

Bringing e-sourcing to a decentralized spend

General Dynamics leverages in-house supply chain group to bring diverse \$8.3 billion spend online

BY DAVID HANNON

Many e-sourcing users have gone on record as saying their e-sourcing efforts were driven by a larger strategic sourcing initiative within the organization. And often that strategic sourcing initiative involves centralizing more of the organization's total spend (step one) and then running that more centralized spend through an e-sourcing tool (step two). But there are some organizations with such varied business units that centralizing the organization's spend would not make sense. General Dynamics (GD of Falls Church, Va.) is one of those organizations.

With 17 business units ranging from military networks to coal mining, centralizing spend categories in GD would be a patchwork effort at best. Instead, the organization has decided to keep its purchasing mostly decentralized and let each business unit pursue e-sourcing in the way that makes most sense for that business and share best practices between businesses where it makes sense.

Reading the roadmap

As far back as 1996, GD had a Purchasing Council made up of purchasing chiefs at each of its business units who would gather periodically to exchange ideas. Eventually, the purchasing council evolved into what is now called the Supply Chain Management Council within GD, with members from all 17 business units. The Council meets quarterly to identify areas of supplier collaboration, exchange best practices, and discuss technology/e-supply chain initiatives as well as small business initiatives. There are several committees within the Council to focus on specific areas of common interest including e-supply chain initiatives, indirect and direct spend, travel, and small business.

GD's total annual spend is typically around 60% of its \$13.8 billion in revenues or about \$8.3 billion. The Supply Chain Management Council was well aware that many companies GD's size were already planning their technology roadmap, but being so highly decentralized

presented some challenges in making technology decisions.

"When we kicked off the Supply Chain Management Council, one of the goals was to discuss e-procurement," says Robert Kane, director of supply chain management at the General Dynamics C4 Systems business unit. "GD is a \$13.8 billion company and employs 55,000 people worldwide, so we were having some difficulty deciding where we needed to be going in terms of supply chain technology and how we needed to address our spend."

One of the major problems in

planning the technology roadmap was the lack of a common enterprise resource planning (ERP) system across the different business units—each business unit had a different ERP in place—as well as other overlapping legacy systems. GD's original plan was to implement both a set of e-sourcing tools as well as a catalog-based e-procurement tool for all business units.

"We decided that implementing the combined catalog and sourcing solution would cause some complexities with old legacy systems which would require a lot of effort in the IT area, and would chew up a lot of the savings we hoped to see," says Kane.

With the project's scope more clearly focused on e-sourcing, GD set out to find a suitable provider. After whittling the long list of possible

e-sourcing providers down to the top seven, GD eventually piloted and selected Ariba for its sourcing tools and for the potential of implementing the catalog component down the road.

Setting the pace

The three business units that come closest to centralized procurement within GD are the three that were acquired from telecom giant GTE almost three years ago: C4 Systems, Network Systems and Advanced Information Systems. The three units work in similar areas (military telecommunications, information security, and networking), buy similar materials, and use the same information systems, so it made sense to have some common purchasing strategies across those groups. Kane oversees the \$500 million spend at the three groups, which do roughly \$3 billion in sales a year and has driven his groups to be the most aggressive proponents of e-sourcing within GD, using e-auctions, sealed bids and e-RFx tools.

"We want to drive to increased efficiencies and standardization in the RFX process and automate our control process," Kane says. "So we use Ariba to request proposals for everything we can, whether it's a single-source item or a competitive bidding event. This way we can ensure we ask the same questions and don't construct RFPs in different ways. And more importantly, we have suppliers responding to us in the same fashion and meeting our bid terms. That makes it easier to evaluate our proposals as they come through and reduces cycle times dramatically."

There has been strong acceptance of the tool among users and suppliers in the three business units, sourcing everything from switches and routers to fitness center benefits programs online. One of the initial concerns was larger suppliers would refuse to participate in the more competitive bidding



Robert Kane, director of supply chain management for C4 Systems, has been a driving force in GD's move to e-sourcing.



Joe Pileggi, director of purchasing at Freeman Energy, plans to put \$18 million through e-sourcing this year.

e-sourcing ideas

events, but Kane says the biggest names in networking have participated in events and played by the rules.

One of the reasons Kane got so involved in e-sourcing was because a few years back when his business unit was selecting an ERP system, he realized that it needed to be something that could serve well as a backbone to a set of e-sourcing tools. With the e-sourcing successfully up and running, Kane's next goal is to tie the tools to the ERP and then begin looking at the catalog options and further e-procurement and spend management tools. One of the major obstacles in moving to online catalogs in a decentralized organization is the lack of common part names or numbers. There is already work to standardize across business units, but the process is long and cumbersome.

Roughly 85% of the business at the three business units Kane oversees is with the U.S. Government, which means adherence to stricter procurement guidelines than commercial contracts. GD's move to an e-sourcing system has gone over well with government contracts for two reasons. First, it demonstrates to the government that GD is putting in tighter controls on its spending and what GD saves will likely show up in what the government pays, most notably in the cost projects where the government picks up the tab directly for what GD buys. Secondly, the government itself is moving to more advanced procurement systems and this helps GD better understand how its biggest customer goes about sourcing contracts.

Mining for efficiencies

The e-sourcing movement is not just taking place at the larger high-tech business units within GD. Freeman Energy is a Springfield, Ill.-based coal mining business owned by GD which accounts for less than 1% of total sales and has a total spend of roughly \$40 million. Joseph Pileggi, director of purchasing at Freeman, says this year he plans to put close to \$18 million of that spend through the e-sourcing tool with long-term goals of putting up to 75% of spend through e-sourcing, for many of the same reasons Kane cites.

"When we first started using e-sourcing, I thought we could use it in any spend area where competition exists," says Pileggi. "I've now come to realize that it is not limited to where there is competition. We have been able to use it for single sourcing and even repair jobs. You may not be auctioning, but you can gain process improvements in being able to communicate with suppliers better on the system. We need the savings dollars gained through auctions to pay

General Dynamics' objectives for implementation of e-sourcing

- * Improve response time to meet customer requirements
- * Reduce transaction costs
- * Reduce material costs
- * Provide automated RFQ process, including document and drawings transfer
- * Reduce "maverick" buying or leakage from negotiated local and GD corporate agreements
- * Maximize product research activities/minimize search time
- * Improve efficiency and productivity across the enterprise
- * Improve reporting of buyer/supplier performance, company spend aggregation/trends

Benefits expected with e-sourcing

- * Supplier leverage/collaboration - direct and indirect
- * Reduction in "maverick" buying
- * Lower overhead and operating costs; operational efficiencies
- * Flexibility ~ "tailored customer support"
- * Internal and external customers
- * Focus on core SCM/procurement competencies
- * Standardized operating systems/reporting systems
- * Standardized policies and practices
- * Professional staff development

Steps to a successful proof of concept

| Step | Time needed |
|-------------------------------------|-------------|
| Develop detailed requirements | Three weeks |
| Conduct request for information | Three weeks |
| Evaluate potential solutions | Six weeks |
| Recommend solution and path forward | Four weeks |

Results in brief

Project has seen positive return on investment in first year
Estimated savings of 10-15% per event
Quantifiable process improvement savings
Moving to tie ERP and sourcing systems together

SOURCE: GENERAL DYNAMICS

for the project, but from a process improvement standpoint, the turnaround between needing a part and actually getting it is greatly shortened."

Taking a more aggressive drive towards e-sourcing also provides a more consistent process for suppliers and helps them get used to the tools, whether it be a competitive event or not. Pileggi says after 18 months of using e-sourcing, Freeman's suppliers began to realize that it was not a tool used to get quick savings, but rather a change in the way that Freeman conducts business going forward.

Not surprisingly, the area where suppliers show most resistance is in the use of online reverse auctions. Both Kane and Pileggi say understanding supplier concerns and presenting auctions in the right light can help make early events go off more smoothly. Both men say performing due diligence prior to the event is key for buyers, while asking suppliers to negotiate further after the event is a surefire way to create skepticism about the tools.

"You want the rules of engagement to be clear and you want your process consistent," Kane says. "The first time you deviate from the process will result in distrust in the supplier community towards participating in these events in the future. You don't want to give the suppliers any reason to think you're gaming them in any way."

Tracking results

To date, 14 of the 17 business units in GD are actively using the e-sourcing tools and as of mid-April as many as 400 events—either e-auctions or automated RFx events—had been run. GD has already paid for the five-year lifecycle of the project after the first year of use. The project has received praise across the organization and was featured as a success story in a recent chairman's quarterly business review.

Kane says his business units have seen an average of 10-15% savings on the contracts sourced online, which he considers a success as GD progresses along the e-sourcing learning curve. Some events produced as little as 1% savings while others showed up to 30%, so learning what tools to use and when is part of the learning process as is deciding how to track the savings from the new tools.

"When you evaluate the savings gained through e-sourcing events, you have to make sure you are measuring what can be tracked back to the use of the tool itself," Kane says. "Just because you run an event, it doesn't mean the savings should be automatically attributed to the tool itself.

In some instances, if we've never structured a volume purchase agreement in a spend area before, the savings are attributable to the dynamics of that individual marketplace."

Along that line, Kane also cautions that over-inflating savings figures to upper management in an effort to boost the tool's success can backfire. Management may see that as a sign that purchasing had not been effectively negotiating contracts in the offline environment if such high savings were achievable.

To learn more about General Dynamics' experience with e-sourcing, listen to the Enterprise Spend Management webcast at www.globalprocurement.com.

