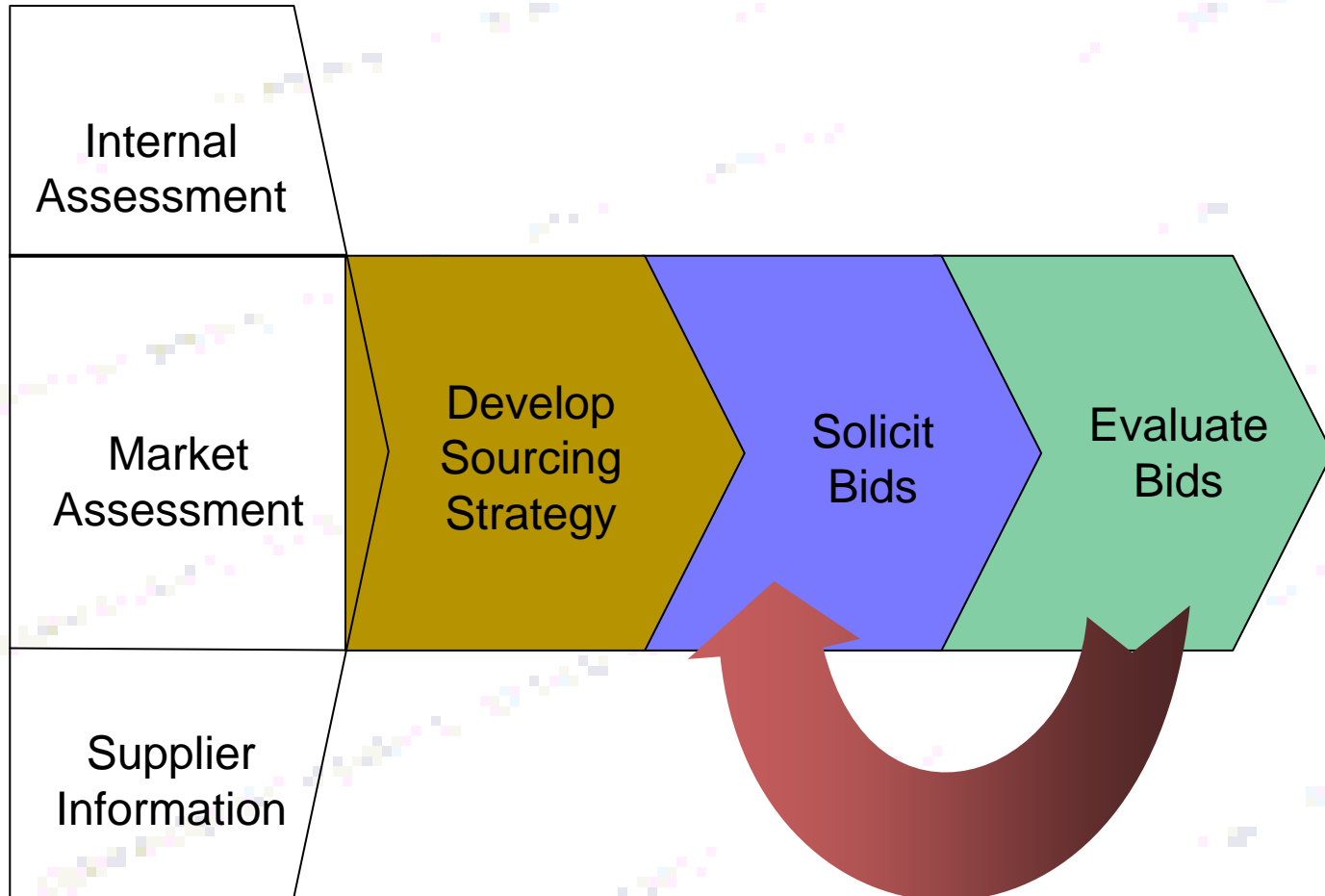
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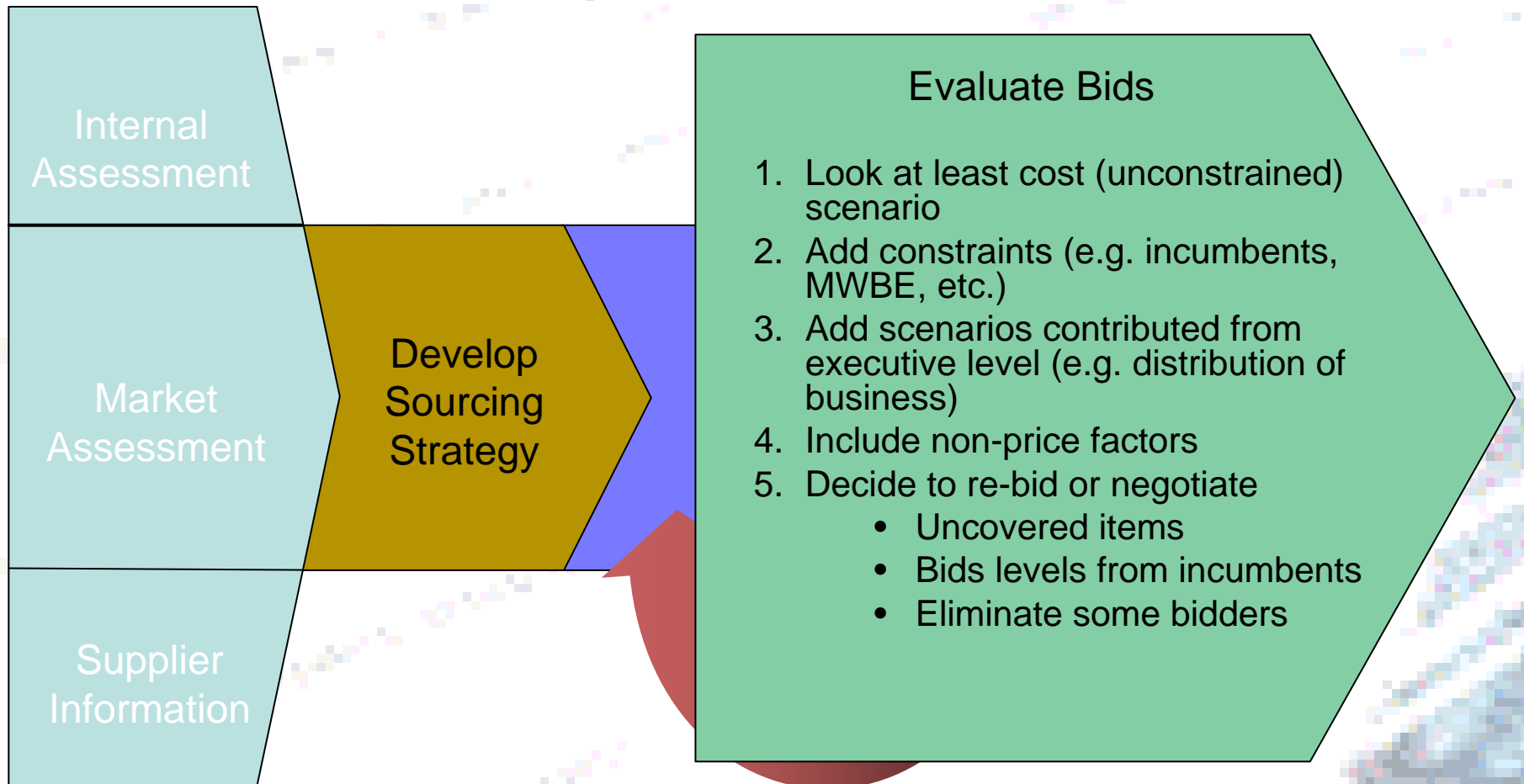
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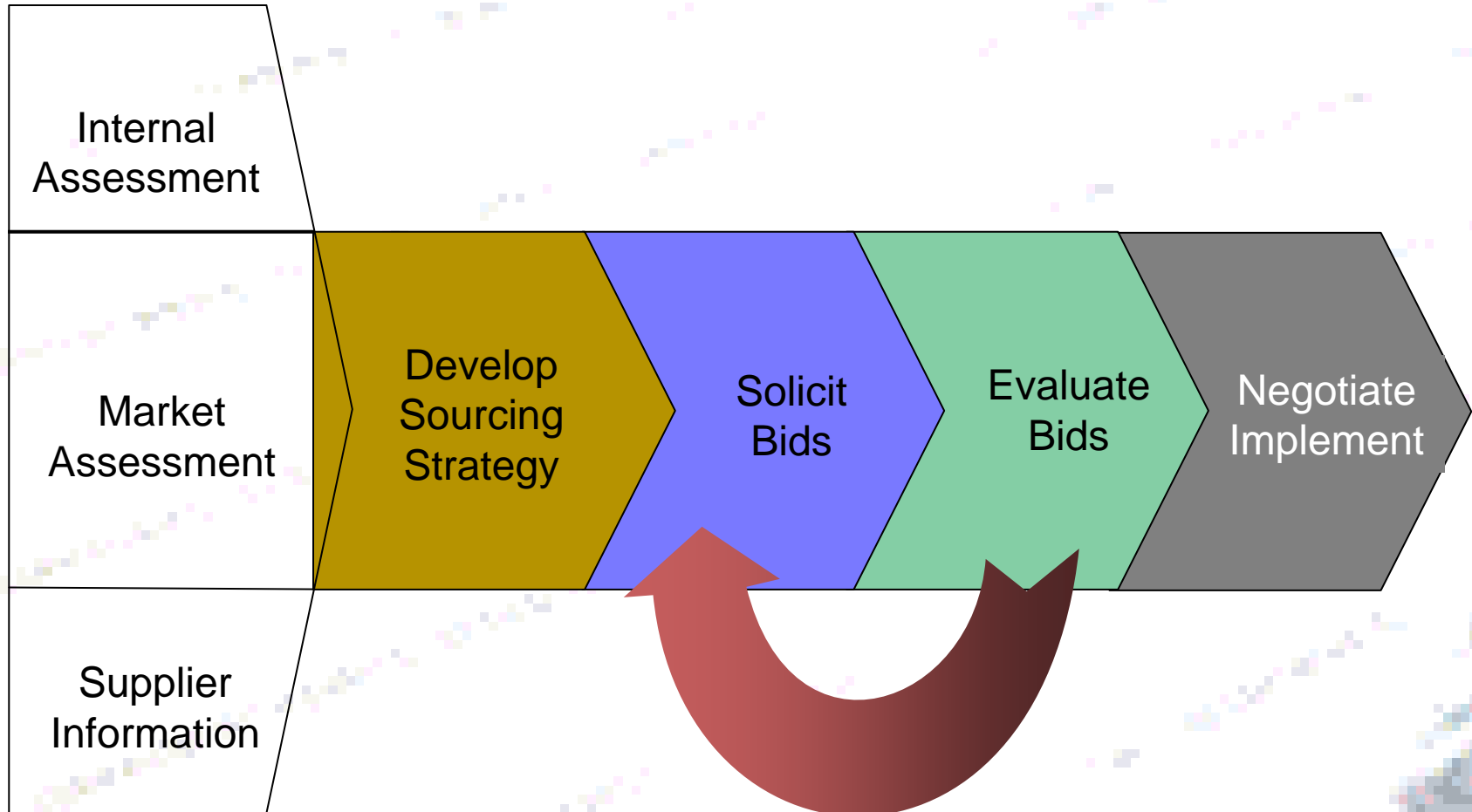
Sourcing Process with Bid Optimization



Sourcing Process with Bid Optimization



Sourcing Process with Bid Optimization



Time to Complete Process

- First time through
 - 6 months to one year
- Repeat buys
 - 3 months to 6 months

Advantages of Bid Optimization

- Find a low cost (near “optimal”) solution that covers all items to be purchased
- Test impact of business rules on costs
- Analyze all bids
- Reduce time to analyze bids
- Allows bidders to submit “expressive bids”®
- Allows for re-bids
- Verifiable process
- Transparent process to suppliers
- Replace reverse auctions

Challenges with Bid Optimization

- Change management
- Project based buying
 - Leader
 - Communications / buy-in
 - Volume aggregation
- Software, training, consulting cost
- Data requirements
 - Buyers
 - Suppliers
- Constructing templates for data collection
- Supplier training
 - 75 page training manual
 - Three Q&A call-in events
- Problem too large for software
- “Paralysis through analysis”

Example Bidding Rules

- Have to bid on every item/service
- No layered bids (e.g. volume discounts)

Example Feedback to Suppliers

- Their bid per item/service
- The lowest bid per item/service
- Their rank for the item/service
- For incumbents in danger of losing significant business
 - Do they want to change bids?
- For bidders who might gain significant business
 - Can you handle this new volume?
- How many more rounds of bidding

Reported Outcomes

- Fasteners
 - Suppliers projected price increase of 20%
 - Actual price increase of 11%
- Transportation 1
 - Suppliers projected rate increase of 10 to 15%
 - Actual rate increased was 1%
- Transportation 2
 - Rates up 2% from historical contracts
 - Rates down 5% from historical contracts plus spot buying

Providers of Bid Optimization Services

- Combinet
- Emportoris
- Procuri
- Iasta
- Ariba
- Other

Future of Bid Optimization

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Thank You!

Questions and Discussion

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