SAP White Paper
SAP Solutions for E-Sourcing

SIX BEST PRACTICES TO ENSURE E-SOURCING ADOPTION

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CONTENTS

EXECUTIVE SUMMARY

Whether your organization has already chosen an electronic sourcing (e-sourcing) solution for procurement or is considering switching your solution, adoption of the solution is critical to the success of an e-sourcing program. Organizations investing in e-sourcing solutions are faced with the challenge of the cultural changes required to ensure successful adoption throughout the enterprise. Like many organizations, you may be struggling with the best methodology for addressing these issues.

This document describes six best practices – covering awareness, training, visibility, help-desk resources and support, communication, and progress tracking – and a variety of tips that you can immediately use to drive the adoption of an e-sourcing solution within your organization. Through successful adoption and use of an e-sourcing solution, your organization can reap sustainable results, including increased savings and continuous cost reductions.

INTRODUCTION

Traditional procurement relies heavily on paper-based or electronic methods of communication and interaction – such as e-mail, word-processing documents, and spreadsheets – in order to procure products and services. An e-sourcing solution, on the other hand, enables you to use Web-based applications to run sourcing events – including RFx events and reverse auctions. (RFx stands for request for information, request for quote, or request for proposal.)

In an RFx event, you use a Web-based application to define supplier selection criteria, solicit information and proposals from suppliers against those criteria, and analyze suppliers' proposals. A reverse auction event lets you use a Web-based application to enable suppliers to participate in an openly competitive bidding event in real time. You can use RFx events and reverse auction events individually or in combination, depending on your procurement needs.

According to the Aberdeen Group, 82% of best-in-class companies strategically source their spend, compared with only 35% of industry-average companies.[1] A 2006 study by Americas' SAP Users' Group, an independent, not-for-profit organization of SAP customer companies and eligible third-party vendors, revealed that companies with strategic sourcing programs achieve significantly higher savings than those that do not (see Figure 1).[2] Because an e-sourcing solution lets you efficiently conduct these events and thus enhance your end-to-end strategic sourcing capabilities, speedy and full adoption of an e-sourcing solution by both employees and suppliers can help you realize the complete benefits of e-sourcing more quickly. Here are some best practices to support successful adoption of your solution.

1. Aberdeen Group, *Strategic Sourcing in the Mid-Market Benchmark: The Echo Boom in Supply Management*, December 2005.
2. Americas' SAP Users' Group and SAP AG, *Benchmarking Initiative: SRM/Procurement*, May 2006.

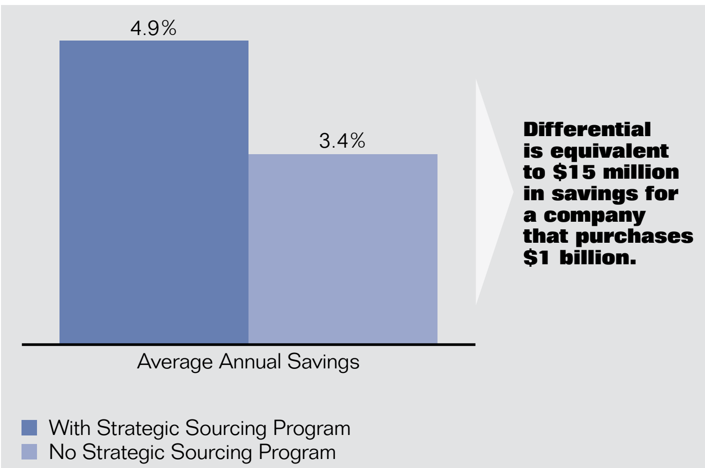

Figure 1: Average Annual Savings from Strategic Sourcing Programs

Rules of Adoption

Abide by the following rules of adoption:

- Reward groundbreaker behavior by early adopters
- Focus initially on savings, and use will follow
- Note that incentives inspire early adopters but not necessarily all people

BEST PRACTICE 1: USE INCENTIVES AND MANDATES

While the use of an e-sourcing solution is a positive step toward cost savings and continuous cost reductions throughout your organization, the effectiveness of even the best technology is dependent on its successful adoption. Encouraging adoption begins with the appropriate use of incentives and mandates – a type of carrot-and-stick approach, if you will. Implementing in sequential order the measures covered in this section will likely yield the best results.

Think of adoption patterns in terms of those for any type of change: some employees will embrace the e-sourcing solution, while others will resist. Therefore, you must first identify those who are open to a new solution. Then you must reward their groundbreaking behavior.

Reward Early Adopters

The secret to success is to identify and engage members in your sourcing department who tend to be early adopters – in other words, people who gravitate to electronic tools and change, are interested in evaluating products, and respond well to training. Meaningful rewards – such as gift certificates – can be an important and effective means of encouraging proactive participation and are meant to ensure that these employees step forward to take a risk as they are asked to depart from their daily work patterns. Consider forms of recognition that are awarded by those in the highest levels of the organization, whenever possible. Also, be certain to point out to the early participants that their use and adoption of your e-sourcing solution will enhance their marketability. As e-sourcing is becoming widely embraced, competence using an e-sourcing solution will become a prerequisite skill set for practitioners who want to expand their career opportunities.

As you concentrate on getting the first generation of adopters to use your e-sourcing tools and deliver results, focus on savings first. The initial sourcing events should be run for the "low-hanging fruit" categories – such as office supplies – and ideally, with full support from the chief procurement officer. Plenty of evidence shows that following a sound sourcing discipline with effective tools will lead to results. In other words, once you have executed a few successful events and demonstrated results, adoption will follow. In the meantime, you want to reward the fact that employees are embracing and trying the tools.

Gain Executive Support

One of the most overlooked, yet significant, steps to ensuring successful adoption of an e-sourcing solution is garnering executive support. In addition to recruiting your procurement officer or CEO as a vocal sponsor, also consider enlisting a champion at the project, program, or process level who can work daily to sell the value of the solution to those who handle procurement in your organization.

Quick Tip

Run a raffle in which the odds of winning are tied to the number of e-sourcing events run by the entrant. This encourages and rewards frequent use of your e-sourcing tools.

Require Widespread Adoption

As you initiate your e-sourcing adoption program, think of mandates as the second stage. Once your early adopters have applied the e-sourcing solution, have generated results, and can testify to the value of the tools, it is time to employ mandates as a means to encourage the remainder of your procurement community to adopt and use the tools.

Link Use with Performance

One effective mandate is to link use of the tools with your employees' performance. Incentive or variable compensation programs or performance reviews can easily include use of e-sourcing tools as a criterion for success. Some e-sourcing solutions capture information and statistics that enable you to quickly quantify an employee's use level. For instance, using a project management function, your practitioners can document savings creation as the result of an e-sourcing project. If the savings is documented in the software, it can count as part of performance measurements, and if it's not in the software, it will not count. This is a simple way to encourage use because all employees want their performance review or bonus compensation fairly reflected and maximized. You could even tie employee incentives in the form of compensation to use of the e-sourcing solution.

Use Compliance as a Lever

Another approach to encouraging adoption of an e-sourcing solution is to use compliance as a lever. Your organization, like many others, may be struggling to interpret how the Sarbanes-Oxley (SOX) Act and industry-specific regulations manifest themselves in your purchasing policies and procedures. Your organization may even employ people – such as corporate auditors and SOX task members – concerned specifically with compliance. Including their point of view can help you define compliance policies. You can then justify the use of an e-sourcing solution – and require employee adoption – as a way to easily model the policies and make your compliance-related processes fully auditable. The alternative is for your employees to work as in the past – such as by using e-mail, teleconferences, and the like – all of which make it difficult to audit whether they followed the compliance policy. A comprehensive e-sourcing solution can encapsulate your compliance process, make it auditable, and thus be the means to require adoption.

Case Study

A large financial services firm was struggling to consolidate its corporate procurement and IT procurement groups. The corporate procurement group was using its own set of e-sourcing tools, while the IT procurement group was using e-mail and Microsoft Office tools. An executive decision mandated that the two procurement groups should be united on a new e-sourcing platform. The firm identified three goals during the course of its e-sourcing initiative:

- Gain full support from the executive level
- Place people from separate procurement departments in close proximity so they can more easily interact and share knowledge
- Assign clear roles and responsibilities for different aspects of the e-sourcing program

In the first year alone, the firm realized an adoption rate of 50%.

Translate Mandates into Measurable Actions

As you define your mandates through these techniques, make sure you're communicating clearly so your procurement community members know what is expected of them. As part of this, you should translate high-level mandates – such as "We need to comply with SOX" – into employee-specific actions that are clear and measurable – such as "All contracts over $20,000 in value require vice presidential sign-off through the e-sourcing solution." Or you can make it more specific to encouraging adoption. For instance, instead of saying, "We expect all employees in the procurement department to use the e-sourcing solution," say, "Within one year of completing the training on the e-sourcing solution, you must conduct three online sourcing events." Specific, realistic, and measurable objectives will encourage appropriate behaviors and use, and enable you to ascertain the success – or failure – of your adoption program.

Set Objectives and Measure Results

Once you have chosen the initial sourcing-event categories, set realistic objectives and measure the results. (Keep in mind that you'll need access to savings data from prior years in order to measure improvements.) One objective could be as follows: "Our goal is to increase savings for the purchase of bulk paper products by $500,000 over last year." You should track the target and actual savings in a project management tool and make the information visible to a wide audience. Strong results invariably strengthen interest from the rest of the organization.

BEST PRACTICE 2: CUSTOMIZE YOUR TRAINING

Even when launched with the best of intentions, many training programs fail because of faulty assumptions and planning. For instance, the value of training is often quickly lost, especially when the entire procurement community is trained simultaneously in support of a push to bring the e-sourcing solution live. Often, the trainees do not have an opportunity to use the tools in the course of their day-to-day work because, for instance, they are waiting for a sourcing project to commence. In some cases, that might be one, two, or three months down the road. When they **are** finally ready to create an e-sourcing project, they've often forgotten much of what they've learned.

Time Your Trainings Wisely

You can increase the effectiveness of training by following these recommendations: To the extent possible, train procurement experts immediately before they begin applying the solution to live events. In addition, particularly if you're adopting an entire suite of modules – such as for e-sourcing, spend analysis, and contract management – consider spreading the training across multiple sessions. For example, you could present e-sourcing fundamentals for a day or two and then conduct a session on contract management a few weeks later. One effective approach is to conduct workshops divided into 30- to 60-minute modules on various subjects. Within a given module, you can include a lecture, slides, hands-on exercises, and a quiz to verify successful knowledge transfer. In this way, your users do not have to digest too much information at once.

Prepare for RFx Events

You will need to train your procurement community on issues related to RFx events. First, whenever possible, ask your procurement experts to work with events that they conducted recently – or that they are intending to conduct in the near future – using traditional sourcing tools. For instance, if they created a word-processing-based request for proposal (RFP) for enterprise software two months ago, have them recreate it in your e-sourcing solution to create an RFx event. Or better yet, if they are about to launch a traditional sourcing event, ask them to model it in the e-sourcing solution so that at the end of the training exercise, they can conduct the live event in the e-sourcing tool.

Provide Ongoing Help

Provide quick-guide materials for ongoing use, and make sure help-desk resources are available for your procurement community, particularly to coach employees through initiating and completing the first one or two events. You can staff the help desk with expert users or administrators from your own organization, or you may choose to engage the assistance of your e-sourcing solution provider.

Cultivate Superusers

In addition to training end users, identify and cultivate superusers. Ideally, these individuals are respected peers of – and are in close proximity to – the rest of the procurement community. If you operate procurement out of multiple offices, make sure to assign a superuser in each location.

Quick Tip

Host a series of brown-bag lunches and focus on a single feature, such as how to use collaborative RFx scoring. By providing practical, digestible content in a series of brown-bag lunches, your users will gradually master some of the more powerful functionality of your e-sourcing tool.

Supplier Adoption

Help suppliers adapt to your e-sourcing solution by taking the following actions:

- Address any objections, such as not wanting to be subjected to the intense competition of a reverse auction
- Implement all six best practices and ensure that your suppliers understand the e-sourcing process
- Verify that the suppliers are competent in using the solution before a live event

Focus on Suppliers

Don't forget your suppliers: much of the success of your events hinges on supplier acceptance and adoption. The smoother you make the experience for your suppliers, the more likely they will be to adopt the solution. Proactively address any objections they make expressly, and be sure that they are comfortable with your solution before the first live event.

Run Mock Reverse Auctions

When planning reverse auctions, run a mock reverse auction before every live reverse auction. While this mainly benefits your suppliers, it also serves to flesh out connectivity and system configuration issues. Some organizations require that a mock auction be run somewhere between 24 and 48 hours before the live event. This enables suppliers to experience the e-sourcing solution without bidding on the live event, providing them with an opportunity to ask questions and learn how to work within the solution. Because live auctions are time-compressed events, it's too much to ask your suppliers to learn the solution on the fly.

BEST PRACTICE 3: KEEP IT SIMPLE

While it may indeed be easier to produce an RFP using an e-sourcing solution, this point is irrelevant if your employees and suppliers cling to the traditional, paper-based or word-processing and e-mail methods. Ask them if they are constantly reinventing the wheel or redesigning the procurement event when they produce an RFP. For those employees and suppliers who argue that they are using an effective and favorite template of their own creation, point out that they are not benefiting from the best practices being created or applied by their peers. By providing templates and reducing the number of required fields and process steps for sourcing, you can demonstrate how an e-sourcing solution can simplify the procurement process.

Populate Lots of Templates

By focusing on templates when you deploy the e-sourcing solution, you can make RFP creation simple and can enable that RFP to support an RFx event. For instance, by providing a library of request for information (RFI) questions and the associated scoring methodology, your procurement experts will gain a consistent source to draw from as they compose their RFI. You could even provide category-specific templates. For instance, one template could be information that is included in all of your RFPs, such as boilerplate content about your company background or policies and procedures around accounts payable or procurement ethics. To the extent that you are automating the contracting process, you could supply contract-document templates. Before deploying the e-sourcing solution, populate it with as much template content as possible so that your employees and suppliers immediately see the benefit of using templates.

Minimize Required Fields and Process Steps

Because an e-sourcing solution can offer functions that enable you to create new processes or to track new types of data, it's often tempting to overengineer the solution as you are designing it. Resist the temptation to build in lots of functionality, at least upon initial implementation; you can always add process steps or information later. Instead, you should focus on minimizing the fields and process steps required of your employees and suppliers. Your first-generation procurement experts may refer to their previous way of working and may always question whether the process is now easier. But those who join the organization after you've implemented the e-sourcing solution will accept it as the standard way of working. It is through these employees that you can introduce richer functionality and more complexity, if required, though that may be 6, 12, or 18 months down the road.

Quick Tip

Watch users create an RFP, step-by-step. Each cut-and-paste operation is an opportunity to create template content. By carefully observing the behaviors and patterns of your employees and suppliers, you can gain insights into templates that will provide immediate value.

Align Processes Across the Organization

Successful sourcing requires that the procurement organization is well aligned with departments outside procurement – including finance, IT, and marketing – and successful adoption of an e-sourcing solution means that individuals in other departments use the solution frequently as well. For instance, the legal department assists with contract reviews and standardizes contract clauses stored in the system. And individuals in the finance department typically must approve various levels of spend. By streamlining cross-departmental processes and interactions within the e-sourcing solution, sourcing professionals can better integrate sourcing principals – such as in-house lawyers – across the organization.

BEST PRACTICE 4: ENSURE EARLY SUCCESS

While ensuring early success is important when it comes to running online RFx events, it's especially important with respect to online reverse auctions. Your suppliers likely have no frame of reference or expectations in regards to reverse auctions – after all, a reverse auction is a fundamentally new process or concept. The experience with the first reverse auction will set the tone for future reverse auctions. Your suppliers will likely express tremendous skepticism as to whether or not reverse auctions will work, and that skepticism may manifest itself in a hesitation to participate.

Key Requirements

To ensure early success, address the following requirements:

- A participant and associated stakeholder who are receptive
- A participant with applicable expertise
- Confidence that cost savings are possible

Address Three Critical Points

Your e-sourcing strategy requires that you address several key points.

First, the participant and an associated stakeholder in a related business function must be receptive to taking risks and exploring the possibility that they can realize a great gain via e-sourcing – particularly, reverse auctions. That means you need to carefully consider these candidates.

Second, regardless of the reverse auction category, the participant needs applicable category expertise. It does little good to recruit extremely enthusiastic participants to try to run a reverse auction if they have never sourced the category.

Finally, you must be confident the situation presents an actual savings opportunity. As you know, there are many methodologies for identifying savings opportunities, such as spend analysis, supplier fragmentation, and supplier market dynamics. Regardless of what methodology you use, validate that the category you've chosen is the right one for e-sourcing.

Quick Tip

Focus initially on categories that your suppliers are accustomed to bidding on in auctions, such as temporary labor or a contingent workforce, office supplies, or packaging. For insight into the likelihood of e-sourcing success, ask your suppliers if they've participated in reverse auctions and, if so, how frequently.

BEST PRACTICE 5: CHOOSE APPROPRIATE COMMUNICATIONS

Because communication is a two-way street, you must think through both your outbound and inbound mechanisms for communicating information about your e-sourcing program.

Commit to Regularity

From an outbound point of view, it's important to define the regularity by which you will communicate with those involved in e-sourcing. For instance, if you plan to communicate via a monthly newsletter, you must live up to the promise so that people come to rely on this form of communication as a way to stay informed. You cannot afford to be late or skip a month because there is nothing newsworthy. Instead, commit to the regularity of communicating.

Customize Your Communications

Keep in mind that your communication approach may differ on the basis of the audience; a one-size-fits-all approach is usually not appropriate. For example, you may choose different communication mechanisms for your supply base, your procurement user community, key stakeholders, and the rest of the company. Wherever possible, include executive content in your communications. Recruit executives from as high in the organization as possible to weigh in on the importance and value of your e-sourcing program to the overall company.

Recruit the Experts

As you begin developing your communication materials, do not hesitate to request the assistance of experts who create communications on a daily basis, such as those in your corporate communications and marketing groups. While every procurement professional has strong communication skills, communications professionals are highly trained and can add value. Communications experts can help you develop impactful content and graphics so that your Microsoft PowerPoint presentations and newsletters are appealing, are professional, and suggest that procurement is a strategic function.

Gather Feedback

With respect to inbound communications, it's important to use both defined and ad hoc methods to gather feedback. Consider setting up an anonymous e-mail box that allows both your buyers and your suppliers to send feedback at any time. Similarly, periodic surveys are very easy to conduct using online, inexpensive tools. Make it clear that the feedback is being read and considered, perhaps by acknowledging the feedback in your outbound communication, such as your newsletter. This does not commit you to taking action on the feedback but will make it clear that you're aware of the issues and are exploring them.

Quick Tip

In your next corporate newsletter, include a CEO article highlighting an e-sourcing success.

BEST PRACTICE 6: TRACK METRICS

While the first five best practices concern themselves largely with how to initiate an e-sourcing program, tracking metrics is the most important long-term best practice. Choose three to five metrics that are easy to track over months and years. You need to determine and maintain the best metrics to satisfy your e-sourcing needs over one, two, and three years, specifically as those needs pertain to the adoption of your e-sourcing tools. Avoid choosing new metrics after a few months because this might lead to unintended and undesirable changes in user behavior. Your employees and suppliers are more likely to behave in accordance with your e-sourcing policies and requests if your e-sourcing strategy is being measured by consistent metrics. By sticking with a small set of clear metrics, you can gain insight into important trends. If you switch metrics or introduce new ones, you miss out on this opportunity.

Use Metrics to Identify Trends

Some e-sourcing solutions offer predefined reports, such as the number of new RFx events created each month over time and the cumulative value of those RFx events across the entire set. In the example in Figure 2, an organization's e-sourcing solution has been in production for three years, and user adoption has steadily increased over time. From this data, you can conclude the following information:

- The entire procurement community has accepted and adopted e-sourcing as the way of working.
- The organization has been able to increase its spend to penetrate new areas of the enterprise and run more sourcing events.

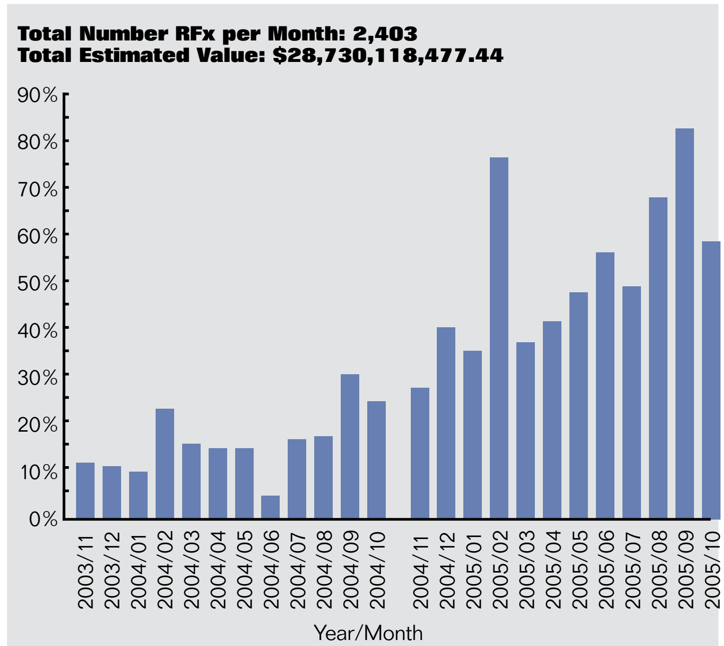

Figure 2: Metrics to Provide Important Trend Data

Benchmark Against Other Companies

Some e-sourcing solution providers allow you to blindly benchmark your own data against the rest of their customer base of companies. For instance, Figure 3 displays the results of benchmarking project management adoption. The dark blue line represents a specific organization called Company A, while the light blue line represents all of the vendor's companies on average. Shortly after deploying its e-sourcing solution, Company A loaded the first year's worth of anticipated projects as well as the prior year's project history into the e-sourcing solution. This allowed the company to track savings metrics from the outset of its project.

After about 16 months, Company A entered the second year's worth of anticipated procurement projects, which it then executed and completed throughout the year. This provided visibility into the organization's workload on a rolling 12-month basis, as tied to its fiscal planning cycle. Around month 28, we see another spike as Company A loaded the third year's projects into the solution. With these reports, Company A can confirm it is using the e-sourcing solution as intended.

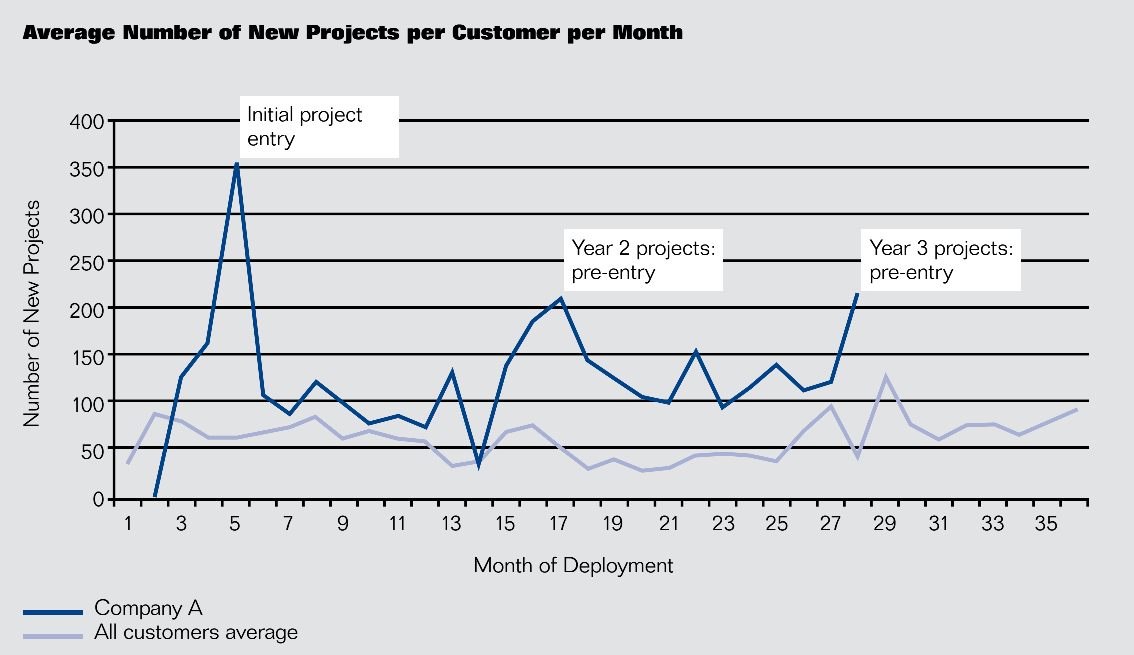

Figure 3: Benchmarking to Provide Insight into Future Workload

Gain Insight into Problems

Benchmarking even allows you to understand how many e-sourcing activities are initiated or created each month, which in turn provides insight into adoption. In Figure 4, you can see a steady increase in adoption for Company B over a 12- to 13-month period. The reasons for this are twofold. First, procurement experts are fully adopting the e-sourcing solution within the procurement organization, leading to greater compliance and usage. Second, this success enables the procurement organization to penetrate new areas of spend, and the sourcing-event volume grows as a consequence.

By having this data available, Company B had an early warning about lost momentum in month 14. There might be a number of reasonable explanations for this, such as the cyclical nature of the sourcing activity, a possible wane in executive sponsorship, or attrition or change in leadership that shifted the organization's focus elsewhere. With this data, Company B can determine the root cause of its loss of momentum.

Three Metrics to Measure Your Adoption Rate

The following metrics can help you measure your adoption rate:

- Creation rate of sourcing events or business documents – that is, projects, RFx events, reverse auctions, and contracts – on a monthly basis
- Percentage of the procurement experts and suppliers using the solution on a month-to-month basis
- Percentage of business documents created with templates versus those built from scratch

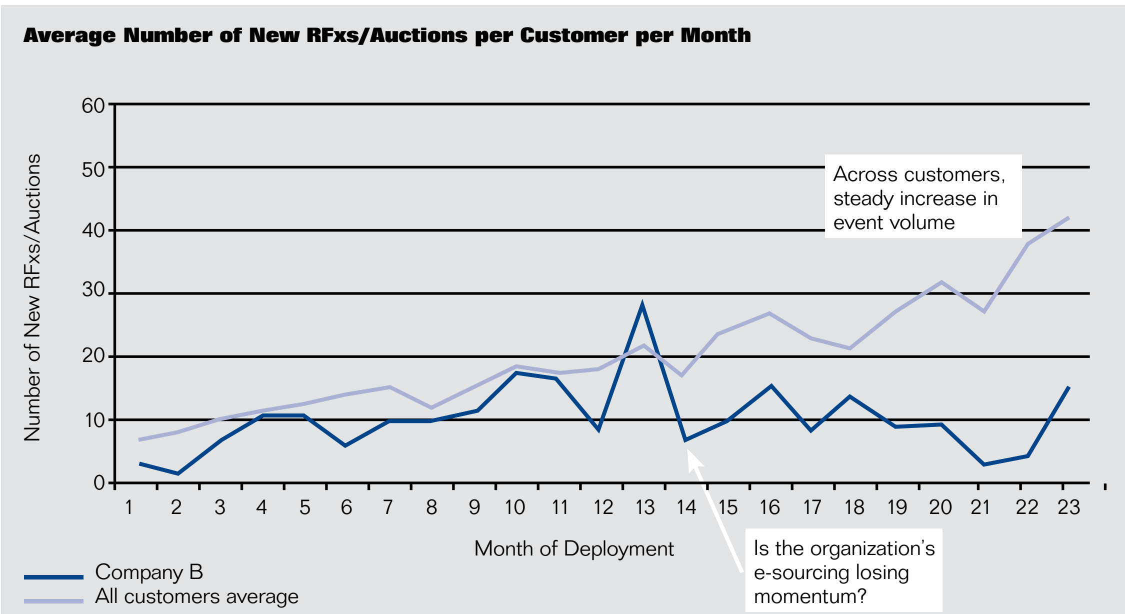

Figure 4: Benchmarking for Adoption Rates and Potential Problems

Many e-sourcing solutions enable organizations to measure a variety of useful factors – such as the following – relating to project creation, usage, and system configuration:

- Creation rate of new documents
- Percentage of all users that log in each month
- Buyer-side logins over the past 30 days
- Supplier-side logins over the past 30 days
- Number of active supplier records
- Number of supplier self-registrants
- Number of added fields
- Number of added reports
- Number of active templates
- Number of documents created from templates

Quick Tip

Engage your e-sourcing solutions provider in a blind benchmark against two or three companies that fit your criteria, such as by size of spend or size of the procurement organization. By comparing against the historical second-year adoption rate within the vendor's customer base, you can set a reasonable goal for your own success.

CONCLUSION

Ensuring the successful adoption of an e-sourcing solution largely depends on developing and executing on a well-conceived plan. The six best practices presented in this paper provide a solid foundation for any e-sourcing launch initiative. All of the principles with respect to awareness, training, visibility, help-desk resources and support, communication, and tracking of progress are meant to ensure that your employees and suppliers understand the e-sourcing process and are competent in using the solution before a live event occurs.

While these measures are critical to success, your choice of an e-sourcing solution will also impact the enthusiasm and willingness of your employees and suppliers to adopt and use e-sourcing tools on a long-term basis. With that in mind, you want a solution that is easy to learn and use and offers the flexibility you need to address your unique business requirements.

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