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The Ins and Outs of Supplier Networks





The Global Need for Supplier Networks

Let us start by discussing a real incident which took place in 1985. US automaker Chrysler was competing with Japanese automaker Toyota in terms of quality, cost and customer satisfaction. Sales of Toyotas were much higher than Chryslers, but Chrysler consultants were unable to figure out why there was such a difference between similar models of cars. They found out that, while Chrysler was dealing with 21 different suppliers, Toyota was dealing with just 2. This forced Chrysler to take a look at their suppliers and revamp their sourcing strategy.

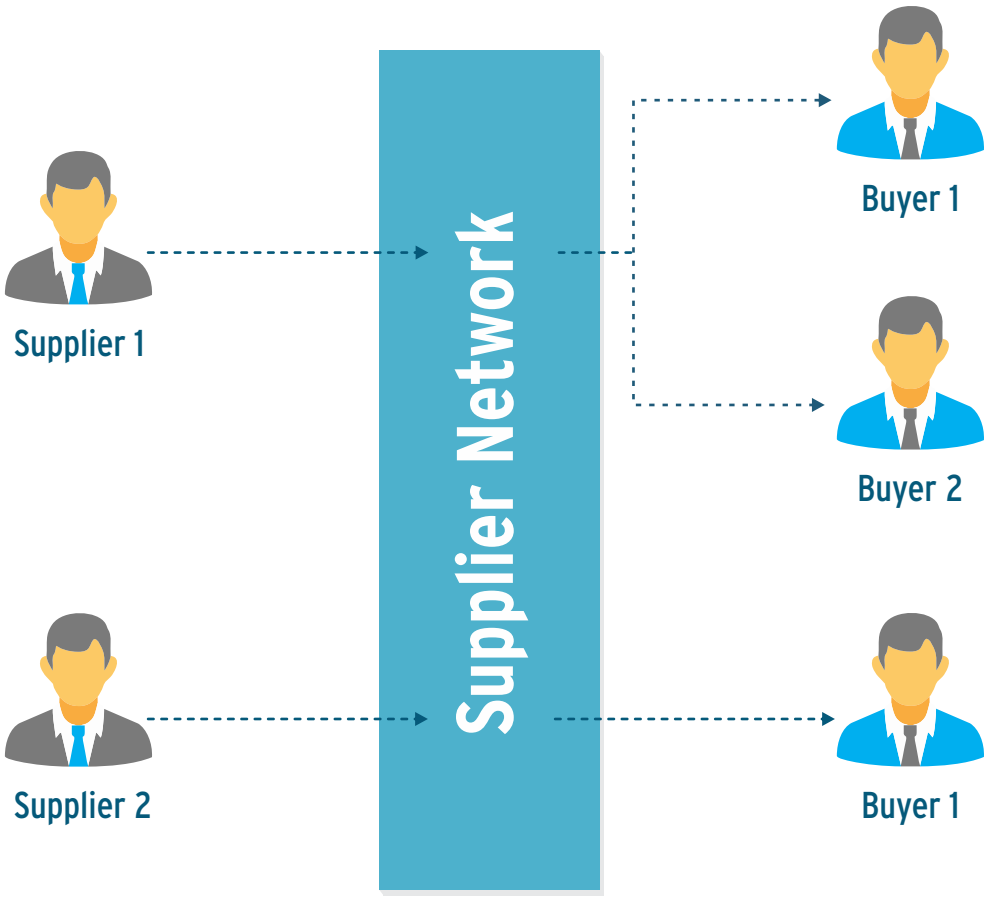
It has become really important for industries, which rely heavily on suppliers, to explore better opportunities and make sure that they strategize their requisitions in a way that they get best quality products or services at a minimum cost. In today's competitive market, where the focus is more on the bottom line instead of the top line, it has become imperative to explore all the options available, rather than relying on a handful of suppliers. Supplier Networks have thus become essential to compete in today's business environment.

Also, at a time when the global economy is suffering from the consequences of unpredictable downturns, it is imperative for both suppliers and buyers to assess the risks and take the necessary steps to mitigate those consequences, thus ensuring the business is least affected by the economic turmoil. Supplier Networks have increased the geographical reach of buyers which helps buyers procure better quality products at economical prices. While dealing with a larger number of suppliers across geographies, it also becomes difficult to track and assess the capabilities of the suppliers, leading to increased risk. At such times, Supplier Networks help the buyer stay connected to different suppliers that can be quickly reached in case one of the regular suppliers defaults. Supplier Networks also mitigate the risk against unpredictable economic downturns, natural disasters, and other incidents which can cause harm to the business. The software products available in the market these days take care of such risks by providing a plethora of options with plenty of information on suppliers, and they also integrate with other elementary day-to-day activities, like raising a PO, or processing an invoice and making a payment, thus making it easy to conduct business. A streamlined process through the portal provides higher transparency regarding the stage of the order processing. This results in effective transaction cycles and setting correct expectations for the delivery of goods.

The Supplier Networks have evolved over time and have enabled organizations to work efficiently with high transparency and an opportunity to expand quickly, while keeping control of costs. Furthermore, it helps them to be prepared for the foreseeable risks and thus equips them with correct information that can be used to take the necessary steps for risk mitigation.

Supplier Networks Today

A Supplier Network is a virtual platform that enables suppliers and buyers at various locations to collaborate and do business. It's a common platform where both suppliers and buyers can discover suitable opportunities and initiate business transactions. The Supplier Network helps speed up the procurement cycle, resulting in timely selection of goods, delivery and payment, leading to increased supply chain efficiency. Moreover, it helps reduce paper work and thus eliminates manual errors and delays caused by the physical movement of these documents. Procurement, over time, has evolved from being seen as a cost center to a more strategic activity which helps organizations gain competitive advantage. In developed economies, where competition is high and the scope of increasing market share is limited, reducing cost seems like the only way to increase profits. Supplier Networks help organizations reduce cost by providing buyers a plethora of options from which to select suppliers. Buyers can easily assess different suppliers and select the ones which best meet their requirements, are well certified, compliant, and have plenty of experience to substantiate their claim of quality and commitment.

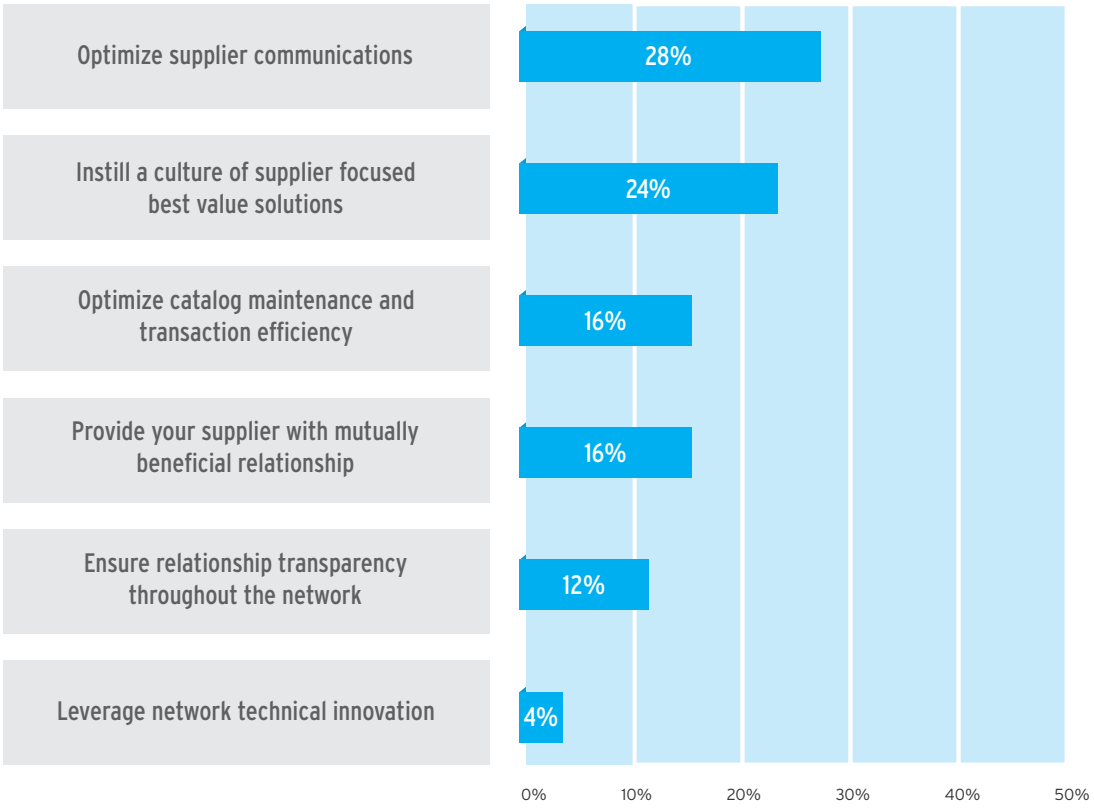


Objective of Buyers

Over time, a Supplier Network has evolved to become a "must have" instead of a "good to have" that it was considered to be a decade ago. Numerous buyers now rely on Supplier Networks as they expect various benefits by using such networks.

Some of the most important goals buyers have in their use of the supplier network include:

- Optimize supplier communications
- Instill a culture ensuring supplier-focused best value solutions
- Optimize catalog maintenance and transaction efficiency
- Provide your supplier with mutually beneficial relationships
- Ensure relationship transparency throughout the network
- Leverage network technical innovation



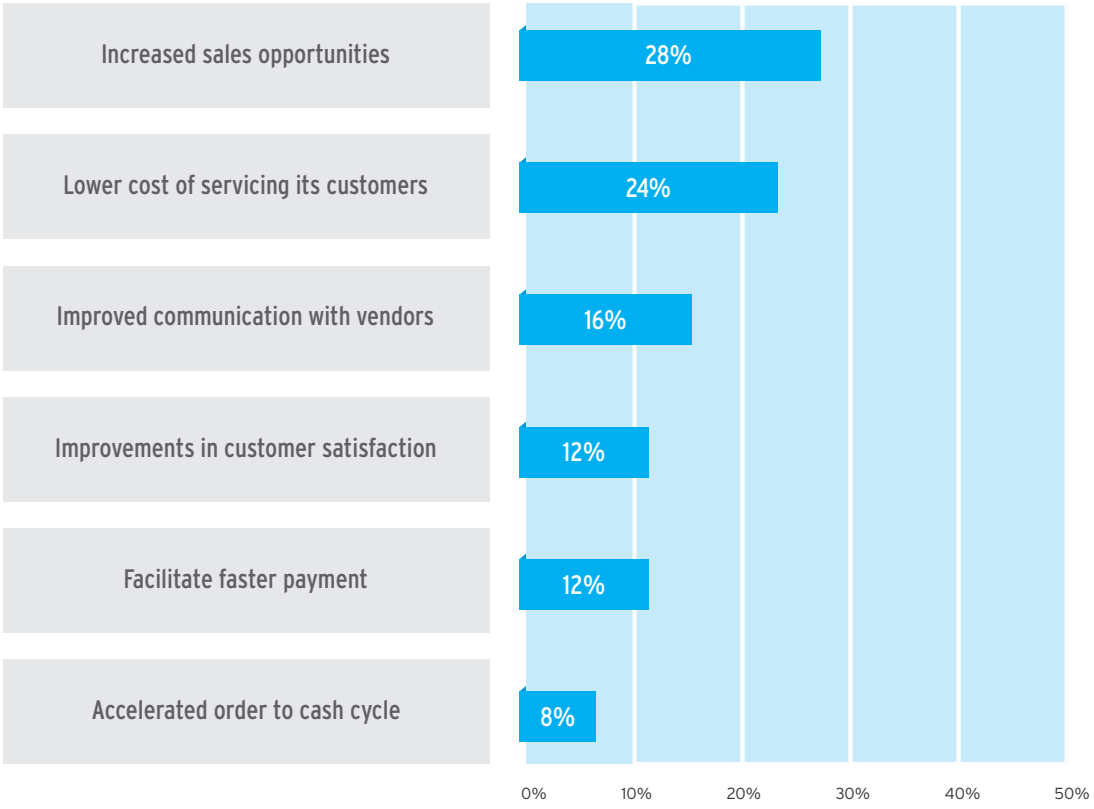
Percentage of respondents, n=76

Source : Aberdeen Report

Benefits to Suppliers

Suppliers, on the other hand, get various benefits by registering onto a Supplier Network, since the platform works like a virtual marketplace where suppliers can get in touch with the right customers at the right time. Some of the benefits that suppliers have been provided with from registering onto a network are as follows:

- Increased sales opportunities
- Lower cost of servicing its customers
- Improved communication with vendors
- Improvements in customer satisfaction
- Facilitating faster payments
- Accelerated order-to-cash cycle



Percentage of respondents, n=76

Source : Aberdeen Report



Evolution of Supplier Networks Over Time

Presently, SaaS and PaaS-based technologies are used to provide the systems that can increase the efficiency of Supplier Networks multifold. But how did things work when such technologies were a far-fetched idea?

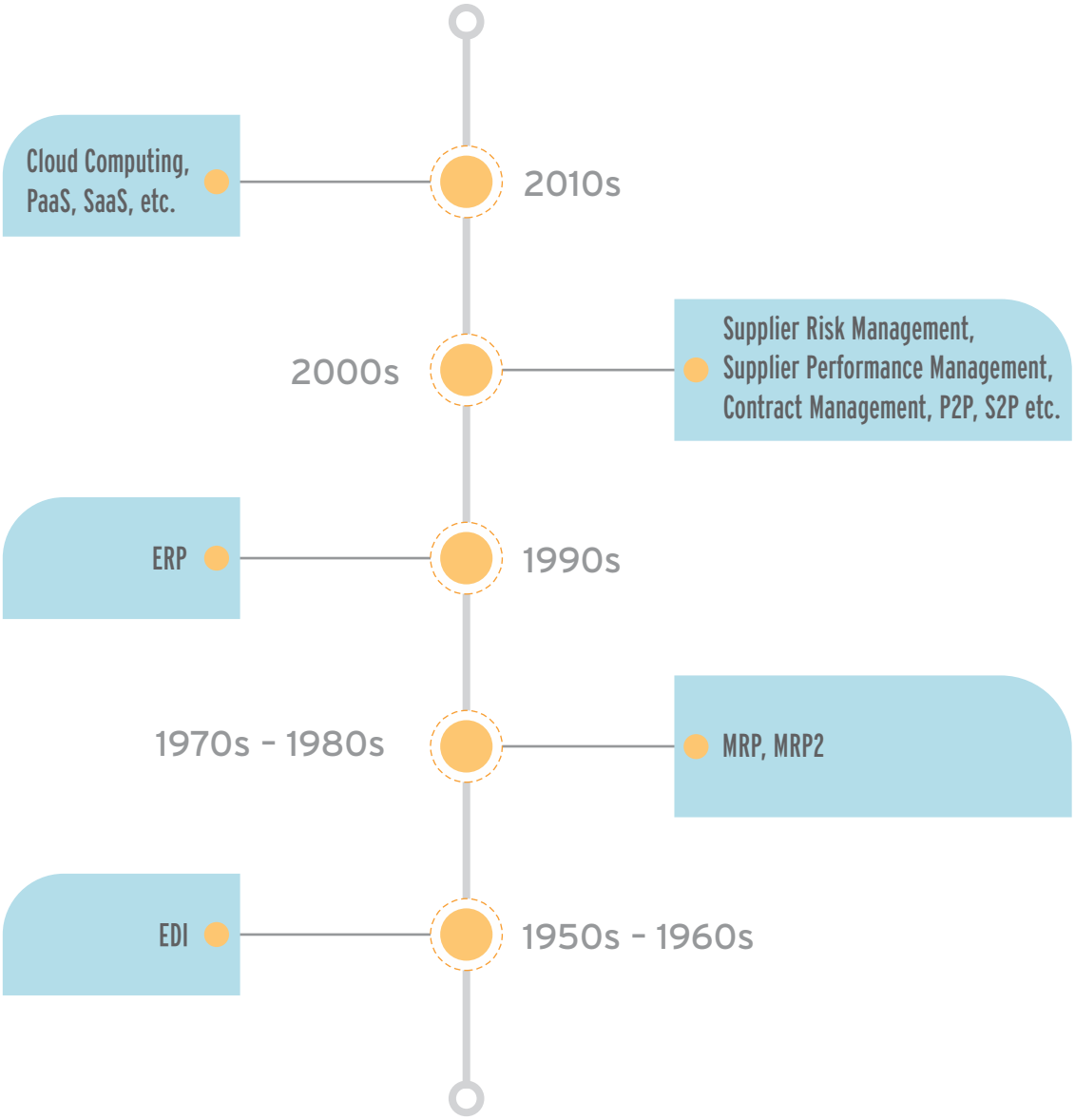
The Internet has become the lifeline of Supplier Networks which are highly efficient, fast and economical. It has played an important role in bringing suppliers and buyers together, even when they are working in different parts of the world. Let's see how the internet has evolved over time to accommodate huge data traffic without any compromise on efficiency.

Paperless data exchange started in the 1960's with Electronic Data Interchange (EDI). At that time, few companies were interested in sharing data like purchase orders, advanced shipping notices, invoices, etc. electronically. In the late 90's Extensible Markup Language (XML) arrived which had more meaningful field names and could be easily read manually. It helped organizations and the global economy take the leap towards a virtual marketplace. Unfortunately, when the dot com bubble burst, much of the hype evaporated as many IT companies went bankrupt and others were reluctant to experiment with new technologies. But organizations that survived are growing up pretty fast and are now competing with other organizations in the domain of Supplier Networks to provide better services to both suppliers and buyers.

- 1950s – 1960s: Supplies were primarily provided by creating internal departments that worked like OEMs and individually focused on specific requirements. The growth was primarily through acquisitions. Apart from some standard products and components, there was not much dependence on external suppliers.
- 1970s – 1980s: Globalization led to international competition between organizations, raised doubts about the efficiency of internal suppliers, and cost awareness led organizations to rely more on external Supplier Networks. Just-in-time was the buzz word and there was an explicit focus on inventory control and supplier quality, quantity, timing and dependability.
- 1990s: Organizations started realizing the benefits of leveraging the experience of more established and specialized suppliers which worked either alone or in collaboration with other organizations. Primary supplies were provided by these organizations and supplementary supplies were provided by other suppliers in the second layer. Thus the whole network was

divided into separate layers. Cost savings was the buzz word.

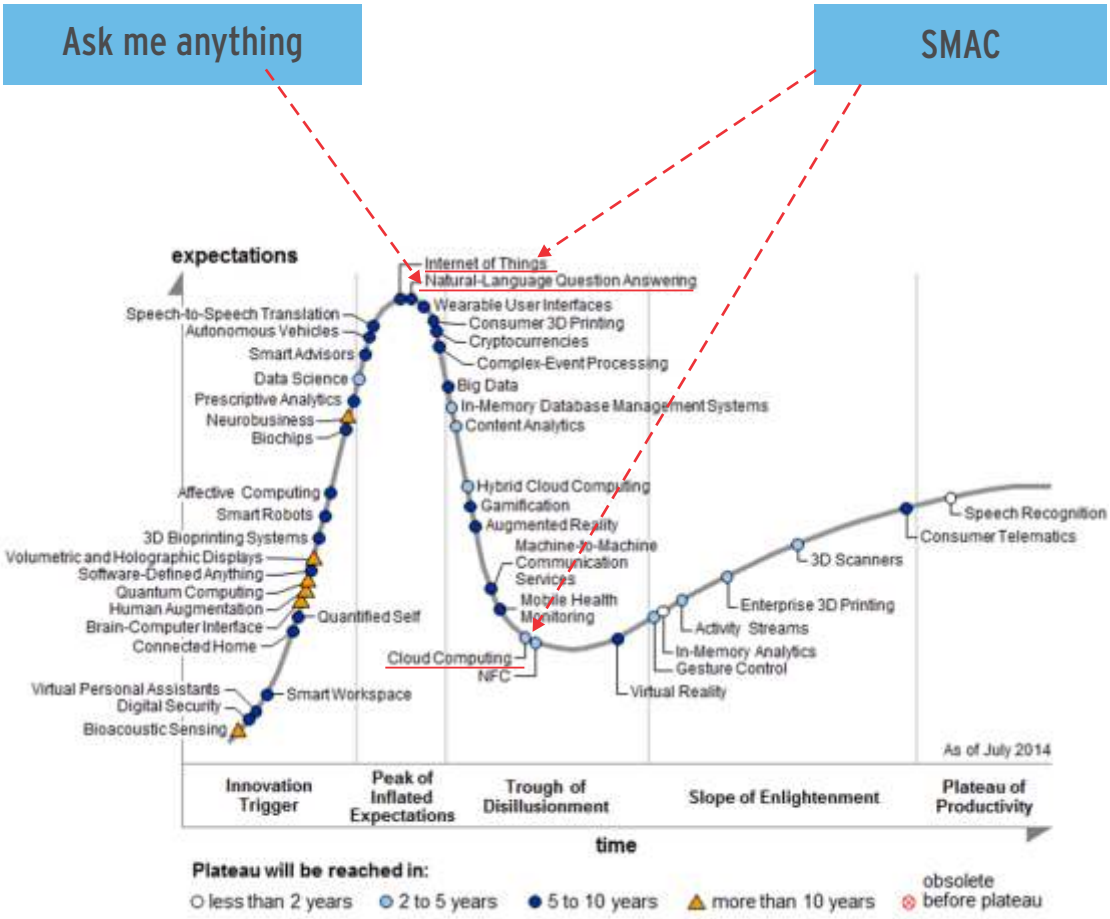
- 2000s: Cost savings transformed into spend analysis, low-cost country sourcing, ERP technology, e-sourcing, P2P, data mining and analytics to reduce cost.
- 2010s: Automated spend analysis, CLM, services procurement, and Supplier Network services became the hottest segments.



Supplier Network – The Next Big Thing

A recent report by Gartner explains how different technologies are changing the way business will be conducted in the future. Features like "Ask Me Anything", where users can ask any question, just like we ask questions in a conversation, will change the way users interact with technology. At the same time, SMAC (Social, Mobile, Analytics and Cloud) will change the way users' information is captured and will be leveraged to provide detailed analysis and insights into the users' behavior, resulting in better prediction of expectations.

Gartner Hype Cycle 2014





Business Value of Supplier Networks

In today's competitive market, the competition is not merely limited to capturing new markets and increasing market share. Competition in developed economies is focused on cost reduction and making the supply chain more efficient so as to reduce damages, losses and cost of inventory. Supplier Networks are bridging the gap between suppliers and buyers by bringing them closer, thus enabling a seamless flow of information between the two. This, in turn, helps organizations improve quality while reducing production costs.

Table I. Procurement Indicators

Procurement Metric	Supplier Network	No Supplier Network
Spend under management	74%	63%
Percent spend under contract (e.g. compliance to SLAs)	61%	51%
Percent of suppliers making 80% of spend	24%	18%

Source : Aberdeen Group

Major benefits of a Supplier Network include:

1. Automated Processes Reducing Manual Efforts

One of the major advantages of a Supplier Network is that data entry, data processing and data transfer between suppliers and buyers is automated. This means there is limited manual effort, resulting in reduction of processing time, and increased efficiency in the flow of information between the parties. This helps both parties collaborate closely and meet each other's expectations.

2. Catalog Management

One of the most tedious tasks for any supplier is managing catalogs. With a Supplier Network coming into the picture, this task becomes much simpler. Different catalogs can be uploaded for different sets of customers with future pricing. It becomes easier for both suppliers and buyers to manage catalogs and avoid any confusion related to item specifications, prices and special offers.

3. Simplified Sourcing Process

With the help of Supplier Network integrating with the sourcing solution, the entire sourcing process can be simplified by responding to sourcing events with an interactive forum for query resolution and viewing the event scores through the supplier network.

4. E-invoicing and Reduction in Paper Flows

An important advantage of a Supplier Network is electronic invoicing. As soon as the ordered items are delivered, the procurement team cross-checks the items and processes the invoice. Once this is done, the invoice is transferred to the finance team instantly and payments are made thereafter. Thus, errors and delays pertaining to paper flows are reduced drastically. With new OCR capabilities, even hard copies of invoices and POs can be uploaded into the system directly and be processed electronically thereafter.

5. Contract Management

Supplier Networks also enable both suppliers and buyers to keep a close watch on their contract terms. This reduces contract violations which result from miscommunication or from missing important clauses of the contracts. Both parties, at all times, are aware of their commitments and expectations, leading to smooth business transactions.

6. Reduction in Purchasing Cycle Times

Supplier Networks ensure that there is a smooth flow of information between all the parties involved which results in timely processing of orders, delivery, processing of invoices and payments. Thus, the system helps the concerned parties gain more confidence working with each other and enables them to reduce purchasing cycle times significantly.

7. Up-to-date Supplier Information

An efficient Supplier Network integrates with your supplier management software solution and enables onboarding of potential supplier with robust pre-qualification. It also facilitates a flexible approval engine for hassle free supplier onboarding, thus reducing the cycle time. Information about the suppliers on the network is always updated through the integration on an ongoing basis which will give the users latest information about the suppliers for all their transactions.

8. More Visibility and Better Relationships

In today's business environment, buyers and suppliers need to work in close collaboration to beat competition. A Supplier Network provides them with a platform through which both parties have clear visibility of order, invoice and payment status. They can also offer deals and discounts on a one-to-one basis. This visibility helps both parties trust each other and build a stronger relationship.

9. Enhanced Supplier Performance Management

Supplier Networks help in tracking the performance of the suppliers by enabling the supplier to monitor his performance reports as well as the development reports through performance report card and development program card. This will give him an idea about his strengths and weaknesses thus helping him to improve on his pain areas.



Types of Supplier Networks

Today's Supplier Networks can be broadly classified into two types:

- Open Network
- Closed Network

Open Supplier Network:

Open Supplier Networks are those where any supplier can join the network by directly registering on the network. Thus, the supplier might not already be doing business with any of the buyers on the network, yet he can register and can start connecting with the existing buyers on the network. **These types of networks usually charge the suppliers for using the network.**

Benefits:

- Large number of suppliers present on such networks gives plenty of options to the buyers
- Stiff competition among suppliers leads to better offers for buyers.
- There are various consulting and other services provided to suppliers to help them take advantage of better opportunities
- More exposure for the suppliers to do business with new customers and grow their revenues

Limitations:

- The buyers and suppliers need to pay certain charges to use the services
- More suppliers on the network mean stiff competition with peers which can lead to compromise on profits
- Certain good suppliers might not be able to afford registering to such networks and might miss out on opportunities

Closed Supplier Network:

Closed Supplier Networks are those where only those suppliers can register who are already dealing with buyers in the network. Thus, any new supplier who wants to register to such network needs approval from the buyers already present on the network. This controls the access of such networks to different suppliers. **These kinds of networks are usually free of charge to suppliers.**

Benefits:

- Such networks are usually free for suppliers
- Such networks are buyer-centric and provide features that are beneficial to the buyers
- There is a quick response to the buyer's/ supplier's grievance
- Such networks focus more on strengthening the relationship between buyers and suppliers and a little less on getting new business

Limitations:

- Closed networks give little scope to suppliers to connect with new buyers
- Suppliers cannot rely on such networks for their growth as these networks just provide ease of doing business with the existing customers
- Suppliers cannot directly register on such networks unless approved by existing buyers
- Mostly, no additional consulting/marketing services are provided to suppliers



The Future of Supplier Networks

The future of Supplier Networks looks brighter, smarter and intuitive. It will support both direct enablement and indirect materials enablement. The network is expected to migrate from a SaaS (Software as a Service)-based to a PaaS (Platform as a Service)-based network where users cannot only use the existing application that is provided by the cloud solution provider, but also develop their own application in the cloud to suit their specific requirements. The compliance system is expected to be automated and capable of handling inter-country tax and jurisdictional requirements.

The Supplier Network of the future won't work in isolation, but is expected to be integrated with social networking sites. Not only will these networks provide more exposure, but also increase credibility in terms of feedback from different customers served, quality maintained, payments made on time, etc. The market today demands more risk management, integrated with supplier performance management. Buyers want systems that do not just show the risk quotient of any supplier, but also predict the events that can cause the supplier to default and alerts buyers well in advance. This will provide buyers with a chance to execute contingency plan at times of crisis, thus reducing possible losses.

Supplier Networks of the future are expected to have features like:

1. Better Risk Management

In the near future, the processes involving risk management are expected to improve drastically resulting in more accurate and advanced predictions. The system will be able to evaluate the risk tolerance of the suppliers in terms of financial risk, operational risk, business continuity risk, technology risk, compliance risk, physical security and people screening. Depending on the risk computed, the system will suggest to the buyer whether to continue doing business with the supplier or proceed with their contingency plan.

2. Robust Integration of Systems Throughout Order Processing

Robust integration, using nascent technologies, is expected to improve the system drastically in terms of quality and compliance. The use of RFID on the one hand will keep the supplier informed of a buyer's inventory and help them provide the right quantity of supplies well in advance. On the other hand, integration of RFID technology with transportation vehicles will keep the suppliers informed of the temperature and condition of the supplies inside the vehicles. The suppliers will be able to make much more informed decisions, like changing the transportation conditions from the very beginning to ensure that the supplies are delivered to the buyer in good condition. They can also assess the damage and provide replacements even before the supplies reach the buyer.

3. Better Performance Evaluation and Ways to Improve

The suppliers will get an accurate picture of their performance vis-à-vis other suppliers dealing in the same domain. The performance measurement will not be limited to KPIs and scorecards that are responded to manually. It is expected to have advanced automation, keeping track of timely processing of orders, quality of goods, contract compliance, and response to buyers' grievances. The system will keep track of the performance in real-time and not just depend on the performance cycle. It will also automatically provide suppliers with ways to improve or suggest methods of improving performance well in advance.

4. Mobility and Artificial Intelligence

The network of tomorrow will be accessible at all times from all devices. As the number of users relying on portable devices, like mobile and tablets, is increasing day by day, the system will enable users to carry out all the activities from their portable devices. This system, at the same time, will also learn from the user and use artificial intelligence to modify itself in order to cater to each user individually. The alerts and notifications will work differently for different users on a need-to-need basis, and the most relevant information for each user will be accessible immediately.

5. More Supplier-centric

Contrary to present Supplier Networks, which are more buyer-centric and tend to focus more on benefits to buyers, Supplier Networks of the future will focus more on suppliers' needs. These Supplier Networks will serve suppliers to stay compliant with the processes, handle more than one buyer simultaneously, and suggest ways of improving performance and rating. They will be the one application suppliers will log into first thing in the morning. All the activities for the day will be prioritized by the system which will help suppliers significantly improve their efficiency.



Conclusion

Procurement organizations currently exercise a lot of effort on cumbersome and time consuming modes to communicate with their sellers and vice versa. More and more companies are realizing the growing significance of automated collaborative platforms and networks.

As per the industry trends, the user adoption levels of Supplier Networks is expected to rapidly rise over the coming years through the slow and steady realization that by embracing automation, there will be a significant impact on the organization's procurement efficiency. Successful knowledge sharing on a mutual platform like a Supplier Network will provide a competitive edge to the companies which will prove to be an asset in the long run.



About Zycus

Zycus is a leading global provider of complete Source-to-Pay suite of procurement performance solutions. Our comprehensive product portfolio includes applications for both the strategic and the operational aspects of procurement - eProcurement, eInvoicing, Spend Analysis, eSourcing, Contract Management, Supplier Management and Financial Savings Management. Our spirit of innovation and our passion to help procurement create greater business impact are reflected among the hundreds of procurement solution deployments that we have undertaken over the years. We are proud to have as our clients, some of the best-of-breed companies across verticals like Manufacturing, Automotives, Banking and Finance, Oil and Gas, Food Processing, Electronics, Telecommunications, Chemicals, Health and Pharma, Education and more.

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ZYCUS™

NORTH AMERICA

Princeton: 103 Carnegie Center, Suite 201 Princeton, NJ 08540 Ph: 609-799-5664

Chicago:5600 N River Road, Suite 800 Rosemont, IL 60018 Ph: 847-993-3180

Atlanta:555 North Point Center East; 4th Floor, Alpharetta, GA 30022 Ph: 678-366-5000

EUROPE

London: Office No 335,400 Thames Valley Park Drive, Thames Valley Park, Reading, Berkshire, RG6 1PT Ph: +44 (0) 1189 637 493

ASIA

Mumbai: Plot No. GJ – 07, Seepz++, Seepz SEZ, Andheri (East), Mumbai - 400 096 Ph: +91-22-66407676

AUSTRALIA

Melbourne: Level 9, 440 Collins Street, Melbourne VIC 3000