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RESEARCH

Direct Procurement Seeks an Upgrade Over Spreadsheets, Risky Manual Processes

By: JP Morris, Editor

Over the last year or so, Spend Matters has written several articles and research briefs about direct procurement and the technology that's needed to support it, so a closer look and some recent insights from manufacturers seems valuable to see why this technology needs wider adoption and to understand its benefits.

The overall view indicates that business leaders are avoiding digital transformation in this area — even though managing the part/material lifecycle, from direct materials procurement through supplier quality and end of life, is vital to discrete manufacturers, contract manufacturing companies, product assemblers or any company dependent upon direct materials.

If they did deploy technology that's fit for direct materials, business could expect to see a lowering of process costs by up to 80%, more effective sourcing events, reduced cycle time to part qualification, less supplier and part risk, complete visibility across functions (like design, engineering, sourcing, quality, logistics), and the assurance that processes and best practices are always followed.

What's more, not leveraging the proper tool exposes the business to more risks, as companies continue to run operations with a patchwork of spreadsheets, emails, calls and people's memory to track thousands of supplier details. Problems from those manual workflows include a lack of governance on processes and information, as well as missed opportunities to find better suppliers, monitor their performance and even collaborate with top suppliers on innovations that can add value to the business.

All companies face the prospect of digitally transforming, but many manufacturers have been slow to adopt the new technologies, according to a recent study by the Everest Group, a procurement consulting firm.

Enterprises "must adapt to rapidly changing market dynamics to keep their business operations relevant," Everest's report said.

"Most of these (digital transformation) changes have focused on the low-hanging fruit in indirect procurement," the report said. "Direct spend has seen less change for a variety of reasons: It has its own set of challenging, complex and elaborate processes."

What Direct Procurement Needs

Why is direct procurement so complex? It's because it must juggle a wide range of responsibilities:

- complex parts or components (CAD/CAM drawings, safety regulated parts, etc.)
- complex sourcing comparisons, such as material cost specifications (like product weight, scrap, sold scrap, packaging, freight, etc.) and manufacturing costs (like process steps, machine hour rate, shifts, manufacturing time, max pieces, tooling costs, construction time, etc.)
- complex readiness plans that range from part readiness, tool readiness and more
- Overlay of raw material/commodity strategies
- Supplier management cannot exist alone, nor can part/item management. It takes management of a supplier at the part/item level.

And that wide range of responsibilities needs its own software solutions. In an article on what the direct procurement market needs from its technology, Spend Matters Founder Jason Busch dug deep to show 19 of the processes and areas of concern. Here's a sample from his wish list:

- Bill-of-material-based sourcing
- Commodity management
- Direct materials transactional procurement/PO enablement
- First article inspection/PPAP
- Supplier collaboration (e.g., RFW, RFD, 8D, etc.)
- Supplier performance management

Once you dig into individual items on that list, you'll see that even more concerns need to be addressed. Take "supplier performance management" as an example. A recent Spend Matters research brief points out that direct procurement technology would need to measure performance but also monitor specific quality issues that indirect firms don't:

"It's not just tracking defect rates, uptime/reliability statistics, etc. but managing the quality process from the beginning … to delivery of the product to the consumer. (It's) ensuring the materials that are being sourced are of the appropriate standards and tested on receipt, that the appropriate production process is followed, that the machines are regularly tested, that the outputs are spot tested, securely packaged, and delivered to spec. Such a system should support ISO (International Standard Organization), ASQ (American Society for Quality) processes, Six Sigma, 8D Reports (based on Eight Disciplines methodology), and/or QDX (Quality Data eXchange)."

In Europe, many manufacturers have deployed direct procurement technology, but in North America, digital transformation has not been adopted evenly.

Some companies don't digitally transform because they don't know where to start — or don't want to rock the boat. But they are carrying the greatest risk. For example, one company reported that it managed all of its sourcing (RFQ) events in their system (no loose spreadsheets, no emails, etc.), yet almost all the RFQs they receive from their customers (which are auto OEMs and large tier-1's) come by emails and Excel files. The same applies for readiness, tool tracking, etc.

That's not a good way to mitigate risk. It's best to have suppliers use your system to communicate and input data. That closed-loop feature in a system adds efficiency and confidentiality for all parties.

So Why Change?

Let's look at one manufacturer — BMW — that relies on direct procurement solutions to assist its automotive production operations, which involve thousands of parts and hundreds of suppliers.

In a recent webinar with MetalMiner, a sister site of ours, BMW discussed why it uses direct procurement technology to manage its processes and supplier relationships. BMW said that to maintain consistency and confidentiality, it does all of its communication with suppliers and managing of processes inside that system.

"Basically if you have a more complex structure for your sourcing processes, like you have when you source components for a car … you start with a bill of materials, and you cannot manage that with Excel. It's a calculation tool, but you cannot use it to do a sourcing project with multiple players," said Alexander Scholz, BMW's head of program for its global supply chain. "Using that was never an option for us.

"With the automaker industry, you're working with suppliers a couple of years ahead on new cars. You're publishing confidential data. We don't want anyone to know what we're sourcing … and that's why you need a technically closed, safe system that's connected to your suppliers."

Scholz said BMW uses Allocation, a German provider of direct procurement technology whose solution is called ASTRAS.

"We've used ASTRAS the last 15 years very successfully for our sourcing processes — indirect and direct sourcing," Scholz said.

But manufacturers' needs extend well beyond sourcing.

In the same webinar, Dr. Oliver Frille, INEOS Automotive's Managing Director of Procurement and SCM, states that with "a very challenging timeline to the SOP (start of production) we try to maximize the parallel work as much as possible."

This extends across supplier quality, supplier evaluations, certification management, RFQs and more.

For Scholz, having the right solution is vital.

"Without technology, the whole business would not be manageable at all," he said.

In a Spend Matters' review of Allocation, our analysts predicted that more digital transformation will take hold in the U.S. as companies look to update their sourcing workflow, manufacturing processes and supplier relationships:

"In North America, the time is (finally) right for specialized direct materials procurement software to cross the adoption chasm. Rising commodity volatility even before the recent tariff challenge, an increased focus on visibility and transparency in sourcing efforts, increased supply chain complexity in support of global (and increasingly localized) manufacturing, and the need for total cost savings combine to make the need for these capabilities more important than in the past — and also serve to point out the weaknesses of solutions that do not emphasize needed capabilities."