
The Source
ICG Commerce Confidential

Welcome to the fourth issue of *The Source*, the electronic newsletter from [ICG Commerce](#), the leading Procurement Services Provider for Global 2000 companies. Leveraging its wealth of sourcing and purchasing expertise and flexible technology, ICG Commerce provides tailored solutions for the procurement of direct and indirect goods that deliver maximized, measurable savings.

In addition to providing updates on ICG Commerce activities, each issue will provide the company's perspective on key issues and trends developing in the marketplace. In the last issue, we explored the elements of an effective sourcing strategy. Here, we delve more deeply into e-sourcing tools and discuss how to choose the right tool to fit the strategy.

As ICG Commerce's PR partner, our goal is to help keep you informed of important company developments and to serve as a resource for your research in the areas of sourcing and procurement. If you have any comments or questions or wish to receive additional information, please refer to the feedback section at the end of this newsletter.

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The Right Tool for the Right Strategy

By Christine Fisher, ICG Commerce, Managing Director Enabled Sourcing Services

A major impediment to obtaining maximum value from sourcing initiatives is the use of eSourcing solutions that do not provide a complete, flexible and functional set of tools to address the entire range of sourcing activities and categories. These "point solutions" generally focus on a singular strategy (e.g. auction) and often end up forcing the wrong approach for a category. Categories with different supply base characteristics, different levels of strategic importance, and varying degrees of customization in the product are best addressed in different ways. eSourcing platforms must therefore provide flexibility and deep functionality suitable for addressing a broad range of categories.

A flexible and functionally rich eSourcing platform will permit simple indirect categories to be addressed with a simple auction or RFQ. It also will permit complex direct categories to make use of an RFI for supplier qualification, an RFQ to capture initial pricing, including discounts and non-price factors across a range of line items organized into lots and categories, an advanced auction tool to take advantage of a good competitive dynamic to compress and lower price, and an optimization component to make award recommendations within a given organization's constraints. As well, it will address everything from strategic sourcing initiatives that result in long-term contracts to low-value spot buys. Finally, a broad platform that can be used to address most categories transcends the tactical "run an auction" nature of point solutions and provides strategic value in the form of knowledge capture, broad reporting, contract compliance and ongoing spend management.

Assuming the presence of a broadly focused eSourcing platform within the organization, following are some key questions to consider when deciding whether to incorporate a particular tool into an

initiative:

Under what circumstances is an RFI module most valuable?

If the goal is to expand the universe of suppliers under consideration or re-evaluate current suppliers, an RFI module is a valuable tool. With it, you can obtain information relevant to the evaluation of suppliers for the category at hand that can be used either as input into a go/no-go decision on a specific supplier or as overall quality scores that can be used during the decision phase in trade offs against price or other factors. Conversely, an RFI may be too cumbersome to use in cases where the supply base is well understood or where the amount of spend doesn't warrant the effort.

When is it best to use an RFQ?

A sealed bid RFQ may be used standalone or as a pre-cursor to an auction to set initial pricing. In cases where the category is complicated and it is difficult to arrive at reasonable "apples-to-apples" comparisons between different suppliers' products, an RFQ making use of strong non-price factor analysis is probably the best way to go. It also may be appropriate to use an RFQ without a subsequent auction when you believe that the incumbent is strongly positioned and will not feel competitively threatened in an auction. The blind bidding process in a sealed bid RFQ - which can be extended to multi-round - may plant enough uncertainty in the incumbent's mind to get some price movement.

Is an auction most effective on its own or as part of an overall RFP process?

An auction should follow an RFP - using the RFQ module to obtain preliminary bids - when:

- The supply base is competitive
- The results of the RFQ could be improved upon in terms of both price point and price variation among suppliers
- When an auction alone would not be sufficient to capture all of the non-price information necessary to draw out those hoped for win-win situations (e.g. a supplier with excess capacity may provide business volume discounts during an RFQ that may be difficult to provide during a time-compressed auction event)

An auction by itself is very effective and may very quickly arrive at savings when the supply base is already understood and competitive, the desired item specifications permit apples-to-apples bidding and turn-around time is of higher priority than absolute best savings.

The key to eSourcing success - as with any technology implementation - is to put a platform in place that the company can grow with, something that allows you to start with the simple and move to the complex. A procurement service provider can be a valuable partner in helping identify the best tools to fit initial needs and inculcate them within the organization.

As an example of these ideas in action, below we provide an overview of our work with leading cosmetics company Avon.

Case in Point: Avon

Facing increased competition, Avon saw a need to increase top-line growth while achieving significant bottom-line savings. Recognizing that procurement could provide tremendous cost reduction opportunities, Avon looked to strengthen its strategic sourcing process for immediate bottom-line impact.

The sourcing group at Avon explored eSourcing as a way to address more areas of spend more efficiently and achieve better results with existing resources. The question wasn't whether to do eSourcing, but how to do it most effectively.

Avon had experience with running an online auction, but the company wanted a more comprehensive platform that could address the entire sourcing process and all of the company's category needs. Although a strong team of sourcing professionals was already in place, to build the platform it was looking for Avon needed additional eSourcing know-how, without relying on long-term consultants.

Even the Best Tools Were Not Enough

Avon decided to evaluate a variety of third-party eSourcing solutions, including software providers,

consulting firms and full-service providers. Through this evaluation, Avon determined that many solutions were incomplete or required modules that mitigated process efficiencies. It also was clear that even the best tools were not enough to meet the company's complex, real-world requirements. Avon knew that sufficient training, change management and strategic guidance in using the tools were critical to achieving ROI.

ICG Commerce wasted no time helping Avon develop its eSourcing strategy and capabilities. A four-week implementation process began with the categorization of \$500 million to \$1 billion in non-product-related spend and the identification of early savings opportunities.

At the same time, ICG Commerce's eSourcing tools were set up with pre-loaded categorization schema, supplier content and RFI templates. Then, ICG Commerce worked with Avon sourcing personnel to develop customized eRFI and eRFQ templates for specific categories Avon wanted to source.

When the eSourcing platform was ready to go, ICG Commerce performed actual sourcing initiatives in six categories while training a core group of Avon employees in using the new integrated platform.

Building In-House Capabilities While Achieving Savings

The combination of strategic sourcing and eSourcing implementation and activation helped Avon succeed in rapidly building in-house capabilities with the new solution. Once Avon was eSourcing self-sufficiently, the cosmetic company began to manage the process internally while ICG Commerce continues to provide hosted tools and as-needed assistance.

Over the initial nine months of using the ICG Commerce eSourcing solution, Avon strategically sourced 13 categories and delivered an average savings of 10% on \$50-100 million in spend. Sourcing cycle time was reduced by 50%, while supply base and spend visibility significantly increased with rapid access to more complete sourcing information.

More importantly for Avon's long-term goals, the company has built strong in-house strategic sourcing capabilities, with more than 40 well-trained users forming an "eSourcing Center of Excellence". With ICG Commerce's integrated platform, Avon now has an efficient and consistent sourcing process in place that is paying off in greater savings across the enterprise.

For a recorded copy of the ICG Commerce Webinar featuring Avon, please contact [Dave Puckett](#) at ICG Commerce.

ICG Commerce Continues Strong Customer Acquisition

The third quarter has seen the addition of several leading companies to the ICG Commerce roster of customers: Abercrombie & Fitch, Builder's First Source, Coca-Cola (for transportation sourcing), Duane Reade, and Philip Morris. ICG Commerce also has signed a long-term agreement with Novartis following a very successful sourcing project earlier this year.

Stay tuned for more news on the customer front...

News Behind the News - ICG Commerce and Logistics.com Partnership

ICG Commerce and Logistics.com, Inc., the leader in integrated logistics planning and execution solutions for shippers and carriers, recently announced a partnership in which ICG Commerce will utilize Logistics.com's OptiBid™ transportation sourcing technology to help its customers effectively source optimal worldwide, multi-modal transportation contracts for greater cost savings. OptiBid will compliment ICG Commerce's existing eSourcing tools by providing additional functionality that is specific to transportation sourcing.

In addition to Logistics.com, ICG Commerce has established close partnerships with two other technology providers - Emptoris and Requisite. These two partners provide key functionality to the company's Enabled Sourcing and Managed eProcurement solutions. Emptoris provides auction capability while Requisite is used for the creation of catalog search engines.

Overall, ICG Commerce has approached technology development using a best-of-breed strategy, with additional application components from i2 Technologies, PeopleSoft and Vignette.

ICG Commerce Included in *BusinessWeek* Story Highlighting Value of Remaining Privately Held

The debate over whether it is better for growing technology companies to remain privately held hit the pages of *BusinessWeek* earlier this year, and ICG Commerce was cited among those that are benefiting from taking a more conservative approach to capital financing.

"...The drop-off in e-commerce and new media startups since 1999 means that many companies now turning the corner on profitability aren't hearing the footsteps of other dot-coms behind them. That's why eBags CEO Jon Nordmark is in no rush to take his e-store public, and why online purchasing exchange ICG Commerce is achieving profitability sooner by paring back its international expansion."

Writer Tim Mullaney goes on to write: "Saying no to an IPO - at least, for now - won't slow the pace of innovation. Indeed, some CEOs argue that going public would make them less creative. They don't want to be chained to budgets they've shared with Wall Street, and they don't want the scrutiny of a risk-averse market if they try to grab new opportunities."

To view the full story, please visit [BusinessWeek Online](#).

Feedback

It is our goal to keep you informed of ICG Commerce's contributions to the procurement market. Please let us know the best way to keep you apprised of ICG Commerce news moving forward by checking one or more of the below options. If you have any questions or comments, please use the reply box provided.

- Continue to send me *The Source* on a regular basis
- Send me press releases and company announcements as they are made public
- Contact me about scheduling a briefing with ICG Commerce

Other:

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