RFX MANAGEMENT: UNLOCKING ADDITIONAL PROCUREMENT VALUE
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).

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

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

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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 eSourcing 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.

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.

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.

<table>
<thead>
<tr>
<th>High Value/Business Impact</th>
<th>Event Type: Non Complex – High Value</th>
<th>Event Type: Non-Complex – Low Value</th>
<th>Event Type: Complex – High Value</th>
<th>Event Type: Any complexity or value</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>Greater than $500k</td>
<td>Less than $500k &amp; regional (varies as per region)</td>
<td>Greater than $500k</td>
<td>Around 10% of all events</td>
</tr>
<tr>
<td>Around 30% of all events</td>
<td>New categories &amp; users</td>
<td>No Category Intervention</td>
<td>Strategic contract negotiation</td>
<td>Strategic contract negotiation</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Category Manager pick</td>
<td>Category Manager pick</td>
</tr>
</tbody>
</table>

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

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

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

<table>
<thead>
<tr>
<th>Cost</th>
<th>Sourcing Cycle Times</th>
<th>Administration Costs</th>
<th>Time to Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>14%</td>
<td>55%</td>
<td>15%</td>
<td>70%</td>
</tr>
</tbody>
</table>

Source: Infosys internal benchmarks

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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.

Key takeaways

Increasing spend under management through strategic sourcing will always be one of the fundamental sources 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

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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.

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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.