

Essentials of eSourcing: A Practical Guide for Managing the RFX Process In An “E” Environment

Mary D. Lewis, Director, Procurement
Sprint Corporation, Overland Park Kansas
913-794-8740 -- mary.lewis@mail.sprint.com

89th Annual International Supply Management Conference, April 2004

Abstract. Many companies are discovering the advantages of an eSourcing tool. It can reduce process time, provide a more available library of RFX documents, generate sourcing savings, and in some instances, drive incremental revenue. However, by not understanding some of the issues involved in implementing an eSourcing tool and managing RFXs in the new “e” environment, some companies may not realize the full potential of the tool. Worse, they may have wasted money by purchasing a tool that is used ineffectively or not used at all.

Objective. The objective of this presentation is to focus on some practical guidelines and tips for successfully managing RFXs (particularly RFPs, up to but excluding reverse auctions) after the eTool has been selected.

Configure For Capacity. One of the key factors to consider in managing the RFX process in an “e” environment is to understand the demand that will be placed on the tool. System response time will vary depending on the application itself as well as location of the firewall (e.g. is it a hosted application or is the eTool resident behind the firewall on a company server). It is crucial to configure the tool from the outset based on the scope of the license and how it will be used in an ongoing manner. Some of this will involve timing large RFPs so that response deadlines do not coincide. If the tool also supports reverse auctions, training and ongoing RFX updating and queries, it doesn't take long for a shared server to be overloaded, resulting in poor response time and frustrated suppliers and users. For example, if there are just four RFPs open simultaneously with 30 suppliers responding to each RFP, this equates to 120 active respondents in addition to the Sourcing department's personnel. For RFXs issued to over 100 suppliers (it's not uncommon to have as many as 400 for certain service categories), a system may get overwhelmed. While capacity based on user access shouldn't be a constraint, it should be taken into account when evaluating eTools and planning RFX events.

Tip: Create an RFX calendar with estimated numbers of users/bidders to forecast demand on the eTool and demand on system personnel who support each event. Include reverse auctions and training on the calendar, as well, so overall demand can be calculated and events planned accordingly.

You Can't Fix a Bad Process With a New Tool. It is a mistake to think that purchasing an eSourcing tool will automatically provide companies with instant sourcing and process savings. Rather, the tool highlights the faults of a poor process. For example, if RFXs are created from scratch each time bids are solicited, time and money are wasted on duplication. If RFXs are not created from the most current legal documents or templates, then more time will be spent at the negotiating table.

In addition, if an RFX process typically calls for scoring to be done by reading and evaluating responses, then assessing the bids by using a rating scheme based on 'how close' each

supplier comes to the desired requirements (say, a scale of 0-5), individuals can game the process to ensure favorite suppliers remain in contention. Moreover, if one or more executives have a favorite supplier that is different from the team's recommendation, expect pushback on the scoring methodology that was used. This may result in a "cutting the foot to fit the shoe" mentality to have the 'right' supplier win. **Tip:** Perform a process analysis or evaluation – possibly using your Quality or Internal Audit departments as facilitators, before the tool is implemented (or even selected) to ensure the sourcing process is logical and robust. The eTool itself may help you define some of the RFX steps based on how modules are arranged on the various screens. After each major RFX event, conduct a "lessons learned" to ensure continual improvement for the sourcing process and to help define enhancements or license scope changes to the eTool.

Building the RFX. As in constructing a house, the most important element is a strong foundation. Constructing an effective RFX is no different: It requires a strong architecture of integrated components with focus on an end product that is comprehensive, yet is easy to read, respond to, and analyze. Among the most valuable elements of an eTool and the one that can drive significant process savings is the opportunity to create a readily available "library" of past RFXs and templates. How an RFX is built will directly impact the ease and speed of responses, scoring, evaluation, and future RFXs and therefore, directly affects the value derived from the eTool. As explained in the AMR Research Report E-Sourcing: ROI Tastes Great, Applications Less Filling, it is important to establish an overall eSourcing architecture that remains consistent so that sourcing data can be used for other applications. Following are some key considerations in RFX construction.

- **Use of Templates and Sections.** Because of the rapidly changing nature of some businesses, it is highly desirable to have an RFX comprised of several, independent sections rather than one, cohesive, giant document. There are several advantages to this approach:
 - Each section can be independently created and maintained as a template off-line in a library and imported or uploaded as needed;
 - Each section can be independently scored [by separate departments or users interested in that particular section] using a weighting and rating scheme unique to that section. This enables scoring scenarios (the application of weights and rating factors to each section and question) to be done more quickly because there are fewer factors on a section level to address than if every question in the RFP is combined into an aggregated scoring matrix.
 - Sections can allow the user to take into account special elements such as a diverse supplier's certification status or balance of trade or relationship with the purchasing entity and enable unique weighting/rating scenarios to be applied.
 - End users can play 'what if' scenarios by including/excluding certain sections and compare suppliers' standings. For example, if a greater weight is placed on a supplier's relationship with a company, how much does that factor affect the supplier's standings as a finalist?
 - It's much more difficult to 'game' the system when multiple sections [and individualized scoring scenarios] are independently evaluated.
 - Pricing scenarios for complex systems can be customized and attached to the appropriate section. Stand-alone spreadsheet models can be built and attached so

that suppliers can fill in component-level prices that then aggregate into system-level prices.

Tip: Divide sections into a functional template library that can be maintained by the appropriate subject matter experts. Have the templates in a centrally accessible virtual location so that users always have the most current version when creating new RFxs. Find out if the eTool can handle uploaded documents such as Excel spreadsheets or MS Word files. Otherwise templates will need to be loaded independently into the tool or “attached” if the eTool supports this feature.

- **Types of Questions.** Also crucial to the construction of an effective RFX are the type and variety of questions used. Question type should be driven by the subject matter of the various sections and should enable automated, objective scoring/evaluation. Question types include:
 - Binary. Questions should be predominately binary (Y/N) if the attribute can be objectively measured [e.g. “Device output is 5dB, +/- 1 dB”; or “Device is certified by UL”]. In some cases, it may be necessary to have a binary question accompanied by text.
 - Text. Allows further amplification. Respondents can enter free form data into this area, but questions should be crafted to elicit a “how” or “what” or “what is your plan” response. This is particularly true for functionality planned for delivery but not yet available at the time of RFX or for how standards [e.g. AINSI, ITU, ATM Forum] have been interpreted/implemented. Limit the text appropriately [1600 characters is a workable length; some eTools may have pre-defined limits] or large RFxs will be challenging to wade through. Note: text responses will require manual scoring.
 - Discrete. Other questions may be set up in a discrete format like dates, failure rates, etc. (e.g. “What date will XYZ functionality be commercially available?” or “Indicate the MTBF – mean time between failures—of Device). Appropriate weighting may be based on whether the response falls within a desired range.
 - Charts. In some cases diagrams or charts may be necessary for responses. If so, ensure the use is as narrow as possible to aid in quicker scoring and to maintain control of the scope of the response. Charts will augment RFX questions, but remember they also will require manual evaluation and scoring.
 - Choose One or Many. Set up so respondent selects one or many from a pre-defined list established in the RFX. Use check mark boxes or radio buttons to indicate selection. Include an optional “Other” category so respondent can include text as necessary if a selection isn’t available on the list. For example: “Indicate accessories included in base price: ? case ? adapter ? wall mount”

Tip: Tailor question type to subject matter and get buy-in from the subject matter experts who will be evaluating. Select a small number of “killer” questions (preferably binary or discrete) to which suppliers’ responses must be desirable for all questions before advancing to the next phase of the RFX. This will eliminate having to unnecessarily read a lot of text in order to reduce the number of suppliers under consideration.

- **Example** – Sections, questions and scoring scenarios using detail in one section for illustration purposes only. Pricing evaluation would be done separately. “+” Indicates a “killer” question.

Supplier: ABC Widgets. Location: 123 Supplier Street, Anywhere, USA

Section A	Questions B	Supplier Response C	Weight D	Raw Score E [B x C]	Weighted Score F [D x E]
Technical Rqmts [50%]	1) Company's products comply with Federal Mandate 103a: 1Q 2004=100 2Q 2004=75 3Q 2004=50 4Q 2004=25	1) 2Q04	1) 30%	1) 75	1) 22.5
	2) Indicate platforms supported by product set Unix: 30 IBM Mainframe: 20 Other: 10	2) Unix & Mainframe	2) 10%	2) 50	2) 5
	3) Indicate compliance with Applicable Standards. Include standards interpretation as Attach. 1 ITU 20.4 = 10 ANSI 6.0 = 10 Telcordia GR 101-999 = 10 Other = 10	3) ITU & Telcordia	3) 50%	3) 20	3) 10
	+4) Company's products available with voice recognition feature. Y = 100 N = 0	Yes	4) 10%	4) 100	4) 10
Raw Section Score					47.5
Weighted Section Score [Section Score x Section Weight]					23.75
Business Terms & Conditions [20%]					15
eCommerce Strategy [10%]					6
Security [10%]					.5
Balance of Trade [5%]					.25
Diversity [5%]					3
TOTAL WEIGHED SCORE FOR SUPPLIER					48.5

System Access & Document Sharing. eTools typically have one or more levels of security [e.g one for users and another one for administrative access for system personnel]. Since the information in the eTool is very sensitive, users with access to RFxs in progress should be limited only to the Sourcing organization. Sourcing personnel will need to include in the RFx

process a means by which stakeholders have access to system RFx documents for input, modification, and review. Because some eTools may not support 'up-loadable' Microsoft files it may be necessary to carefully consider information and end user stakeholder needs to ensure documents are controlled. **Tip:** Draw a flow chart showing output document creation, retrieval, updating, and deletion (CRUD) in the Sourcing/RFx process. Overlay eTool capabilities and note gaps where the tool does not support what end user stakeholders are used to seeing or need to see in the new environment. Get buy-in on any process changes.

Legal Issues. Since a non disclosure agreement (NDA) or other legal document may be required in an RFx process, there will need to be a method for indicating the acceptance of terms and conditions by both parties. In some cases an 'electronic signature' of a name and date (and possibly other parameters) may be acceptable. In other cases, it may be necessary to use the eTool for transmittal only and rely on traditional means of affixing a signature on a hard copy of the legal document to indicate acceptance. **Tip:** Check with the Legal department on the use and acceptability of electronic signatures with the eTool prior to deployment. Otherwise, streamline or develop a quasi-automated signature receipt and document control (e.g. sign documents first and use an electronic file-to-computer fax capability that triggers a notification when the supplier's emailed FAX appears).

Driving Incremental Revenue. Because eTools enable more communication with a large number of suppliers than by using traditional, manual RFx processes, there exists an opportunity to use the tool to drive additional incremental revenue. For example, eTools typically have a summary of RFxs in progress or those that have been completed within a certain calendar period. Coordinate buy-based projects and sell-based projects with your Marketing/Sales organization. In a competitive environment, it doesn't make good business sense to not take Balance of Trade into consideration when evaluating a supplier. In addition, consider including a section called "Balance of Trade" in the RFx. Ask for information that can be used to generate warm leads. For example, ask for contact information on buy decisions for the supplier; timeframe when those decisions will be made; dollar value of the potential procurement; name of supplier's incumbent, if available. **Tip:** Meet with Sales and Marketing to determine the key information they need. Establish a process for communicating leads to Marketing and for their communicating back to Sourcing when a sale is closed. Establish some 'rules of engagement' when contacting the supplier so that an RFx procurement deal is not held 'hostage' by an over-zealous sales rep trying to close a sales deal. Finally, discuss with Legal what supplier or sourcing information can be shared between departments and/or company affiliates.

Points to Consider in Implementation

- **Select an eTool to Complement Your Strengths.** Selection of an eTool supplier should start with a view of the end state in mind. How will the tool be used? How well-defined are the processes that the tool will support? While each eTool has different strengths, it may be beneficial to find one where the tool's strengths complement the user's strengths. Or, look for a tool that may help define potential new processes to minimize the weaknesses in the user's process.
- **Change Management.** As with any tool, user resistance may be prevalent as people need to learn a new system. Executive support is crucial as some people may use the tool

without being told. Others will not use it unless forced to do so. Establish a method to communicate introduction, changes, training, and other aspects of the eTool implementation. While a newsletter or email is good, consider using a website, which can be tailored to users' needs. Suppliers will also undergo change, as well. Consider having a supplier forum (for key suppliers) prior to eTool implementation. If they are used to a particular process – say, an email status update on RFx responses, you may need to adjust the eSourcing process to accommodate these requirements.

- **Training.** Adjust the type and delivery of training to complement the way the eTool will be implemented. If training is delivered in a single, comprehensive session, learning may get 'stale' by the time users process RFx projects through later stages of the tool. Training done in shorter increments – say, a couple of classes of 2-3 hours each, may be more effective. Then plan for ongoing refresher training and knowledge sharing as the tool supports more RFx activity.

REFERENCES:

Kemmeter, Jennifer and Pierre Mitchell and Janet Suleski. *E-Sourcing: ROI Tastes Great, Applications Less Filling*, AMR Research Report,
http://www.amrresearch.com/content/search_results.asp?searchid=619215