How Next-Generation E-Sourcing Teases Out Supplier Innovation

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Sourcing professionals in the food manufacturing industry face more stringent demands than ever. Supply chain costs must be kept low to combat rising material costs without increasing pricing to consumers; risk management in volatile supply markets is of concern; and new business priorities are edging into the purchasing decision, like sustainability and product innovation.

But can the purchasing department really have an impact on something like product innovation? Is “the innovator” a role that suppliers can play during the sourcing process? Isn’t it best to let internal R&D drive innovation and simply tell suppliers what you want and see how they can meet those needs?

The answer is actually a hybrid of yes and no. Internal R&D drives most product innovation. But you want to tell the supplier what your goals are and stimulate their creativity to find more innovative ways to attain those goals — you will often find that the supply base has solutions to offer that you hadn’t thought about. Why not find out during the sourcing process? Many food manufacturers today are using such next-generation strategic sourcing approaches to tease out supplier innovation. As a result, they’re finding their role in the food manufacturing company to be elevated to a more strategic function.

E-Sourcing’s Breath of Fresh Air

What accounts for this changing landscape? With advanced sourcing technologies like Expressive Bidding® and bid optimization, companies are finding it easier to graduate from a simple e-auction or online RFPs to consider an increasing number

of factors when they create their sourcing strategies. Sourcing teams are able to collect more information and conduct more advanced, scenario-based bid analysis — because computing power and advanced technologies now allow for rapid analytics and comparison using significantly larger data sets.

Consider, for example, that buyers can now ask an unlimited number of questions to gather supplier information before bidding begins. There is no limit to the type or subject of the questions. With first-generation approaches to e-sourcing that relied heavily on price-based outcomes, limitations on the information collection process would appear early, simply because the systems available were not built to manage large data sets. Attempts to collect detailed information from suppliers would result in too much time spent in offline spreadsheets, aggregating the data and then trying to analyze it against different scenarios. In many e-sourcing products today, such limitations continue to be a reality of the technology. But with today's newer and more advanced e-sourcing technologies, we get a little bit closer to a perfect world when we don't have to put such limits on ourselves simply because of data volumes.

As a second example, consider the new e-sourcing capability of unlimited line item bids. Buyers can request an unlimited amount of information from suppliers on each *item* they are sourcing — base price; price breakdowns for materials, conversion, production, labor, set-up fees, freight, etc.; material attributes and specifications; location of supply points; production capacity; etc.

To look at the line item bid in terms of hypothetical scenarios, let's say that in a bid for a food packaging material , the buyer can request the supplier's cost for the paperboard, film, adhesives and any other materials on a line item basis, the cost of manufacturing the packaging, the set-up cost for their machinery, the location of the plant, the freight cost to the delivery location, and the capacity or the number of units they can manufacture in a given timeframe — plus any other elements they are interested in having priced separately.

This allows the buyer to understand where the supplier is competitive and where not, and with the visibility that such software allows, the buyer could even opt to allow the *supplier* to see where the competitiveness breaks down.

But Wait, There's More

More data capacity and more transparency, alone or combined, go a long way toward allowing your suppliers to examine their business and provide the sourcing team with solutions. Suppliers won't be shooting in the dark, either. They have seen from the online RFP what elements are important to their customers at a granular level; they have seen where they can best compete and where they cannot, and they can then choose for themselves what steps they might take to creatively address their competitiveness.

In addition, the buyer using advanced sourcing has the opportunity to encourage a supplier's innovation in the form of alternate bids, and again, with no limitations needed on the quantity of such alternates. With this option, a supplier may provide

specs and prices for alternate materials, manufacturing processes, manufacturing locations, or other variables for which they have a competitive advantage or innovative business process. Looking again at our same bid for a food item's packaging, the supplier may provide the option of buying from two or three of their manufacturing plants, each with different pricing for raw materials, production and delivery freight, based on the cost structures for those locations. They may also suggest and provide pricing for an alternate material with similar properties. The flexibility of alternate bids and line item bids is limited only by the buyer's imagination.

Now supplied through a cloud computing model, advanced sourcing is being applied by a greater number of Global 2000 companies. It isn't only the cloud that contributes to an increasing prevalence of e-sourcing, but also a greater comfort level with technology among sourcing teams and their supply base. This is only the beginning. The real surprise will be the upsurge in supplier innovation we're likely to see in the near future.

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