

Digital Sourcing  
Optimization –  
next level in digital  
procurement

A Deloitte Point of View (PoV)

NOVEMBER 2022



## Digital Sourcing Optimization –

### The next level in digital procurement

Although digitalization is evolving rapidly, many procurement organizations still rely on manual solutions when evaluating tender results. While digital tools are used for the exchange of data, evaluations are still frequently performed using tools such as Excel. These manual solutions are not only time consuming and error prone, but are simply not suited for complex tenders with a large number of items, suppliers and input factors.

Over the past years, new cloud-based sourcing tools have entered the market that drive added value by combining eSourcing and auction benefits with advanced mathematical modeling and scenario building. They offer features that are primarily relevant for complex sourcing events and are the first step toward automated sourcing – from tendering to negotiation and awarding.






These tools are commonly described as Digital Sourcing Optimization tools.

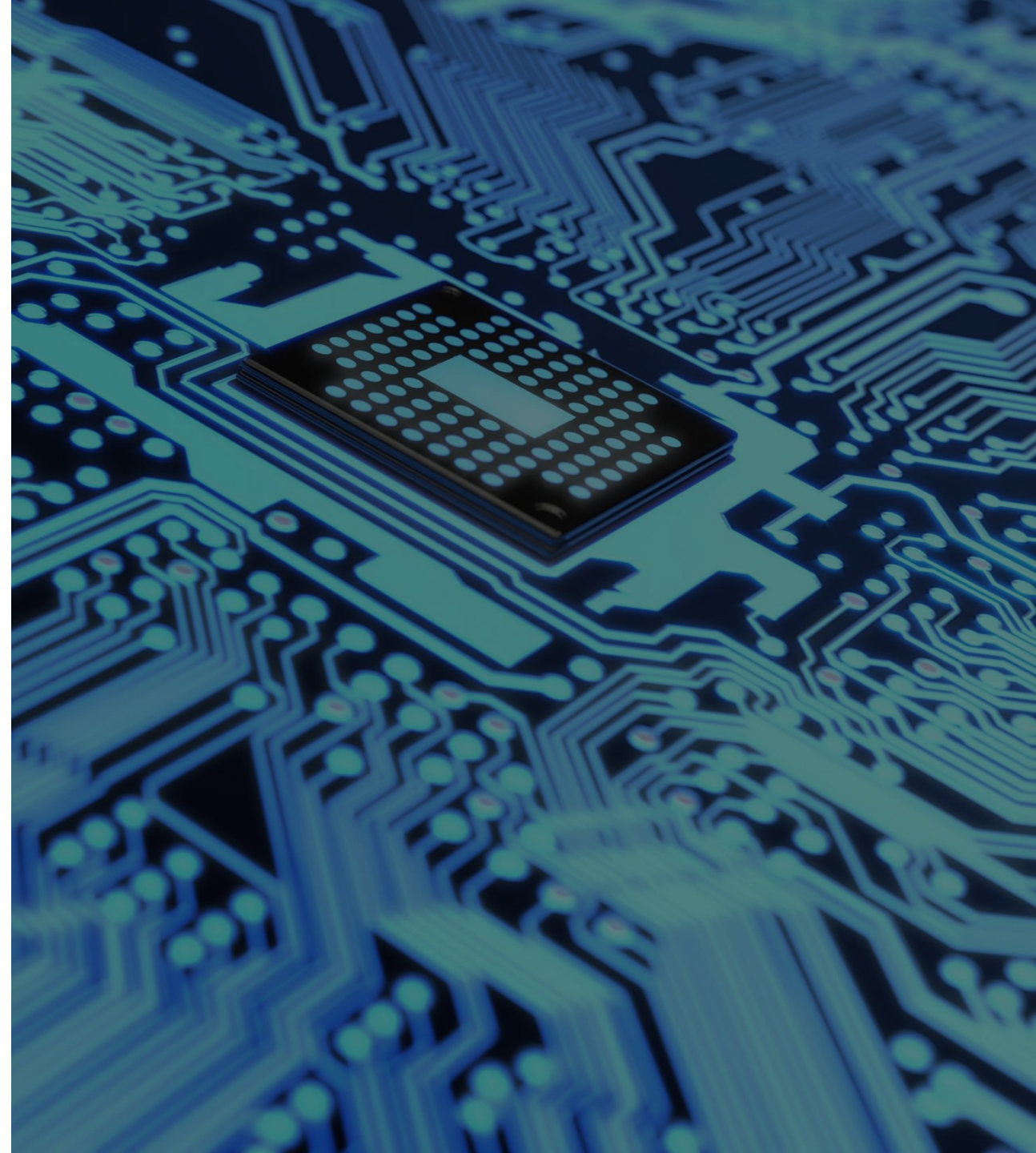
Our Point of View “Digital Sourcing Optimization - the next level in digital procurement” provides an overview of this important new technology, highlights the benefits that can be leveraged throughout the sourcing process, discusses their suitability across categories, demonstrates potential use cases and provides guidance on their implementation.

# Definition

## What is Digital Sourcing Optimization?

Digital Sourcing Optimization describes the calculation of optimal award allocations using scenario-based mathematical modelling. These tools:

-  Are usually cloud-based and out-of-the-box (no to little customization required)
-  Supplement standard sourcing / eAuction tools in terms of mathematic modelling & scenario analysis
-  Allow for end-2-end execution of tenders incl. analysis, reporting as well as auctions
-  Are especially suitable for complex tenders with many items, suppliers, bundles and constraints
-  Reflect changing constraints and proposal updates in real time, allowing for improved decision-making



# Process

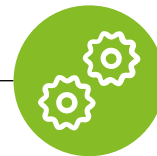
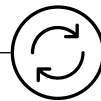
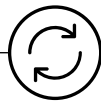
The regular sourcing process is supported and enriched by Digital Sourcing Optimization



# Benefits

Digital Sourcing Optimization tools provide benefits throughout the sourcing process

Event Design	Event Analysis	Event Optimization
<ul style="list-style-type: none"><li>▪ Flexible setup of tenders incl. combination of Rfx and auctions</li><li>▪ Modeling of price sheets incl. collection of additional input (e.g. bundles, discounts, capacity constraints)</li><li>▪ Collection of additional information and documents (e.g. Q&amp;A, certificates)</li></ul>	<ul style="list-style-type: none"><li>▪ Setup of price and offer comparisons on different levels (e.g. supplier, item, packages, tender rounds...)</li><li>▪ Setup of various award scenarios taking into account event-specific restrictions and additional information (e.g. penalties)</li><li>▪ Automated real-time updates of price comparisons / award scenarios</li></ul>	<ul style="list-style-type: none"><li>▪ Automated display of different types of feedback (e.g. rank, color coding, text message) on different levels (e.g. item, package)</li><li>▪ Comparison of different award scenarios incl. display of costs of individual restrictions</li></ul>



# Category Suitability

## What kind of categories is Digital Sourcing Optimization recommended for?

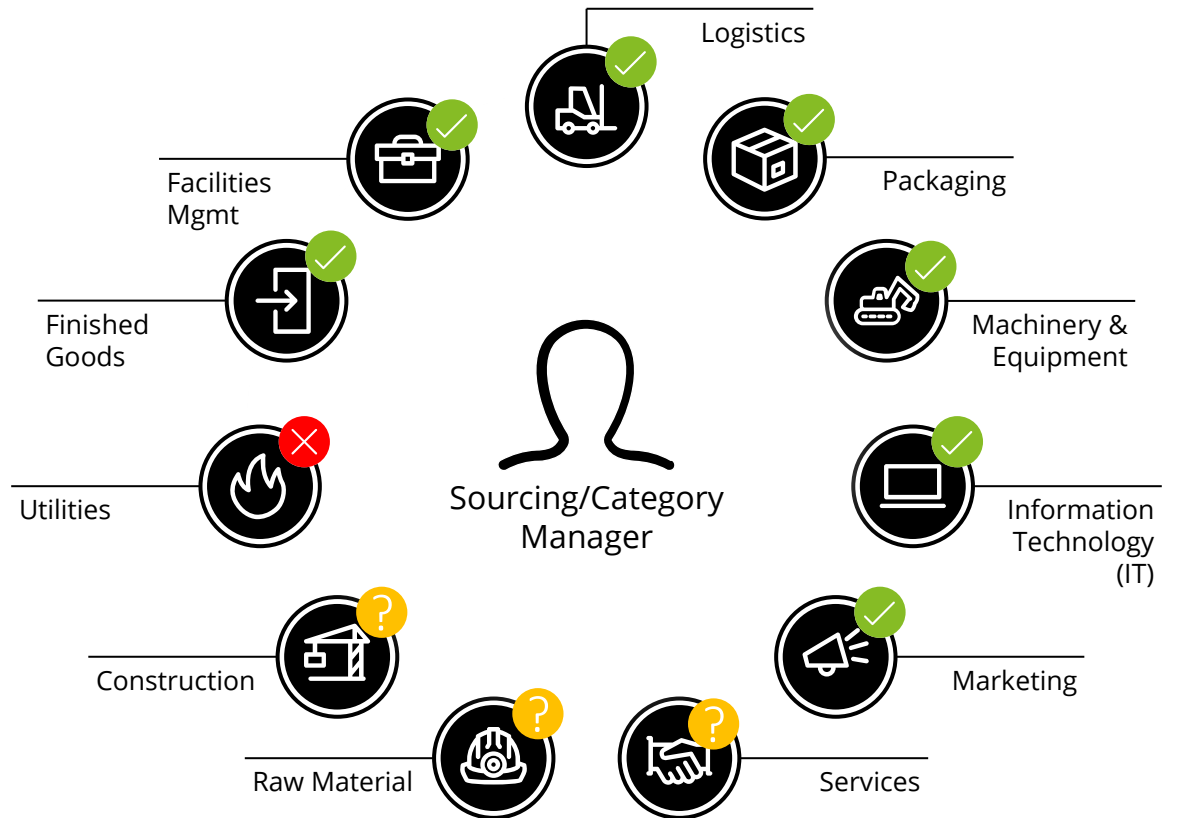
We believe that Digital Sourcing Optimization can be applied and will deliver meaningful results across a variety of different award categories. There are however some categories that are better suited than others. The overview on the right gives a first indication based on our experience:

- ✓ Usually a good fit, subject to meeting event scoping criteria
- ? May be a fit, assessment on event-basis necessary
- ✗ Usually not a good fit due to nature of category

Where categories like logistics, IT or machinery and equipment are usually a good fit, there are some other categories like energy and utilities that are less suited due to their unique nature.

*Example: in energy tenders, suppliers usually quote an individual price formula based on a number of different input factors*

Regardless of the category, it is recommended to perform an assessment on an event-by-event basis to determine whether Digital Sourcing Optimization should be used or whether evaluation can be performed using standard tools.





## Client Case

### Conveyor technology sourcing event

Deloitte was engaged to run a complex conveyor technology tender for an automotive OEM (spend: >300m€) across multiple sites and technologies, involving a large set of different suppliers as well as various constraints using a Digital Sourcing Optimization tool.

By leveraging tool capabilities, we delivered **high double-digit financial** and **time savings** for the client:

- In the initial RfQ rounds, **transparency** over the competitive field was gained and outliers identified
- RfQ reports informed the decision making process for each next step on the basis of **data-driven insights**
- Tool-based scenario simulations provided **real-time feedback** on the scenarios' relative cost performances thus guiding the negotiation design
- **Feedback** and **priming** was used for the conscious delivery of customized messages before and during RfQ rounds to influence bidder behavior
- A pre-negotiation in **auction format** was conducted to reduce the bidder circle, level price disparity and intensify competitive pressure
- A combination of face-to-face negotiations and different auction formats were used to generate maximum **competitive pressure** in the final round

# Tool Selection

Deloitte can support you in identifying the right tool for your organization

## Digital Sourcing Optimization Tools – Selection only



Digital Sourcing Optimization tools are evaluated on a set of standard-criteria as well as company-specific needs and expectations (excerpt below):

### Tool Capabilities

*Support of different Rfx and auction types*



*Availability of feedback functionality*



...

### IT Integration

*Supplier integration incl. risk scores*



*Contract integration incl. items*



...

### Industry Standard

*Participation in technological developments*



*Availability of tool-specific expertise in the market*



...



# Implementation

## 3-step approach to implement Digital Sourcing Optimization



### Phase 1: Tool Selection

- Identification and evaluation of tool providers based on a standard-set of criteria
- Consideration of company-specific needs and expectations
- Selection of solution for subsequent pilot phase

#### **Our Support:**

- Identification of company-specific expectations towards a digital sourcing optimization tool
- Evaluation of vendors based on standard criteria and company-specific needs / expectations



### Phase 2: Pilot

- Conduct a pilot across selected categories to evaluate fit for organization as well as potential to generate savings
- As most Digital Sourcing Optimization tools are cloud-based, no tool setup/customization is needed before start of the pilot

#### **Our Support:**

- Dedicated support in setting up and running events as well as technical support
- First enablement of procurement employees through "shadowing"



### Phase 3: Operating Model & Enablement

- Definition of end-2-end to be processes incl. roles and responsibilities
- Setup of commodity-specific templates
- Enablement of procurement employees via targeted trainings and self-learning offering

#### **Our Support:**

- Conduct commodity workshops to collect input for and setup commodity templates
- Conduct tool training & deep dive sessions

## Contacts

### Please get in touch with us

Please get in touch with us to discuss how Deloitte can support you in driving your digitalization agenda through the use of advanced Digital Sourcing Optimization tools.



**David Heider**  
Partner | Supply Management & Digital  
Procurement

dheider@deloitte.de



**Clemens Ulrich**  
Senior Manager | Supply Management & Digital  
Procurement

clulrich@deloitte.de



**Sebastian Breithaupt**  
Senior Manager | Supply Management & Digital  
Procurement

sbreithaupt@deloitte.de

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