



Paladin Associates

Risk Free Cost Reductions

Optimization Meets the Midmarket

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Optimization (Bid Options Analysis) offers a number of important benefits to sourcing professionals because in that it:

- Allows bidders to quote creatively in ways that exploit their strengths and competitive advantages.
- Provides a quantitative view of cost tradeoffs enabling awards based on true total cost of ownership.
- Considers all business constraints and stakeholder preferences (e.g., business rules and policies, legal issues, logistical constraints, and other operational considerations) to find the *optimal* award allocation.
- Fosters stakeholder alignment because team members with varied perspectives and preferences can discuss differences based on facts and figures rather than opinions, philosophies, and guesswork.
- Significantly compresses the sourcing and analysis cycle time.
- Delivers implementable award allocations.

I first encountered Optimization in 1981 while sourcing corrugated containers for Procter & Gamble. The method was very different in those pre-Internet days; it involved punch cards, a mainframe and printouts that were inches thick! We really needed Optimization for these complex projects worth tens of millions of dollars. A manual process just wasn't viable when dealing with 25+ using locations, hundreds of items, supplier capacity constraints, alternate board structures and a variety on non-price decision criteria.

Optimization has evolved over the years. It became broadly available in the '90s but carried a high price tag because of the significant professional services required. One could only justify the cost for very large spends. Fortunately, that has all changed. Today, there are a variety of software-as-a-service Optimization solutions available. Their intuitive user interfaces minimize the need for additional support services, and the subscription fees are much more affordable. If a company can't justify an annual subscription, they can also utilize Optimization for individual events by working with a company (such as [Paladin Associates](#)

[Inc.](#)) who has technology partnerships allowing them to run clients' single events using their software subscription.

Paladin just completed a very successful Packaging event which utilized Optimization to reduce the supply base by half while saving 28% per year! The client was not a Fortune 100 Company nor even Fortune 1000 Company. They are a mid-sized manufacturer with a \$3MM packaging spend. This project included almost 500 items in five subcategories serving four using locations. The client had stringent service requirements which entailed daily deliveries and required kitting on Kanban carts for some items. Optimization provided several advantages:

- Expanded bidder list which included both manufacturers and distributors. Without Optimization, we would have limited the bidder list to reduce the data crunching load. As we ran various scenarios we discovered some segmenting around annual quantities (run size) and equipment fit which we exploited in the final award.
- Solicited bids for product substitutions. Again, workload considerations and the complexity of “apples to oranges” comparisons traditionally discourage collection of alternate bids. This option uncovered a distributor who slit their own tape enabling a significantly reduced price.
- Encouraged volume price breaks and bundling (discounted item or subcategory combinations) which delivered additional savings. Again, the complexity of data analysis discourages these options when using traditional sourcing tools.
- Enabled the evaluation of numerous scenarios to address internal stakeholder questions and concerns. We ran a total of over 50 scenarios looking 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 data-based decision process.

Optimization is now affordable for smaller spends. Technology and professional service fees should no longer dissuade you. Regardless of the spend size, you should consider optimization whenever you encounter a sourcing project with:

- Complexity
- Large numbers of items, suppliers, locations, etc.
- Capacity constraints
- Price and non-price (CTQ) variables
- Creative proposal options
 - » Alternate bids (brand, size, materials, delivery methods, packaging, etc.)
 - » Volume price breaks and/or volume rebates
 - » Conditional offers (If/Then proposals)
 - » Bundled offers
- Numerous potential award scenarios
- Business impact considerations

Optimization is more effective, more efficient and now significantly more affordable. Try it. You'll like it!

Paladin Associates Inc. can quickly assess how well you're prepared to manage these costs in today's environment.

Paladin Associates Inc., a Sourcing Cost Reduction firm, offers strategic sourcing expertise for multiple commodities to secure "fast track" quantifiable savings and long term cost reduction programs.

We can help you with technology implementations such as spend analysis and eSourcing as well as sourcing process improvements, skill training and staff development while delivering bottom line savings with a guaranteed ROI. For more complete information, visit:

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