

WHITE PAPER

Don't Get Boxed-In

E-Sourcing Technology Best Practices for Improved Strategic Sourcing of Packaging Spend

Procurement and sourcing professionals agree that packaging is an excellent area of focus for reaching higher levels of spend under management. They use strategic sourcing to meet their goals, but at times their sourcing technology may have the unwanted effect of “boxing in” their best efforts. New industry research and packaging case studies have converged to uncover best practices for improving the sourcing of packaging spend. This includes the application of advanced sourcing technologies such as Expressive Bidding[®] and bid optimization.

This white paper helps explain the limits that can be created by traditional, often ERP or suite-based sourcing technologies. It will also explain how CombineNet's advanced e-sourcing solution, CombineNet ASAP[®], can be applied to packaging challenges for improved spend under management, cost savings, quality improvements, supplier innovation and more. CombineNet partner Paladin Associates also demonstrates how technology can help refine the sourcing process, and shares results from a customer packaging event using CombineNet ASAP.

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INTRODUCTION

They say it's all in the packaging, and when it comes to strategic sourcing technology, words couldn't be more true. Today's spend management professionals are using a variety of sourcing tools to meet their needs, ranging from spreadsheets to ERP systems to advanced sourcing optimization technology, and the results are equally varied. As Aberdeen Group reports in its June 2012 strategic sourcing benchmarking study, titled "Advanced Sourcing: Maximizing Savings Identification," best-in-class sourcing teams are 1.6 times more likely to be applying sourcing optimization solutions than others in their industry. The result is four times the average yearly savings identified as compared to those lagging in use of technology and advanced strategies.

In spend areas involving packaging, leading-edge sourcing professionals are realizing that it's time to utilize solutions that employ advanced sourcing features such as Expressive Bidding® and optimization to capitalize on new opportunities for savings and innovations in collaboration with suppliers. Such solutions are ideally suited for the complex decision making needed all along the packaging supply chain.

This paper discusses the limitations of traditional, often ERP or suite-based sourcing technologies, the benefits of more appropriate advanced sourcing technologies, and the shift that occurs within strategic best practices when using advanced sourcing solutions.

ARE YOU LETTING YOUR TECHNOLOGY DEFINE AND LIMIT YOUR STRATEGIC SOURCING EXECUTION?

General purpose e-sourcing technologies have limitations – in terms of sourcing event size, scope, and flexibility – spanning all stages from event configuration, to bid collection and supplier collaboration, through bid analysis. Most importantly, these traditional technologies cause buyers to limit the way they execute RFIs and RFPs, inadvertently squeezing out room for potential creativity and innovation from suppliers. Why?

The event creators are good planners: they know from experience that they will need to crunch data once the bids have come in, that these data points will feed scenarios that will take time in processing, and that time is limited. Due to those technology constraints, a great deal of the "strategy" in reality has become an effort to determine where to place limits on the data collected and a game of guesswork during the event set-up and analysis process. As examples, the packaging event may rely on lotting of items to stay within size limits or it may limit alternate bids to reduce data analysis. Bid evaluations may be based more on conjecture than measured analytics about supplier capacity or other capabilities.

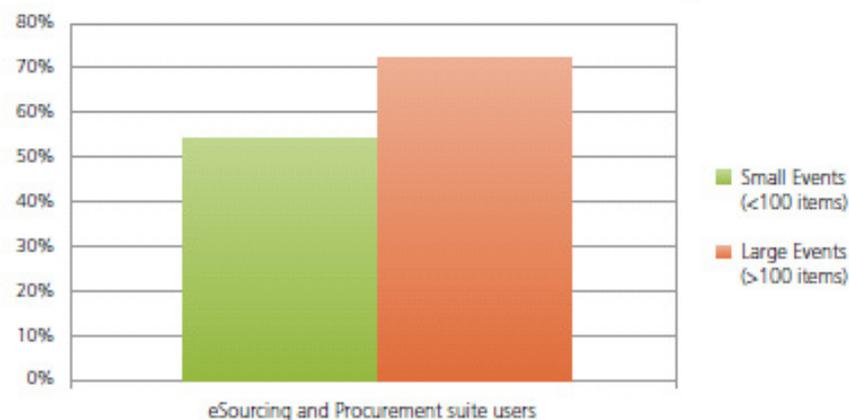
THESE LIMITATIONS OF BASIC E-SOURCING CONTINUE TO BOX IN BUYERS:

- **Size and scope limitations:** When many events involve 1,000 different bid points, the typical e-sourcing tool can become overloaded. Consequently, the team breaks the event into lots or limits the number of suppliers invited. The problem with this

approach is that the buyer has no knowledge of the best lotting structures from each supplier's perspective. The result is a competition vacuum: suppliers try to match the lots, even if a more efficient, cost-effective alternative exists. Or the RFP is broken into several smaller sourcing events, thereby losing the efficiencies gained if bidding and optimization can be supported in a single, larger event. Some may even resort to the use of spreadsheets, a practice that is fraught with significant inefficiencies and risks.

- **Rigid bidding mechanisms:** Beyond simple weighting and scoring, much e-sourcing technology can't allow for quantification and analysis of non-price factors. The team may respond to the technology's limitations by deciding to only consider pricing factors, ruling out the suppliers' ability to compete on service, capacity, terms, sustainable practices, production methods, or other important factors to an award. Typical e-sourcing also precludes the possibility for suppliers to suggest more favorable alternate bids or conditional offers.
- **Inflexible bid analysis:** Even within the reduced scope for which the team has already settled, analysis is typically handled through a combination of man-power, time, and Excel spreadsheets. Analytical capabilities within general e-sourcing modules are not designed for flexible creation and application of business rules and risk factors, and true, rapid optimization is also lacking. This leads to more limitations: now the buyer is boxed in by a limited number of scenarios the time-consuming analysis process will allow. The team simply won't have time to review more than a handful, given the amount of data collected in a typical packaging RFP event.

Use of Microsoft Excel for RFP Creation/Bid Collection by Event Size



Inefficient spreadsheets are still heavily used for RFP creation and bid collection, even in the presence of Ariba, SAP, Oracle, or other procurement suite sourcing tools – due to technology limitations, particularly as events increase in size.

A BETTER “PACKAGED” SOLUTION: ADVANCED SOURCING FOR TODAY’S REALITIES

Advanced sourcing is the next-generation approach for implementing practices and technologies that can handle today’s real-world complexities and business objectives. For example, the use of advanced sourcing technology removes first-generation barriers; which allows for unlimited event size and scope without guesswork. It also allows you to invite your suppliers to offer innovation and value creation through the online bidding process, and it makes use of optimization capabilities to arrive at better decisions, faster.

[Expressive Bidding®](#), first introduced by CombineNet in the early 2000s, enables a significantly more flexible, creative and expressive delivery of bid and business information from suppliers. Today, the [CombineNet ASAP® advanced sourcing product](#) is used for generating significant savings results and driving packaging innovations for Global 2000 and mid-sized customers alike.

In CombineNet ASAP, rather than simply request a price per unit or price per lot/bundle from suppliers (as is the course with general purpose e-sourcing solutions), users can create highly detailed RFI and RFP requests that enable suppliers to compete on more than price, and enable buyers to collect all the information they need to evaluate supply options.

Then, after a larger set of price and non-price data is collected, CombineNet’s advanced sourcing [Bid Analysis and Optimization](#) features allow you to explore all of your options:

- Fast, easy creation of scenario rules based on your unique requirements for packaging spends.
- Ability to quickly compare scenarios online side-by-side.
- Combine RFI, RFP responses, business preferences and constraints for a complete understanding of sourcing decisions.
- Run scenarios with optimization and get results returned in seconds.
- Uncover hidden savings opportunities and find the best sourcing solution faster.

Bid optimization from CombineNet ASAP allows for unlimited and robust analysis of received bids in your packaging event. Buyers set up how they want to analyze the supplier information, using business rules and risk factors they wish to apply, and then click a button to “optimize” the scenario – within seconds, CombineNet ASAP returns the optimal answer on which supplier or suppliers should be awarded the business and how.

With bid optimization, there really is no limit to the analysis rules that buyers can create, or the number of different scenarios they can run before making their ultimate decision, assuming they collect the information in the RFI or RFP stage of the sourcing process. If a buyer wants to use non-price criteria in the evaluation of suppliers’ bids, they simply add a question to the RFI or RFP that provides the data for analysis.

BEST PRACTICES IN STRATEGIC SOURCING OF PACKAGING

By now you may have heard some success stories about advanced sourcing technologies, where Expressive Bidding and optimization helped to save companies 10-30% on their spend. (In fact, we highlight one such success story later in this paper.) You have heard that optimization and Expressive Bidding can mean you are free to create events with fewer limitations up front. The lid is off the box and the opportunities feel wide open, but what does that mean for your strategy?

To help with strategy, CombineNet partner [Paladin Associates, Inc.](#), brings over 800 years of business expertise to the area of enterprise spend management and risk-free cost reduction solutions. Paladin works with sourcing teams to apply best practices and technology solutions to achieve business goals, including expertise in the packaging arena.

Many Global 2000 companies have achieved a smooth and rewarding process in pursuing advanced sourcing, by following these best practices:

- Project Planning
- Stakeholder Involvement
- Requirements Documentation
- Event Setup
- Supplier Engagement & Collaboration
- Bid Analysis & Decision Making



What is entailed in each of these steps? Here, **Barbara Ardell, Vice President of Paladin Associates**, dives in with more detail, describing how advanced sourcing technology becomes a critical part of the total event process.

PROJECT PLANNING

You want to be sure to define your plan, and Paladin recommends you consider the following:

- **Get upper management involved:** As with most new initiatives, having support from the top goes a long way toward overall project success. Keep upper management keyed into your plans, provide regular updates, solicit input and request help breaking down any barriers as needed.
- **Develop a charter document:** One that will make clear the scope, objectives, role/responsibilities and timeline. Of course the charter will evolve, but it's important to have a document to start from and one for which there is sign-off as changes occur.
- **Identify goals:** A 10% savings goal on your spend may be reasonable, but consider other goals as well, whether you're considering supplier rationalization or diversification, geographical changes, or sustainability goals – plan to put numbers against these.

- **Identify cross-functional teams:** Which may include the following: a commodity manager, representative from project management office, operations manager (i.e. from the plant/s), packaging engineers, consultants, project leads, and commodity experts. This team would provide counsel and participate and collaborate through the optimization scenarios.
- **Plan for regular status updates:** Determine where and how the team will report on issues and make decisions for what needs to get done next. These are critical to maintaining momentum.

STAKEHOLDER INVOLVEMENT

As you define your packaging event project, there will be work to do in acclimating your internal stakeholders and suppliers to the technology solutions being used. It helps to be equipped with industry benchmark data that can support your vision. For example, best-in-class companies are 33% more likely to leverage advanced sourcing approaches and see an average savings of 16%, according to the 2012 Aberdeen Group strategic sourcing benchmark report.

Remind your stakeholders that when you're talking about advanced e-sourcing technology, you are now expanding your strategic sourcing to include Expressive Bidding, where analytical power will combine the flexibility and expressiveness of face-to-face negotiations with the benefits of scalability and automation. The value in having cross-functional participation is that it gives you broader perspective. The ultimate "stickiness" of the award will also be greater with increased stakeholder involvement.

You should consider conducting a focus group or use an internal survey to gain broad input into the non-price data you wish to collect and utilize for decision making. Provide prompts to tease out optimum input which will inform your RFP content. For example:

- How do they prioritize non-price decision criteria?
- Would they be willing to compare "apples" to "oranges"? For example, if the supplier can be competitive with things like color, or weight of materials, where is there room for flexibility (lead times, service agreements, etc.)?
- What are the biggest problems they have experienced in the last year? Ask them to get specific and help them by offering suggestions such as:
 - Lead times – normal and/or emergency
 - On-time delivery
 - Customer support
 - Online ordering
 - Order & invoice accuracy
 - Quality issues
 - Return policy (responsiveness and restocking charge)
 - Reporting capability

- New product design capability and turn-around
- Product testing capability
- Etc.
- How much of a preference would they give to incumbents, strategic partners, minority-owned business?
 - Ask them to put numbers and percentages against these priorities.
 - Ask them what reasons contribute to the desire to keep current suppliers. What is it about those suppliers that give them favored status?
- What criteria will truly disqualify a supplier from participating in the business?
- How important is it to factor in the suppliers' Sustainable Sourcing practices? For example, from where does the paper get sourced, percentage of recycled content, environmental impact ratings, etc.
- Remember that you must keep stakeholders involved throughout the entire process. This means that when it comes time to conduct the e-sourcing event, you should solicit their help in providing clarification of requirements throughout the process, in evaluating supplier RFP responses, as well as having them participate in scenario analysis later when your bids are received.

REQUIREMENTS DOCUMENTATION

Specifications must be clear to all bidders, not just the incumbents. Some companies who go out to bid using e-sourcing will wonder why only the incumbent is bidding. This is usually because the specifications are confusing to anyone not already involved in the projects. This problem of clarity leads to reduced competition and potential rework later. Using all the input from your various stakeholders, you now must fine-tune the specifications for optimum presentation to suppliers.

EVENT SETUP

Here the possibilities become readily apparent. In setting up your packaging event using advanced sourcing with Expressive Bidding, limitations imposed by your team's predictions about data overload will no longer be an issue. You won't need to pre-screen your potential bidders to the extent traditionally necessary because the suppliers will "self-select" what does and doesn't fit their business, and CombineNet ASAP will make it clear in the analysis which suppliers are more competitive in each scenario.

- "Begin with the end in mind," Stephen Covey said. These are important words when you consider that you won't be able to optimize what you can't collect! Event success depends on sound set up. Design your event in CombineNet ASAP to allow for conditional offers, substitutions and other innovations the suppliers might provide. Include stakeholders as you develop your event rules and constraints.

- Make decisions about your transparency: what do you want the supplier to know about their standing? There are benefits to price transparency that you can leverage by letting your supplier see – by ranking or actual number – how their bids stack up. You can provide this transparency to as granular a level as you like in CombineNet, allowing suppliers to know by line item where they may be losing a competitive edge.

In CombineNet ASAP, you design your event based on rules that matter to you and your stakeholders:

Add Rules

Select rules and define the necessary parameters.

Expand All | Collapse All

- Number of Suppliers
- Specific Named Suppliers
- Each Supplier
- Item-level Incumbents
- Minority Owned
- Board Color
- Carton Type
- Annual Sales Revenues
- Years in Business
- ISO Certification
- Flute
 - Include only bids where Flute equal to
 - Favor bids by USD per unit where Flute equal to
 - Award between and USD to B where Flute equal to
 - Penalize bids by USD per unit where Flute is equal to
- ISO 9000-2001 Certified
- EDI Capable
- In House Tooling
- Strategic Partner
- Number of Full Time Emplo
 - Favor bids by USD per unit where Number of Full Time Emplo equal to

Apply the rules

- Everywhere.
- To the following:
 - All Item IDs
 - Each Item ID
 - Each Item ID in :
 - to Item ID(s):
 - All Divisions
 - Each Division
 - Each Division in :
 - to Division(s):
 - All New Boxes
 - to New Box(es):
 - All Destination Cities
 - Each Destination City
 - Each Destination City in :
 - to Destination City(ies):
 - All Destination States
 - to Destination State(s):
 - All Destination Zip Codes

SUPPLIER ENGAGEMENT & COLLABORATION

Pre-bid meetings are an important component of Supplier Engagement. They communicate to suppliers the goals you are trying to achieve and help to shape their proposals. Pre-bid meetings can be accomplished via Webinar. Consider conducting separate Webinars for incumbent suppliers and new bidders as the messages will be slightly different. Assure incumbents that their status will be considered but they should not rest on their laurels. New bidders should be assured that there is a bona fide opportunity for business, but they must offer sufficient value to displace the incumbent. By timing the Webinar just before the sourcing event opens, you create urgency and excitement for the event. This is a good time to review everything you've already referenced – the purpose and goals of using CombineNet for the e-sourcing event, your perspective on total best value (including non-price criteria), and your interest in their creativity and thinking on things like substitutions, annual cost reductions, and conditional offers.

Importantly, you should not assume suppliers' comfort with technology – they will vary in sophistication and, therefore, level of support required. Some may be very accustomed to e-Sourcing technologies, while others may be encountering the technology for the first time. Upfront training is critical. Suppliers won't use alternate bidding and conditional offers if they don't feel comfortable with the technology... Be sure suppliers know how to get help for technical or content questions. You will likely still have questions at bid time, but those will be minimized if you do a good job during training.

HOLD A PRE-BID MEETING WITH INVITED SUPPLIERS FOR YOUR PACKAGING EVENT

- **Webinar (Incumbents & New Bidders Separate)**
- **Timing: Just Before RFP Release**
- **Agenda (1 hour with questions)**
 - Purpose & Goals
 - Total Best Value
 - Specifications
 - Opportunities
 - CombineNet ASAP E-Sourcing Solution
 - RFP Components
 - Confidentiality & Security
 - Timing
 - Communications
 - Next Steps
 - Reminders!
- **Posted Webinar Presentation In Event Documents**



BID ANALYSIS & DECISION MAKING

With traditional e-Sourcing, receiving bids is where the work begins. With CombineNet ASAP, receiving bids is where the fun begins. Here you can say goodbye to spreadsheet nightmares!

- Run as many scenarios as you like in CombineNet, they're quick and easy – what's exciting about the number of scenarios you can run is that it will not only affect the quality of the award, but it will affect your confidence level, because you will know that you looked at more than enough scenarios to determine the best mix of suppliers.
- Scenarios to consider:
 - What is my low cost/unconstrained scenario?
 - What if I award only to incumbents?
 - What if I consolidated all the business for a particular subcategory?
 - What is the cost of increasing the diversity of my supply base?
 - What if I increased flexibility around delivery options?
 - What if we tried item substitutions?
 - What if we accepted these conditional offers or volume price breaks?
- Be sure to involve your stakeholders again during this phase. Allowing them to see the cost impact of their preferences helps to avoid conflicts on the final award.
- Award with confidence!

With the use of CombineNet ASAP as your advanced e-sourcing solution and Paladin Associates' best practices for managing your packaging events, you can successfully implement advanced sourcing, and reap the benefits of Expressive Bidding and bid optimization.

CUSTOMER CASE STUDY

MIDMARK BOXES UP 28% SAVINGS AND SUPPLIER INNOVATION FOR PACKAGING SPENDS



Midmark Corporation is a market leader in the manufacturing of medical, dental and animal health equipment. They bring efficient patient care to millions of people each day in the human and animal industries around the world. Headquartered in Versailles, Ohio, Midmark also supports international healthcare markets through subsidiaries in France, India, and Italy.

THE CHALLENGE:

Midmark was evaluating its sourcing of packaging spends, and the manufacturer believed a more strategic approach could realize savings and innovations in the packaging of its equipment, which includes exam tables, sterilizers, chairs, stools, lighting, and more.

Midmark turned to Paladin Associates for expert consulting and event management support, to help tackle their many challenges associated with procurement of packaging materials. Midmark and Paladin first considered using standard sourcing technologies, but soon realized that a more strategic technology solution would be needed, due to these characteristics:

- Approximately 500 items with multiple sub-categories (corrugated, foam, miscellaneous supplies and poly bags)
- Multiple plants involved
- Sensitivities to incumbent suppliers (many were long-term relationships involving plants on whom small-town economies were dependent)

THE SOLUTION: ADVANCED APPROACHES TO E-SOURCING:

After assessing the sourcing needs of Midmark, Paladin recommended and utilized the CombineNet ASAP advanced e-sourcing product. Freed by CombineNet ASAP from historic technology constraints around event creation, data collection, and analysis, Midmark and Paladin were able to extend bid event invitations to a larger set of potential suppliers – 30 in all were invited (15 of who qualified for and participated in the bidding).

Also, instead of lotting or restricting the online bidding process, Midmark was able to encourage supplier innovation by leveraging CombineNet ASAP's Expressive Bidding capabilities, which allows for extensive data collection of both detailed price and non-price bid components. They also solicited things like conditional offers, alternative items, and bundles. For example, Midmark

discovered natural segmenting in the corrugate category related to annual quantities and run sizes. A new supplier provided a better equipment fit.

THE RESULTS:

Midmark realized a **28% savings** attributed to broader competition, supplier size and efficiency, corrugated segmentation, substitutions and volume incentives. Midmark had no need to restrict the number of suppliers bidding, or to limit the scope of suppliers to manufacturers or distributors. This brought added sophistication and greater buying power to the table, while allowing creative substitutions and efficiency innovations from both newcomers and incumbents.

Other benefits from this improved e-sourcing process using CombineNet ASAP and Paladin include:

- Scenario Analysis: Midmark and Paladin were able to easily create and run over 50 scenarios in CombineNet ASAP. By using CombineNet's bid optimization capabilities, they could quickly look at varied constraints related to delivery options, substitutions, incumbent award levels and the total number of suppliers. The final award "sold itself" because affected parties participated fully in the scenario-based and quantified decision process.
 - Also, scenarios helped the team realize that various suppliers were more efficient on different run sizes or different SKUs (items), realities the buyer could never have guessed during the event creation phase.
- Supplier Discovery and Optimization: Midmark's ultimate award reduced the number of suppliers from 15 to 7: four incumbents and three new suppliers.
- Substitutions boosted the savings to account for 5% of the total 28% savings.
- Conditional offers realized a savings of a half percent.
- Examining alternate bids helped Midmark realize efficiencies and resulting savings. For example, one supplier could provide tremendous cost savings through their ability to split and wind their own tape.
- Alternate bids uncovered future savings opportunities. These opportunities require further evaluation but may result in future cost savings.
- All service levels were maintained.

CONCLUSION AND MORE RESOURCES

When no longer boxed-in by the limitations of most general e-sourcing technologies, companies find a world of opportunity awaiting them, accompanied by significant cost savings. But the benefits extend much beyond costs, to allow for quality improvements, regional strategy improvements, and the fostering of long-lasting relationships.

Find out more about long-term value creation through best-in-class advanced sourcing technology. Let your packaging suppliers compete on their strengths and innovations – by allowing CombineNet ASAP to complete the package.

FROM MORE INFORMATION:

COMBINENET, INC.

Contact CombineNet or visit these additional resources:

info@combinenet.com

www.combinenet.com

White Paper: "[Advanced Sourcing – Achieving the Next Level of Savings and Efficiency in Your Supply Chain](#)"

Webcast On Demand Presentation: "[Strategic Sourcing Best Practices a for Packaging Materials – featuring CombineNet and Paladin Associates](#)"

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Paladin Associates is a Sourcing Services company staffed by veteran professionals from GE, P&G and similar industry leaders. All Associates each have over 25 years of business experience. Services include staff augmentation, strategic sourcing projects, technology implementations, spend analysis, complex optimization projects, sourcing event management, strategic sourcing skills training, procurement transformation, and other cost reduction initiatives.



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