

COMPETITION

The key to cost savings, but also to innovation and continuous improvement

Without having had conducted a large-scale representative survey, we feel comfortable making the following statement. Change is happening ever faster. Whether it's the change in product and service life cycle, the accelerated digitalization or the deployment of next generation topics, such as robotics or artificial intelligence.

However, **it's the competition that makes your suppliers reach for the stars**, continuously improve and explore exactly these new ways to serve your needs best. Without this competition you're missing out on such positive change, efficiency gains, an improved supplier relationship and most importantly on bottom line cost savings.

How to induce competition to achieve savings and improve your supplier relationship?

find out on the next page...



How much of your annual indirect spend volume has been competitively sourced? In principle a very simple question, right? However, we came across two issues and one dangerous perception, why answering this question isn't so easy after all.

Issue number one is the fact that this question is very often not translated into a metric. Many procurement organizations don't have a metric, telling them how competitive their indirect spend is sourced. Just ask yourself, whether you're a CPO, Category Manager, Sourcer or Buyer, would you be able to easily tell, how competitive your procurement organization is sourcing? Is 20%, 50% or 80% of your annual indirect spend sourced competitively?

Issue number two is the definition of competitive sourcing and its tracking. We come across too many different definitions of what "competitively sourced" means. From very weak to very strong definitions. And then the tracking and flagging throughout the source to pay process is often missing.

The dangerous perception shared that competition equals or leads to changing your incumbent supplier.

In order to answer the question initially raised, we need to roll-up the topics from the back end and start getting rid of the dangerous perception first. Inducing competition during sourcing doesn't lead to a wrong or unjustified switch of your incumbent supplier. Not inducing competition is actually much worse, as it might make your incumbent supplier complacent. It's just like in sports, getting regular exposure to competition makes you improve yourself and compare your capabilities and performance with the best out there. Same should apply to suppliers. Otherwise, how do you ensure you're getting best value and quality for best money? Furthermore, by inducing competition you'll get a very good feeling for the market and its innovation.

The fear or unwillingness of changing the incumbent supplier must be addressed by pricing in the cost of changing the supplier into every business case. Such cost of change can vary. While cost of change for your IT Hardware headset or mouse provider will probably be very little, the cost of change for your BPO provider will most likely be much higher. Price them in, and your business case will point you to the right award decision.

To address issue number two, we need to find a common and easy to understand definition of competitive sourcing. We would define something competitively sourced if the demand requirements went to more than 1 supplier. Whether it's a full fledged RFP or just a quick RFQ, we should always invite multiple suppliers, where the market offers alternative suppliers.

That's our definition in principle. There are however different levers, depending on how strong you would like to translate this definition within your procurement organization. Since we're aiming for the stars, here are our top ten levers to pull if you wanted to induce competition in your spend to the strongest levels.

1. Ensure contracts are contestable
2. Limit the contract duration
3. Engage early to allow time for going to market
4. Revisit and open up the demand requirements
5. Enlarge your supplier long list, including new ones
6. Base award decision on a proper evaluation matrix
7. Include cost of supplier change into this matrix
8. Use an eAuction as negotiation tool
9. Make award decision a team decision
10. Implement competitive sourcing metrics with targets

Talking about competitive sourcing metrics, we need to address the issue number one to close the loop.

A procurement organization does sourcing, so we feel it's inevitable you understand how competitive such sourcing is being done. This metric should be on top of every procurement scorecard. Targets must be set by category, as the market opportunities and supplier landscape vary from category to category. Categories with a free market can have competitive sourcing targets as high as 80%, while categories with a monopolistic market might have a target as low as 0%.

We have considered in our online survey all category specific applicable competitive levers, which would lead to the maximum competition you could induce within your indirect spend and categories. Do you want to know how many of those levers you don't pull today or what the savings potential coming from them might be?