"Inadequate spending analysis capabilities are costing businesses $260 billion in missed savings opportunities annually."
—**Aberdeen Group,** "The Spending Analysis Benchmark Report," January 2003

i2 Strategic Sourcing

i2 Strategic Sourcing™ is designed to provide the tools to determine and execute the optimal sourcing strategy for each commodity and supplier, reducing both supply risk and total cost. i2 Strategic Sourcing can enable procurement professionals to access and analyze global demand and spend, inventory availability, supplier capability and performance, supplier risk and allocations, and contract compliance to balance the supply base for optimal performance.

With i2 Strategic Sourcing, companies can leverage spend globally across buying entities and reduce the supplier base to an optimal number of closely managed supplier partners. This solution is designed to help lower the cost of goods sold, increase productivity, and increase supply predictability with the highest sustainable results.

i2 Strategic Sourcing can provide answers to the most critical risk and cost management sourcing questions:
—Who do we buy from (globally, regionally, business entity, site)?
—What do we buy (commodities, items)?
—Is our supply base configured to our future needs?
—How much should we buy (category or item), from whom, when, and for which sites?
—How well are our suppliers performing to goal?
—What is the best method to buy (contract type, spot, strategic relationship)?

**Key features**
—Provides accurate view of spend patterns
—Designed to gather data from multiple systems at both the budget code and detailed transaction level
—Aggregates spend data across systems without changes in commodity, part, or supplier codes
—Provides visibility into out-sourced spend, including Tier 2-by-Tier 1 analysis
—Supports TQRDC scorecarding via automated survey and aggregation tools
—Can track critical, configurable KPI's with active homepage alerts and graphing
—Can enable assessment of future allocation with "what-if" analysis

Figure 1

Buyers and commodity managers can quickly gain insight into how spend is spread across sites.
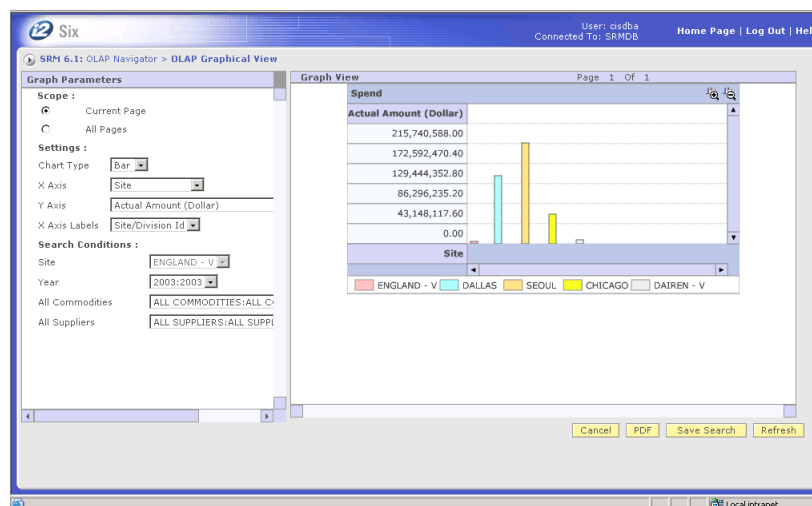
Through eliminating labor-intensive and error-prone data gathering, and bringing comprehensive and consistent automation to the sourcing process, some companies have realized from 2 to 5 percent savings on purchases — and have sustained those savings by continually fine-tuning sourcing strategy while ensuring contract and performance compliance.

Leverage spend and measure supplier performance

i2 Strategic Sourcing is designed to bring significant value to a sourcing organization in two ways:

–Visibility into spend can allow an organization to leverage volume buys

–Measures of category and supplier performance can help sourcing organizations determine how to allocate future spend (demand) and typically companies rationalize their supplier base to fewer, more strategic suppliers

Extend to sourcing process

Coupled with i2 Negotiate,™ which automates the e-sourcing or RFx process, buyers can execute sourcing strategies in an integrated environment. This could include monitoring supplier performance when deciding which suppliers to include in a bidding event. Teamed with i2 Contract Management,™ the system can monitor spend against a contract, track purchase price variance, and provide alerts when a price threshold or rebate opportunity is approached.
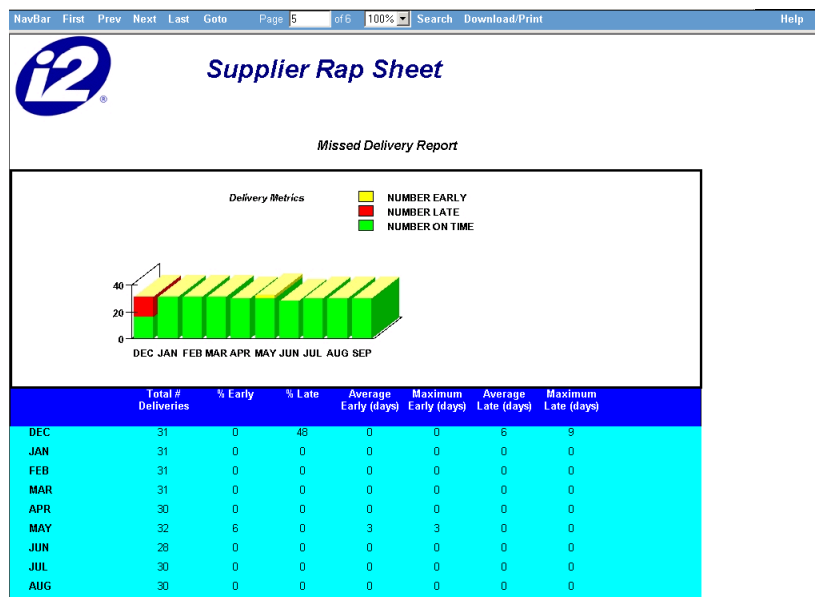
Plan

Analyze spend

i2 Strategic Sourcing can be used to aggregate and analyze critical sourcing data, allowing sourcing departments to determine exactly how much has been purchased of what from whom. This information is typically buried within either multiple different ERP/MRP systems or multiple "instances" of a single system.
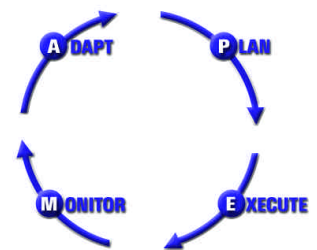
i2 Strategic Sourcing is designed to provide decision-support and process integration throughout the stages of the sourcing lifecycle.

Figure 2

Buyers can get instant insight to on-time delivery performance before placing time-critical orders.

Supplier Rap Sheet

Missed Delivery Report

	Total # Deliveries	% Early	% Late	Average Early (days)	Maximum Early (days)	Average Late (days)	Maximum Late (days)
DEC	31	0	48	0	0	6	9
JAN	31	0	0	0	0	0	0
FEB	31	0	0	0	0	0	0
MAR	31	0	0	0	0	0	0
APR	30	0	0	0	0	0	0
MAY	32	6	0	3	3	0	0
JUN	28	0	0	0	0	0	0
JUL	30	0	0	0	0	0	0
AUG	30	0	0	0	0	0	0

Not only is the data dispersed, but data is also in state that may not reveal buying trends. Commodity codes differ among divisions. Item classification schemes differ across sites. Throw in a merger, and the complexity of sorting out how much spend with which supplier is compounded, making it expensive or time-consuming to analyze spend in a systematic and timely fashion.

i2 spend analysis systems can range in size from gathering data from a few sites to literally dozens of systems at hundreds of sites. Larger customers are tracking spend across 150 sites, thousands of suppliers and five years of buying history.

Quick-hit spend analysis
i2 Strategic Sourcing can also analyze accounts payable data with a rules-based system that allows sourcing professionals to apply rules to spend. Rules can be successively refined or applied, providing purchasing organizations with increased insight into spending patterns.
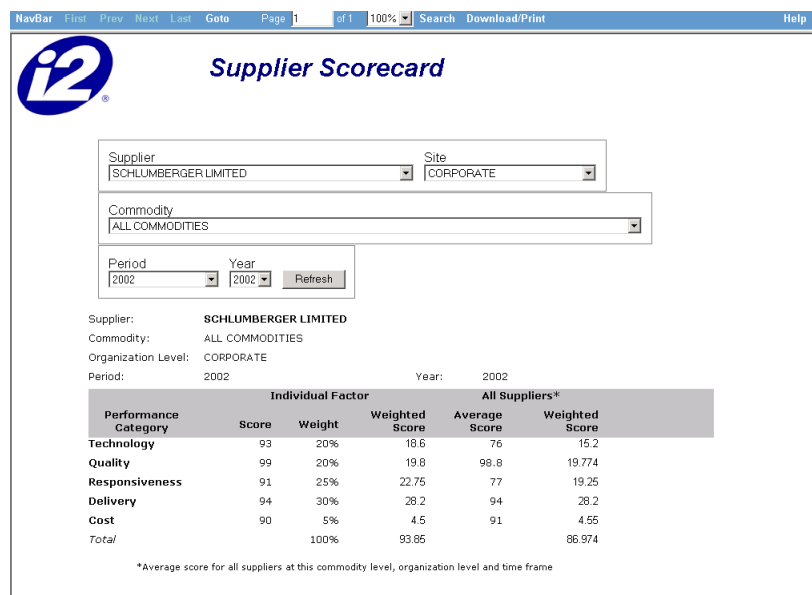
Power in more detailed spend analysis
For more detailed and accurate spend analysis, the solution can be extended to add streams of data from demand planning systems and transactional systems (purchase orders, receipts, and invoices.)

Spend data can be aggregated without dictating changes in commodity, part, or supplier codes across divisional or company boundaries. This is done through i2's patented technology that allows cross-referencing between part numbers or commodity codes, which can enable further spend or material consolidation; i2 Strategic Sourcing identifies duplicate or alternative items or substitutes alternatives to resolve shortages arising from disruptions in the supply chain.

Data can be analyzed on global spend, future demand, or inventory by any combination of component, commodity, organization, division, supplier, site, or time dimension. "What if" scenarios can be run to determine optimal spend allocations.

Figure 3

Commodity managers can get a look at overall performance through a supplier scorecard that can measure TQRDC (technology, quality, responsiveness, delivery, and cost) in planning sourcing strategies, as well as proactively share scorecards with vendors to show where improvement needs to be made.

Supplier Scorecard

| NavBar | First | Prev | Next | Last | **Goto** | Page 1 | of 1 | 100% ▼ | **Search** | **Download/Print** | **Help** × |

Supplier: SCHLUMBERGER LIMITED
Site: CORPORATE
Commodity: ALL COMMODITIES
Period: 2002   Year: 2002   Refresh

Supplier: **SCHLUMBERGER LIMITED**
Commodity: ALL COMMODITIES
Organization Level: CORPORATE
Period: 2002   Year: 2002

| Performance Category | Individual Factor | | | All Suppliers* | |
	Score	Weight	Weighted Score	Average Score	Weighted Score
Technology	93	20%	18.6	76	15.2
Quality	99	20%	19.8	98.8	19.774
Responsiveness	91	25%	22.75	77	19.25
Delivery	94	30%	28.2	94	28.2
Cost	90	5%	4.5	91	4.55
Total		100%	93.85		86.974

*Average score for all suppliers at this commodity level, organization level and time frame

"While Request for Quotation (RFQ) and auction processes are increasingly commoditized, the bookends of the sourcing processes, namely opportunity identification and compliance/supplier management, are at the forefront of supply management professionals' thoughts, and spending analysis is a key component."
—**AMR Research,** "AMR Alert," 24 October 2003

Analyze outsourced spend
With companies increasingly outsourcing the manufacture of assemblies and subassemblies, spending leverage is often lost. With i2 Strategic Sourcing, both projected demand and "hidden spend" can be exposed for outsourced purchases, ensuring that a company can take advantage of its spend, whether through subcontractors or not. Companies can achieve extended enterprise contract compliance through aggregation of both internal purchases with suppliers/manufacturers and subcontractors' purchases against OEM contracts. Tier 2-by-Tier 1 analysis can ensure corporate leverage identification is maximized.

Rationalize suppliers and materials
Many companies grow through continued acquisitions and mergers, and usually expect to find significant savings as they pool the combined buying volumes for the merged company. i2 Strategic Sourcing can provide a rapid, repeatable process for identifying and resolving such large volumes of potentially overlapping spend. The solution can include structured workflows for supplier introduction and approval, which are used to maintain or further improve a cleansed and rationalized supplier master.

This unparalleled insight can help reveal unleveraged buys, renegade buys, and previously unidentified suppliers and commodity leverage opportunities, to help identify immediate and sustainable year-over-year cost reductions.

Track supplier performance
i2 Strategic Sourcing can track supplier performance from other data feeds such as receipts and returns to give sourcing organizations a view into how suppliers are performing on dimensions such as on-time delivery and quality.

In addition, qualitative measures, for example, technology roadmaps, are gathered via automated survey capabilities. Surveys can be used within the company to gather and rank subjective data on suppliers, as well as externally to gather and score information directly from vendors. Recurrence management enables continuous monitoring and program compliance validation.

Performance measures can be gathered in a scorecard that some i2 customers proactively share with their vendors through the portal to inform them of their standing and in what areas they need to improve.

From this information, sourcing organizations can better determine which vendors need to be enrolled in value engineering collaboration or which vendors should be phased out as part of a cohesive supplier differentiation program.

Select suppliers
Commodity managers and sourcing professionals strive to select the optimal mix of suppliers, items, and ship-from sites per item and commodity to achieve the lowest total cost. i2 Strategic Sourcing can enable companies to make the best decisions by leveraging their financial and operational data, including global usage (past, projected, and outsourced), supplier capabilities, constraint and contract information, supplier performance metrics, and pricing information.

i2 Strategic Sourcing can be linked with i2 Contract Management to monitor spend against a contract to validate purchase prices, understand contract consumptions and notify users for example, when rebate or volume threshold opportunities are approached.

. . . .

Execute

With time to market and quality critical in today's markets, it is essential to select the right suppliers, award contracts, and maintain the supplier relationship throughout each product lifecycle. i2 Strategic Sourcing is designed to provide alerts, monitors, and out-of-the-box reports to help procurement professionals select and award the best suppliers, manage the relationship with these preferred suppliers, and monitor performance. Buyers can stay informed of supply risks stemming from poor supplier performance, risk indicators, contract violations, premature expirations, and new usage requirements.

Monitor & adjust

The strategy that a company derives using strategic sourcing needs to be continuously monitored for compliance and fine-tuned to suit business needs. Effective monitoring helps achieve sustainable savings and stronger cost-effective supplier relationships.

With supplier performance measurement, companies continually track supplier performance on metrics such as quality, lead-time, and on-time delivery using the integrated TQRDCE scorecarding facilities. Companies can proactively send rankings to suppliers in a scorecard to let them know how they're doing and where they need to make improvement. In addition, the system can support a host of configurable KPIs with defined alert levels to ensure all critical performance conditions are communicated to users in real-time.

Capabilities and features

Commodity management is designed to:
- Leverage volumes and discounts in supplier contracts by helping to enable global aggregation and analysis on both historical spend and future demand across multiple IT systems
- Aggregate spend data without dictating changes in commodity, part, or supplier codes across divisional or company boundaries through powerful cross-referencing capability
- Conduct multi-dimensional queries on global spend, future demand, or inventory by any combination of component, commodity, organization, division, supplier, site, or time dimension
- Enable commodity teams to obtain initial improved supplier leverage via accounts payable spend analysis, based on "quick aggregation" of accounts payable spend data
- Analyze manufacturing spend including both OEM manufacturers and the distribution channel from which materials are actually procured
- Define baseline prices and goals for commodities, and subsequently monitor purchase price variance through purchase receipt transactions (actual, contract, budgeted) to stop savings leakage
- Apply transaction-level analysis to scrutinize maverick spend, such as off-contract and non-preferred supplier spend, and provide visibility into all committed spend (open purchase orders)

Supplier management is designed to:

–Aggregate and normalize global supplier performance data from ERP and legacy systems, and combine with external supplier risk data into a single supplier performance master repository

–Develop comprehensive supplier scorecards using configurable evaluation criteria such as technology, quality, responsiveness, delivery, and total cost

–Identify risky suppliers before they affect business performance

–Determine optimal supplier mix and allocation based on spend history and future "what-if" allocation analysis

–Identify new and alternate sources of supply and enrich existing corporate supplier data through a subscription to the i2 Custom Supplier Catalog.™

–Leverage built-in survey management capabilities and templates to gather subjective metrics on supplier performance and facilitate the supplier evaluation process

Material rationalization is designed to:

–Reduce the number of parts that a company buys, increase purchasing power across remaining parts, and reduce inventory and material administration costs

–Identify duplicate parts by revealing multiple corporate parts that are linked to a single manufacturing part

–Leverage opportunities with the highest cost savings via spend analysis with suppliers across functionally equivalent parts

–Identify and address excess inventory through analysis of aggregated inventory data, by commodity and organization over time

Contract performance analysis is designed to:

–Monitor and analyze historical and projected spend against contractual commitments and incentives across disparate ERP systems and/or multiple ERP instances

–Analyze and monitor performance to contract, including current and projected rebates and penalties Analyze and track current and projected amount over/under minimum contracted amount

Outsourced spend analysis is designed to:

–Expose "hidden spend," for both internal and outsourced purchases of the same items, to leverage subcontractor spend on contract and enable proactive risk mitigation strategies or apply OEM level cost leverage to "nested" or buried material content in supply

–Provide aggregation of projected demand for both internal and outsourced purchases, enabling analysis of the impact of new demand on supply chain partners, such as visibility of new demand on current and potential supplier allocation

–Achieve extended enterprise contract compliance through aggregation of both internal purchases with suppliers/manufacturers and subcontractors' purchases against OEM contracts