

Informed Buying

E-sourcing tools are delivering considerable competitive advantages to buyers at HJ Heinz. And it looks as if they have a lot more to offer.

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Back in 2004, Heinz was unhappy with the capabilities of the e-auctions tool it was running. "Initially auctions were very successful, particularly in commodity markets where you have lots of competition between suppliers," says Ralf Floris, European e-Sourcing Strategy Manager at Heinz. "They created savings, but as soon as we looked at more complex categories where we were looking more at qualitative data, an auction was not the right tool because it has just a price focus." And, of course, the use of price-only

focused e-auctions made them particularly unpopular with suppliers.

Heinz began to experiment with a more advanced 'e-sourcing' solution suite that was able to support a multi-stage approach to negotiation. First, an electronic Request for Information (RFI) is used to give the supplier an opportunity to provide information on their capabilities. That information is used by the buyers to build a Request for Quote

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(RFQ) which leverages the capabilities of the various suppliers to receive the best possible quote from the market. "When we run an RFQ we learn a lot about the market and the way the suppliers quote, what the potential constraints are in the market for each supplier and the potential groupings (bundling) which can be used for the next stage of the negotiation," explains Floris. "Each stage helps us perfect our strategy for the next phase. You may find out that the

way you thought the market works is not how it actually works."

Buyers can use the tool's decision support function to run a wide range of 'what-if' analyses in a very short space of time. "If you are only looking for the lowest unit price, there is a limited analysis you need to do," says Floris. "The solution becomes useful when you have a complex portfolio with a high number of quotes and a lot of alternative quotes submitted. A buyer may know what he wants to get out of the event, but the sheer volume and complexity of the quotes make the awarding decision extremely complex if done manually. The e-sourcing solution allows the buyer to see all possible award scenarios available. These analyses include all the limitations of the suppliers but also the business constraints that the buyer has internally."

"While we do not share any savings information, I can tell you that the savings realised using this solution and associated negotiation process have been significant. We still make significant year-on-year savings on categories which have been e-sourced multiple times in previous years."

The challenge is changing however. The significant savings Heinz was making have diminished a little in the move from a buyer's to a seller's market in many key categories. The current situation has demanded the use of more innovative e-sourcing approaches, as simple unit price-focused events are not relevant. "The e-sourcing partner we work with, Emptoris, provides us with a sourcing solution which allows our buyers to use sophisticated optimisation-based sourcing strategies, combining the benefits of a price transparency and time constriction," says Floris. By leveraging this approach, Heinz is able to deliver significant cost savings in inflationary markets while maintaining healthy relationships with our supply base, who no longer feel persecuted by unit price-focused auctions in which their differentiating value cannot be expressed.

"The result of this revamped sourcing process is immediately obvious when we compare our performance against that of our peers and competitors in these rising markets: our competitors are seeing market price increases of perhaps 10% while we are seeing increases of just 2% or less, resulting in a continued competitive advantage for Heinz."

The e-sourcing solution can even be useful when there is little or no competition on a portfolio. The tool is highly suitable for the use

of market analysis, for example, according to Floris. "With respect to low cost country sourcing we have the challenge of being unable to bring the potential supplier into an event because we don't know their quality level (for example, do they meet our standards?). By bringing the quotation process online along with your current suppliers, the buyer can rapidly benchmark the LCCS supplier. Obviously, you won't award on that basis because you still don't know their quality level. But the online benchmarking will avoid any subjectivity by giving you the opportunity to see if it would make sense to investigate the supplier in more depth."

Information sharing

To gain most value from the multi-stage RFI and RFQ approach, Heinz shares information openly with the stakeholders who are involved in the e-sourcing process. Heinz also makes a specific point of sharing the outcome of an event with all its suppliers, winners and losers. "We say that even if you lose, we will give you feedback on the price," explains Floris. "In a highly competitive market that is information that they value, telling them how they have performed against the rest of the

market." The suppliers can use this information to improve their bidding for future participation.

Heinz is using the solution provider Emptoris for their e-sourcing. "The Emptoris solution provides Heinz with a comprehensive suite of negotiation formats to cover simple to complex category and market needs. The key for us was to apply market-leading technologies in a manner that empowered our buyers to be self-sufficient and to scale the use of these e-enabled processes across the entire Heinz category portfolio."

New Approaches

Using e-sourcing tools drives a whole range of benefits, but as with any new approach, there are also some challenges. Although the tools save a huge amount of time during the analysis, a buyer may need to spend more 'upfront effort' on the preparation of each event.

"If you are a buyer and you ask your incumbent supplier for a



new price, he knows the products and the conditions and will quote for these facts.

"A non-current supplier facing the same request has no initial idea as to what you are actually buying and against which conditions. The buyer needs to provide him with all the needed information so that a supplier can make a correct offer to enable an 'apples to apples' comparison."

While initially this could be perceived by the buyer as additional administration, the results are so compelling that this is a small price to pay. In any case, the standardisation of the process that this approach delivers means that process efficiencies will arise the next time the buyer goes to market in that category.

One of the benefits of the multi-stage process is that it is possible to catch simple misunderstandings early in the negotiation process. "While you have an RFQ open for three weeks, for instance, you are getting quotes in continually and are able to run bid analysis on a day-to-day basis," says Floris. "You can view the quotes as they come in and spot a supplier whose quote is way out of line with the other potential suppliers. You can often spot a supplier who does not fully understand what he is quoting for. In the end, we are all aiming for an 'apples for apples' comparison.

Taking e-sourcing forward

"It is always difficult to see what the market will do, since technology changes very quickly" continues Floris. "But we will always keep on looking for more power and sophistication from solutions from various technology providers. There is great value in coupling optimisation-based bid analysis with real-time supplier feedback during negotiations.

"The use of the e-sourcing solutions is now a natural process within Heinz. We need to keep the support as high as possible for this approach

by communicating the compelling results achieved in order to keep and increase the levels of adaptation and knowledge across our operation."

One potential area where Floris sees opportunities to extend the benefits is by using the knowledge provided by e-sourcing tools in other areas such as new product development. The developers may have an idea for a fabulous new product provided they can market it at €2. But it can be late in the development process when they turn to procurement – often to discover that the product cannot be produced for less than €3.

"If you can get the NPD information right at the beginning by asking the suppliers for suggestions on the best ways to build the new product

and then use that knowledge in product design, rather than simply asking for a price at the end, the e-sourcing team can support the NPD initiative, creating a competitive introduction of a new product," explains Floris.

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Future uses

Greater visibility across synchronised supply networks in the long-term may offer the opportunity to add real-time performance information to benchmarking exercises. In fact, e-sourcing tools look likely to be as versatile as the creativity of individual buyers allows.

The adoption of e-sourcing tools by buyers follows the same process as the use of Excel years ago," says Floris. "At first, people asked why they should use Excel. The answer was that they can make nice graphs and spread sheets of their portfolio. That resulted in the use of Excel simply for high spend portfolios. However, once buyers understood the answers to 'what's in it for me and why should I invest time in it?' the use of this tool rocketed and became 'the norm' almost overnight. The same process is happening with the use of e-sourcing solutions. Today, it is a core skill required from any serious buyer." **SN**



Supporting product development
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