Establishing the ROI of an eSourcing Platform

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Advancing Infrastructure

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Procurement leaders are accustomed to negotiating, calculating, and defending estimated savings or cost avoidance in the context of sourcing projects. It comes as no surprise, then, that few procurement leaders feel comfortable advocating for the company to spend money.

And yet, this is precisely what procurement leaders must do if they want to ensure that their technology enablement remains competitive. How will you approach the executive team when your procurement team needs new software? Will you be prepared to convince them that procurement is not only ready for the new functionality, but will likely be held back without it?

Every new technology – whether it is new to the whole market or just new to your company – must pass the same cost justification hurdle. From PCs to smartphones, and fax machines to cloud hosting, strategic companies don't just jump on the bandwagon. They take the time to justify the investment, and select the right platform and provider to work with. Sourcing software is no exception.

eSourcing Moves Procurement at the Speed of Business

One of the top reasons that organizations consider eSourcing technology is time savings. It takes too long to lead strategic sourcing projects using manual processes, and many steps in the process are painfully repetitive. Company management wants more organizational spend to be competed. Regulatory demands and threats from potential suits are increasing the need for better and more accessible documentation. As demands on the procurement staff grow exponentially, few procurement teams are able to increase their headcount.

Some users find that eSourcing platforms, such as Bentley Systems' ProcureWare, allow them to manage their bids in 50 percent to 70 percent of the time that it would take using a manual process with offline files. This estimate is supported by industry research. In Supply & Demand Chain Executive Magazine, Carrie Ericson cites a 66 percent time reduction with the use of eSourcing software. In other words, if it previously took 10 hours to manage a bid, the same spend and suppliers can be managed in three to five hours using a well-implemented eSourcing platform.

Each organization will experience time savings in specific areas based on its unique processes. However, the following tasks are key opportunities for eSourcing ROI:

- Supplier profile management

- Bid invitations

- Document distribution

- Supplier questions

- Bid analysis

Suppler Profile Management

Procurement teams need accurate information about their suppliers to perform optimally. Manually tracking down supplier contact information and contacting suppliers via email ties up valuable staff time. Using spreadsheets to manage supplier information introduces risk. Without a central repository for bid information, files are easily lost, corrupted, or updated in parallel, and the time required to maintain them is substantial.

Rather than relying upon email or the phone to collect information from suppliers, procurement can leverage eSourcing to efficiently manage supplier profile information. ProcureWare allows vendors to maintain their own profiles, and sends system-generated reminders when information is out of date. The information is then stored in a central location, reducing the risk of loss or duplication.

Estimates suggest that each vendor spends five to 10 minutes per year keeping their profile up to date using manual processes. Automation, however, significantly reduces this time. For a supplier database with 1,000 profiles in it, the time savings is approximately 80 hours. Many companies have far more suppliers, demonstrating just how quickly the time savings (or time sink) adds up.

Bid Invitations

Even if supplier information is managed in a centralized database, engaging with suppliers can be incredibly inefficient without a centralized eSourcing platform. For organizations without an actively managed vendor database, procurement must decide which companies to include in sourcing projects and then manually send them bid invitations.

The manual process includes:

- Gathering historical lists of suppliers from multiple (often out-of-date) spreadsheets, ERP reports, and old emails

- Reaching out to colleagues and performing internet research to discover new pro-spective suppliers

- Writing out the final list of invitees

- Typing or copy-pasting emails into an email client (and double-checking to make sure that the addresses are correct and BCC'd for the sake of anonymity)

- Tracking responses and administering nondisclosure agreements (NDAs)

- Monitoring supplier responses and managing the Q&A back and forth

Based on discussions with users, Bentley Systems estimates that procurement regularly spends between one and four hours per sourcing event handling these manual actions and communications. Any attempt to shortcut the process can limit competition, or expose the organization to potential lawsuits, bid protests, and delays associated with supplier omission.

Compare this tedious process with an eSourcing enabled bid process. On average, companies save two hours per bid and minimize the risk of bid protests, which can cost tens or even hundreds of hours. These savings are made possible with one-button notifications by category for public bids and quick filtering capabilities by category, service area, and supplier attribute.

User Case: Avoiding Bid Protests

A public organization was running a bid for a USD 600 million infrastructure project. One of the contractors competing for the business filed a suit stating that they had not received important bid documents. However, Bentley's sourcing software demonstrated that the information was sent to the supplier. Further, the software recorded that a staff member from the supplier's organization had downloaded the documents in question and showed the exact day and time that the documents were accessed. With this evidence, the suit was dismissed, and the project moved forward as awarded. Without ProcureWare's audit log, the company could have been forced to rebid the project, resulting in legal fees, delays, and other related costs.

Document Distribution

eSourcing continues to enable the bid management process through document distribution. The buying organization will often send extensive documentation to potential suppliers, including plan sets for construction projects. These files are not practical to distribute via email and too important to post on a public website. The alternatives—subscription-based file sharing services or hard-copy printing and distribution—are both expensive. Some organizations can justify the cost of an eSourcing platform simply based upon eliminating these costs.

When a fit-for-purpose solution is not in place, the process of ensuring documents are received and trouble-shooting access problems becomes very time-consuming. These activities require an average of one hour for bids using electronic document distribution and up to four hours for events relying solely upon manual distribution.

ProcureWare offers an integrated document sharing system capable of handling individual files up to one gigabyte in size. There are no restrictions on the number of documents, the total bid package size, or the types of files shared. Zipping features reduce the download times of large bid packages, and all document downloads are tracked in the audit log.

User Case: Water Utility Achieves eSourcing ROI in One Month

The Metropolitan District Commission (MDC) in Hartford, Connecticut has managed local water and sewer systems since 1929. Their procurement department was struggling with manual, expensive, and labor-intensive processes, relying on private supplier lists, email, and persistent phone calls. Bentley worked closely with MDC's procurement team to deploy its integrated software, including functionality for supplier management, sourcing, and bidding.

MDC has saved more than USD 20,000 annually by eliminating bid-related postage and substantially cutting costs associated with printing and advertising. MDC saw a consistent growth in the number of bids they received using Bentley's software. Historically, 32 percent of their projects were single-sourced, having received only one bid. After implementing eSourcing, that figure has been reduced to five percent, and over 76 percent of their bids now receive three or more responses. Existing suppliers have adjusted their prices to remain competitive and costs have decreased.

Supplier Requests for Clarification

Regardless of how much effort a sourcing project team puts into developing a request for information (RFI) or other bid event, there are inevitably questions from suppliers. In a manual Q&A process, questions are received from suppliers via email or telephone and through pre-bid meetings.

A manual process might include:

- Consolidating questions from all points of contact

- Distributing questions to domain expert(s) for review and response

- Preparing an addendum that includes all questions and additional information

- Sending the addenda to all participating suppliers

Best practices dictate that all suppliers should have access to the same information, including answers to questions received after the bid opens. With an eSourcing solution, procurement can share questions and answers with all vendors and minimize the time spent answering the same questions from different suppliers.

ProcureWare directs all supplier questions through the system eliminating individual conversations. This practice saves as much as one to two hours of administrative time per bid. Domain experts still spend time preparing their responses, but the system makes it easy to answer supplier questions online or export them in advance of preparing an addendum. Questions can either be sent to all participating suppliers or just the one asking the question.

Bid Analysis

Consolidating bid information manually requires data entry into spreadsheets. This practice is both time-consuming and error-prone. In competitive or complex bids, a mistaken copy/paste could cost a supplier the business or give an advantage to a supplier that does not deserve it.

Even if the information is consolidated without error, the process of manually analyzing multiple supplier proposals can be overwhelming. When more data points are involved in a decision, more time is required to get the work done. Procurement may have to flip back and forth between different bids, requiring four to eight hours or more, depending on the complexity of the event. It not only tests their recall abilities but, in most cases, it also makes complex optimization impossible.

eSourcing software streamlines the process through automated bid tabulation and comparison of alternative award scenarios. Teams can easily see the full picture and ensure that pre-negotiation feedback and contract award decisions are based on a full understanding of the facts.

Achieving Big Picture ROI

Manual sourcing processes are both time-consuming and error-prone. If your procurement team has maxed out its ability to contribute to the bottom line with manual processes, the time has come to review the ROI opportunity of an eSourcing platform.

By switching manual bid processes to eSourcing, your team could see significant time savings and better outcomes in these three areas:

Increased Competition: Once organizations reduce the complexity and administration of their bidding processes, they can focus their efforts on expanding the pool of qualified suppliers competing for each contract. This increased competition helps the buying organization drive down prices. As illustrated in the MDC user case, eSourcing makes it possible to include more suppliers in each bid, increasing value for the organization and diversifying the supply base.

Risk Management: Strategic sourcing processes were designed, in part, to drive down enterprise risk, but manually managing the process can actually increase risk. When documents are lost in email, the buying organization cannot definitively prove when files were accessed and by whom. When bid information is incorrectly transposed in spreadsheets, it can lead to suboptimal award decisions. eSourcing solves these problems by establishing a central point for all information and interactions, minimizing risks of all kinds in the short and long term.

Knowledge Management: Without the support of an eSourcing platform, procurement professionals rely on email and shared drives to store supplier and spend category information. When they move on to another role or leave the company, much of their valuable knowledge is lost. Team members repeatedly start from square one, without taping into the company's rich history of category expertise. eSourcing serves as a critical knowledge hub that transcends staffing changes by providing a centralized location for documents, specifications, and supplier information.