RFX MANAGEMENT: UNLOCKING ADDITIONAL PROCUREMENT VALUE

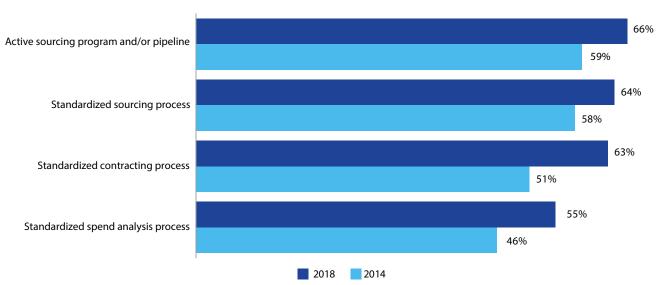Infosys®
Navigate your next

The Infosys approach

Amidst all the technological disruptions and innovations taking place in the procurement space, increasing spend under management still remains a fundamental metric that defines success. The industry average for the total spend under management has been around 60% for years and around 92% for best-in-class companies, according to Ardent Partners.

Although getting more spend under management leads to obvious benefits such as savings, compliance and supply risk mitigations, it demands additional support with spend analytics, opportunity identification, sourcing pipeline creation, sourcing project execution, and contract management.

Not surprisingly, building the right sourcing capabilities is a key focus area across organizations, according to a recent survey of 324 CPOs and other procurement executives conducted by Ardent Partners.

SOURCING CAPABILITIES ARE TRENDING UP

	2018	2014
Active sourcing program and/or pipeline	66%	59%
Standardized sourcing process	64%	58%
Standardized contracting process	63%	51%
Standardized spend analysis process	55%	46%

This POV outlines our thoughts on potential models, methodologies and other aspects of RFX management – a catch-all term that captures all references to request for information (RFI), request for proposal (RFP), request for quote (RFQ), and request for bid (RFB).

An arduous task

Several reasons contribute to difficulties in spend management – the geographic spread, lack of spend visibility, lack of sourcing penetration in several markets, bandwidth issues with category and sourcing managers, and more. These result in savings leakage and maverick spend. But if category and sourcing managers can devote more time to strategic spend management and are ably supported, it creates the right model to bring more and more spend under management.

The engagement models

Sourcing related services typically utilize the Hub-Spoke-Edge model. Hub is the offshore center, typically in a low-cost location. Spoke is a nearshore center, typically in the same country as the client and edge is onsite, co-located with the client.

The Hub Model – The hub model leverages cost and scale advantages. It serves as a central hub for process consolidation, knowledge management, and value driver. This model is adopted when the client's category and sourcing managers manage stakeholders, devise strategies, and perform negotiations. We support by managing and developing sourcing events, performing spend analytics, providing market intelligence, and more. In some instances, we also propose a minimal onsite presence in the initial engagement period to drive change and support uptake of activities.

A hub model built for RFX management across all categories delivered 45% increase in eSourcing events, 50% reduction in the turnaround time, and 12% increase in savings for one of our client.
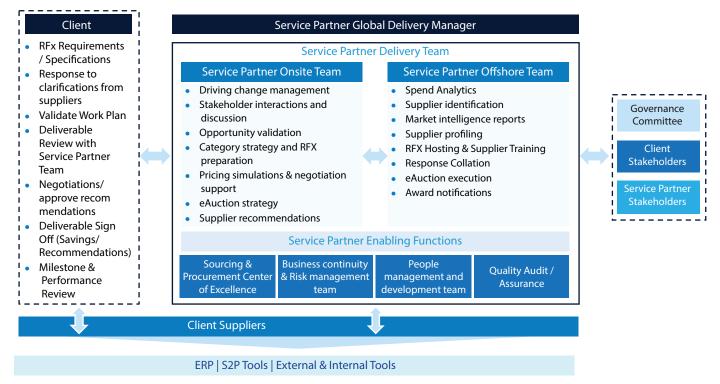
The Spoke Model – The spoke model provides the advantage of local market knowledge, cultural alignment, and language and proximity comfort. This model is typically used when any of these factors are a priority or requirement. The spoke is usually integrated with a hub to create the hub-spoke model.

The hub-and-spoke model delivered an increase in eSourcing spend throughput from £65 million to £1 billion and eSouring user adoption to 80% for one of our client.

The Edge Model – The edge model is co-located with the client, facilitating close supplier and stakeholder interaction to drive joint initiatives and projects. This model is adopted in case of data security and privacy restrictions (usually, the defense or government sectors) or need for onsite strategic sourcing activities for close stakeholder and supplier interactions. The edge is often integrated with the hub-and-spoke to create a truly global delivery model which fulfills the objectives of scalability, cost, knowledge, stakeholder connect, market knowledge, and regulatory requirements. The hub-spoke-edge model evolves over time depending on the client's dynamics and changing needs.

A strong edge model where an onsite category manager was assigned for each category to work closely with relevant business units and drive strategic sourcing projects and supported by the hub team in India which managed RFXs and eAuctions yielded savings worth USD400 million for one of our client.
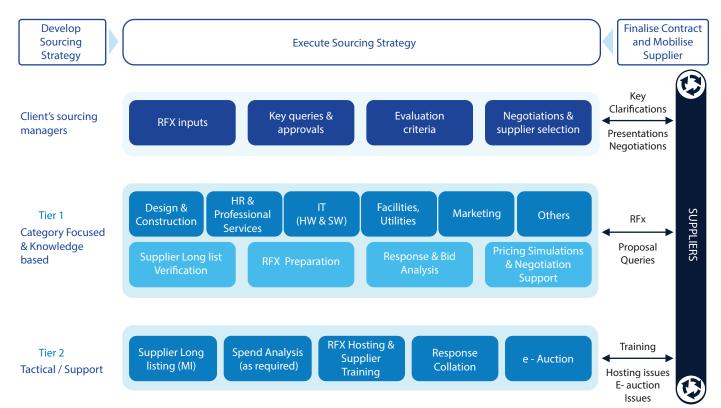
Client
- RFx Requirements / Specifications
- Response to clarifications from suppliers
- Validate Work Plan
- Deliverable Review with Service Partner Team
- Negotiations/ approve recom mendations
- Deliverable Sign Off (Savings/ Recommendations)
- Milestone & Performance Review

Service Partner Global Delivery Manager

Service Partner Delivery Team

Service Partner Onsite Team
- Driving change management
- Stakeholder interactions and discussion
- Opportunity validation
- Category strategy and RFX preparation
- Pricing simulations & negotiation support
- eAuction strategy
- Supplier recommendations

Service Partner Offshore Team
- Spend Analytics
- Supplier identification
- Market intelligence reports
- Supplier profiling
- RFX Hosting & Supplier Training
- Response Collation
- eAuction execution
- Award notifications

Service Partner Enabling Functions

Sourcing & Procurement Center of Excellence	Business continuity & Risk management team	People management and development team	Quality Audit / Assurance

- Governance Committee
- Client Stakeholders
- Service Partner Stakeholders

Client Suppliers

ERP | S2P Tools | External & Internal Tools

The hub-spoke-edge model

The optimal operating model, one that is flexible, scalable and collaborative, depends on the scope and scale of work, and the client's priorities.

The RFX factory model

A multi-tiered RFX factory model is implemented when the procurement processes are adequately mature with a large volume of eSourcing events to be managed every year. This innovative model enables us to drive stakeholder connect, design category specific sourcing approach, and reap the benefits of industrialized processes. The model has two tiers: tier 1 carries out tasks aligned to the client's categories and tier 2 performs standard activities with higher efficiencies.

An RFX model for the Australia, EMEA and North America locations of a leading global company led to savings of 10-20%. The model also delivered 18-22% savings for one of our client.

Develop Sourcing Strategy	**Execute Sourcing Strategy**			**Finalise Contract and Mobilise Supplier**

Client's sourcing managers

RFX inputs	Key queries & approvals	Evaluation criteria	Negotiations & supplier selection

Key Clarifications → Presentations Negotiations

Tier 1
Category Focused & Knowledge based

Design & Construction	HR & Professional Services	IT (HW & SW)	Facilities, Utilities	Marketing	Others
Supplier Long list Verification	RFX Preparation		Response & Bid Analysis		Pricing Simulations & Negotiation Support

RFx → Proposal Queries

SUPPLIERS

Tier 2
Tactical / Support

Supplier Long listing (MI)	Spend Analysis (as required)	RFX Hosting & Supplier Training	Response Collation	e - Auction

Training → Hosting issues E- auction Issues
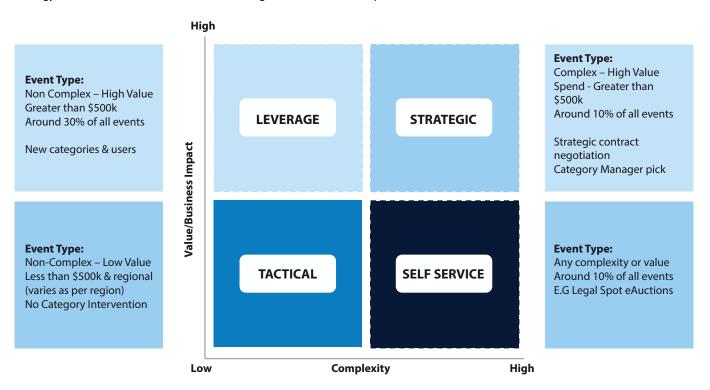
The RFX model

The RFX model delivers seven key benefits and can be leveraged depending on the process maturity and the scale:

- Frees-up time by 70% time for the client's sourcing team

- Increases spend through sourcing

- Provides category-specific sourcing support

- Performs pricing simulations- and cost model-led intensive negotiations

- Increases technology adoption

- Improves savings and compliance

- Provides quick access to market intelligence

RFX management methodology

It is important to define the type of eSourcing event based on the category segmentation and estimated spend. A 2X2 matrix based on the Kraljic model can segment the categories based on supply risk / complexity against the spend or impact on business. Then the eSourcing strategy framework is defined to determine the right event across each quadrant as illustrated below.

High

Event Type:
Non Complex – High Value
Greater than $500k
Around 30% of all events

New categories & users

LEVERAGE

STRATEGIC

Event Type:
Complex – High Value
Spend - Greater than
$500k
Around 10% of all events

Strategic contract
negotiation
Category Manager pick

Value/Business Impact

Event Type:
Non-Complex – Low Value
Less than $500k & regional
(varies as per region)
No Category Intervention

TACTICAL

SELF SERVICE

Event Type:
Any complexity or value
Around 10% of all events
E.G Legal Spot eAuctions

Low　　　　　**Complexity**　　　　　**High**

There are four approaches that can be adopted based on the category segmentation for each quadrant.

Strategic	Leverage	Tactical	Self-Service
• Sourcing strategy based event • Close engagement with business • Category managers involvement • Detailed RFX event **Event Type:** RFI + RFP + Reverse Auctions (potential)	• Sourcing strategy based event (optional) • Close engagement with business (optional) • Category managers involvement • Detailed RFX event **Event Type:** RFI + RFP + Reverse Auctions (potential)	• Quick event • Limited engagement with business • Limited involvement of category manager • Limited analytics **Event Type:** RFPs or Auctions only	• Usually business-driven • Event management is done by procurement • Analytics support available • **Event Type:** Requestor dependent (RFP or E-auction)

This approach used for one of our client lead to eSourcing of more than 90% of the categories, increasing savings from eAuctions from £5 million to £60 million, and ensuring compliance of more than 95% of purchases.
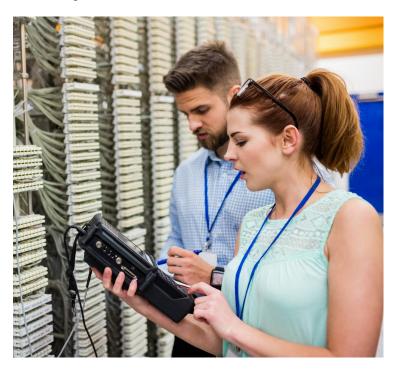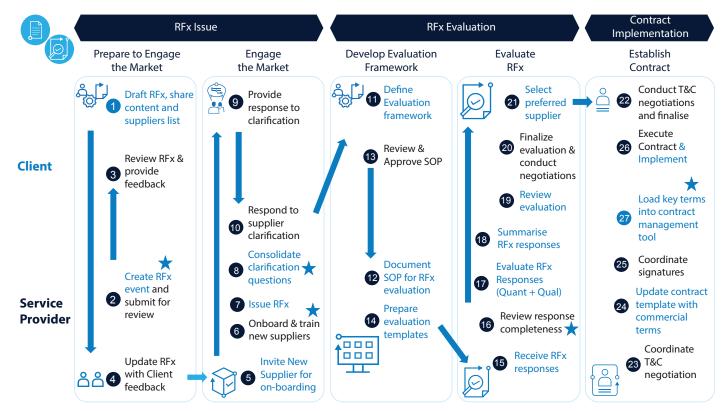
Technology

A strong RFX management team must be complemented with a comprehensive eSourcing technology to unlock its full value. Many organizations are leveraging eSourcing and negotiation technologies that can be integrated with any ERP / third-party system and provide access to a network of suppliers across the globe to drive efficiencies within the sourcing lifecycle. Automated technologies backed by machine learning and natural language processing algorithms are redefining the sourcing lifecycle processes by automating manual and rule based activities.

Technology driven benefits

Cost
14%

Sourcing Cycle Times
70%

Administration Costs
55%

Time to Market
15%

Source: Infosys internal benchmarks

RFx Issue		RFx Evaluation		Contract Implementation
Prepare to Engage the Market	Engage the Market	Develop Evaluation Framework	Evaluate RFx	Establish Contract

Client

Service Provider

- 1 Draft RFx, share content and suppliers list ★
- 3 Review RFx & provide feedback
- 2 Create RFx event and submit for review
- 4 Update RFx with Client feedback

- 9 Provide response to clarification
- 10 Respond to supplier clarification
- 8 Consolidate clarification questions ★
- 7 Issue RFx ★
- 6 Onboard & train new suppliers
- 5 Invite New Supplier for on-boarding

- 11 Define Evaluation framework
- 13 Review & Approve SOP
- 12 Document SOP for RFx evaluation
- 14 Prepare evaluation templates

- 21 Select preferred supplier
- 20 Finalize evaluation & conduct negotiations
- 19 Review evaluation
- 18 Summarise RFx responses
- 17 Evaluate RFx Responses (Quant + Qual)
- 16 Review response completeness ★
- 15 Receive RFx responses

- 22 Conduct T&C negotiations and finalise
- 26 Execute Contract & Implement
- 27 Load key terms into contract management tool
- 25 Coordinate signatures
- 24 Update contract template with commercial terms
- 23 Coordinate T&C negotiation

★ Denotes enabled by technology

Managing 'conflict of interest' situations

For a company catering to multiple businesses, it is critical to manage conflict of interest situations when managing RFX for clients. Below are some typical mitigation plans that can be used from the people, process, technology and policy perspective.

People

- Team managing RFX process should be stationed in a controlled environment
- Regular training and coaching on conflict scenarios and ethical standards should be conducted for the team
- RFX specific NDAs should be signed prior to transition

Process

- Bid evaluation and award to be done only by client procurement team
- Service partner's RFX teams should not manage those events where they or their affiliate companies are bidding
- Service partners should be asked to submit their proposal a day in advance of other proposals on events they participate

Technology

- All data is on client server to be accessed through Citrix with unique user name and password.
- No access to service partner network inside the floor
- All outgoing emails should be monitored

Key takeaways

Increasing spend under management through strategic sourcing will always be one of the fundamental source of competitive advantage in the market for any organization. Hence, not surprisingly, 'building the right sourcing capabilities' is the key focus area across organizations. In this context it is really critical for organizations to have a proper mix of skilled talent, easy-to-use sourcing tools, analytical and market intelligence solutions, and supporting infrastructure. In absence of these internal capabilities, organizations now reach out to pool of strategic sourcing service providers offering a wide range of services and technologies combined with cost-effective operating models to avoid significant loss in savings.

Authors

Khalid Kureshi – *Sr. Director, Sourcing and Procurement, Americas, Infosys BPM*

Khalid has 20+ years of procurement experience across manufacturing, contracting, consumer goods, pharma and IT companies. Formerly the global head of procurement at an IT company, he specializes in indirect spend management and offers business solutions and consulting services to Infosys clients for over seven years now.

Khalid has a degree in Industrial Engineering from India's premier Indian Institute of Technology (IIT) Roorkee, and holds a full membership of the Chartered Institute of Procurement and Supply, UK.

Balaji Ranganathan Bhatt – *Sr. Consultant, Sourcing and Procurement, Infosys BPM*

Balaji is responsible for designing sourcing and procurement solutions for clients. He has been instrumental in implementing tail spend management and RFX management solutions for clients across various industries. His prior experience includes performing strategic sourcing activities across IT, & Telecommunications categories. Balaji is a Physics Graduate from Mumbai University and has a Post-Graduation from Symbiosis.

For more information, contact infosysbpm@infosys.com

Infosys®
Navigate your next

Infosysbpm.com

Stay Connected SlideShare