

Understanding the Components of Today's Sourcing Management Solution Suites

Numerous Acquisitions have Reduced the Number of "Point Vendors," as Most Providers Now Offer Broad Suites; Here are the Pieces

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As with most other areas of the supply chain software market, there have been many acquisitions over the past few years among sourcing and e-procurement vendors. Examples include Ariba's acquisition of both Procuri and Freemarkets, BravoSolution acquiring VerticalNet, SAP acquiring Frictionless Commerce, and Emptoris buying Mindflow.

While there are still a number of more focused solutions, the result is that larger vendors in this space now offer fairly broad suites.

What are the piece parts?

According to research firm Gartner, these are the major components of today's sourcing and e-procurement suites:

Request for Quote (RFQ): RFQ functionality supports the solicitation of price from preferred vendors, and also sampling requests. The output of a simple RFQ is a purchase order or blanket/standing order release. Line-item requirements are typed into the RFQ, typically using predefined templates, and the low price/best availability generally wins the order.

Request for Proposal (RFP). RFP functionality supports solicitations to provide products or services over an extended period of time under negotiated terms and conditions. Pricing can be fully specified in advance (such as the rate per hour for certain services) or as a formula, based on material costs, indexes, bill of materials and more). The outputs of an RFP include contracts or strategic agreements spanning multiple orders covering an extended period of time (typically a year or more). Gartner says Project Management tools are an important component of

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an RFP solution, including time scheduling, workload balancing and status reporting capabilities. Also important is multi-language support for global sourcing.

Reverse Auction: Perhaps the quintessential e-procurement tool, reverse auctions are a form of RFQ or RFP where vendors submit multiple bids for the buyer's business, online and during a short time period – sometimes as little as 20-30 minutes. Reverse-auction sites can be and often are configured to show each vendor where its bid is relative to others, increasing the competitive feel and sometimes resulting in a last minute bidding frenzy. Gartner says a key feature is the ability to close out bids during a multi-line item event at the individual line item level.

Forward Auction: This is used for the disposal of excess or obsolete materials. Although this task is not typically the responsibility of the procurement organization, because the functionality required to support forward auctions is similar enough to the reverse auction, with the bids a "buy" price rather than a "sell" price, the Reverse Auction tools can be used.

RFID Markets to Continue Growth, but Majority of Activity Outside of Traditional Supply Chain (Con't)

Optimization: The capability to enforce a set of business rules, such as "Award 20% of this order to the incumbent vendor" and "Award this business to no more than three vendors," to recommend different award scenarios. Optimization is used mostly in conjunction with RFPs, and generally calls for requirements to be input at the line-item level in the RFP, rather than specified in an attachment.

Spend Analysis: This capability assembles spending transaction data from disparate systems, identifies and matches duplicate records, and enhances the data with granular classification for reporting purposes. Spend analysis can be delivered as an application or service.

Contract Management: This application creates a searchable repository of contracts. Good functionality will support templates for contract creation and alerts for contract administration. Heavyweight tools feature clause libraries, red-line-based authoring and use across multiple contract types, including sales.

Supply Base Management: Gartner says this is type of module represents the newest element of a sourcing suite, and involves functionality to track supplier qualification and performance. The creation and publication of regular



supplier scorecards is typically the focus of this, and it can also be used to monitor and enforce various supplier criteria for ethical performance, "green-ness," etc.

Most of these applications can now be delivered on-lined or as a "software as a service" model. In some cases, that also makes it easier for companies to use specific functionality to meet a particular need, rather than consider an entire suite.

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