

The Intelligent Procurement Approach to Cost Cutting

As viewers of BBC's Apprentice series will recognise when teams or individuals failed to understand the importance of costs, associated with their ideas, they underperformed on their business tasks. All CEOs know that the biggest challenge they face in business today is related to cost control. The second biggest challenge is finding a comprehensive solution to the first challenge!

Across all market sectors, eSourcing (online software to streamline and improve an organisation's sourcing capability) has become the most significant way an organisation can reduce costs. Retail Week recently published the top 10 ways to control corporate spend and reduce costs. In pole position was running an eAuction, which involves using part of the eSourcing toolkit to negotiate enhanced contract terms with suppliers.

Since 2004, the eSourcing market has experienced dramatic changes and developed from an eAuction-led approach, where suppliers competed for contracts solely on price, to an interactive dialogue with suppliers to reflect the total life cost of contracts and drive best value.

In my experience, at Curtis Fitch, businesses that have the strongest cost infrastructure win new contracts at prices that may appear unsustainable to others. Such businesses increasingly rely upon eSourcing to strengthen their cost base analysis.

Game Theory applied to Purchasing

The world of purchasing has undergone a significant change. Now buyers not only collaborate more readily with internal stakeholders but also engage more dynamically with suppliers. The outcome is always smarter and more sustainable contracts.

The really smart approach has been to apply Game Theory to eSourcing software enabling purchasing teams to manage risk for the organisation within a co-ordinated and controlled environment.

The effective application of eSourcing technology is not limited to the recognised markets. Increasingly, businesses employ such technology to sell specialist items, intangible products and services, which have variable values dictated by wider economic conditions. These include rough diamonds, redundant stock, returns, assets, debt and advertising space.

The development and core methodology of Curtis Fitch *iSource*[™] and related solutions fully incorporate the fundamentals of Game Theory.

eSourcing Benefits

eSourcing provides a centralised platform for contract negotiation. This centralisation has a wide range of benefits over traditional sourcing processes:

- According to Aberdeen Group, administration of tendering is reduced by 70%
- Contract negotiations deliver average savings of 15%

- Shared learning across purchasing teams
- Faster decision-making capability
- Clearer appreciation of budget essentials
- Audit compliance in line with Sarbanes Oxley

Change Management

The intriguing question, against a background of repeated success, is ‘Why don’t all organisations adopt eSourcing methods?’ Part of the answer is reluctance to change.

As a Curtis Fitch Consultant, using established and tested change management principles to embed eSourcing within organisations has always proved the most effective way to empower buyers and retain consistent business flow. This delivers required change without disruption and ensures that advantages are perceived across functions by engaging the key players in the process. Organisations that try to shoe-horn such technology into the business process fail to recognise that the buying intellect must develop to accommodate the next generation.

eSourcing Market

When it all started, just 10 years ago, organisations paid up to \$1m for a platform and \$50k for a single sourcing event. Early products were cumbersome as well as expensive, which, initially, resulted in low take-up by purchasing functions and many products were slow to develop.

At Curtis Fitch, we design and develop our software in-house and actively involve our customers in the software development programmes. This has ensured a user friendly platform that gives our clients a major advantage in their sourcing environment by enabling them to shape the software to accommodate their requirements rather than restructuring work processes to meet the software.

The Next Generation

I see an exciting future as the eSourcing world expands and new opportunities emerge.

eSourcing will become the universal trading platform embracing market feeds and enabling organisations to manage current risk and predict, with greater accuracy, the implications of market volatility. As the platform grows, the risk potential remains transparent to all involved thereby eliminating the undisciplined behaviours recently experienced by financial markets. CEOs will possess greater market insight to a substantial range of business scenarios that will be vital in helping them prepare their organisations for the challenges ahead.