



Top 10 Technologies for Supply Management Savings Today

The average company is sitting on a goldmine of untapped savings opportunities that it fails to realize because it doesn't even know about the gold-bearing vein running through its enterprise data. With the right systems in place, the average company can tap cost reduction and savings opportunities that could collectively add up to 30%, or more, of spend across major direct and indirect categories. This white-paper will introduce these technologies and some of the savings opportunities they enable.

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10 e-RFX

RFX, which stands for Request for Bid / Information / Proposal / Quote technology, is typically the first entry point for a company moving from a paper-based sourcing process to a modern technology-enabled supply management solution and an organization's first stop to supply management savings.

Savings materialize from RFX technology in a number of ways, including process efficiency, goods and services cost reduction, and supply base expansion. From a process efficiency standpoint, the cycle time reductions enabled by a good RFX platform that automates bid collection and comparison in a standard format saves the organization significant manpower costs on each sourcing event. This in turn allows the organization to conduct more events, each of which will likely result in soft and hard dollar savings while increasing the total organizational spend under management (which is a hallmark of best in class supply management organizations).

Goods and services cost reductions come directly from the ability to consider more suppliers, including new suppliers who may have process, technology, or geographic advantages that allow them to provide the goods and services the organization needs at lower prices for the required volumes. Cost reductions come indirectly from the ability to invite more suppliers in a process that may lead to the identification of a supplier with higher quality and reliability, and, as a result, a lower total cost of ownership as return and warranty costs will be less.

Typically, e-RFX is just a starting point for other supply management solutions so savings numbers are typically from a blended project that usually involves e-Auction or strategic sourcing decision optimization. But there are a few examples, including a recent one from New South Wales, where 152 general-purpose local government councils saved \$640,000 with a transparent RFX process[35]. In another case study, a manufacturing organization saved 42.5% on machine investment castings and 25% on machined aluminum sand castings [36]. These savings opportunities are in line with those that were discovered during the 90s. Consider the case study of the online RFQ system in the March 2001 issue of Practix from CAPS Research of Beta Products that adopted RFX in 1998. Beta Products determined that they could achieve a

30% purchase price cost reduction for the commodity group under consideration by switching suppliers, or save 20% by redistributing all but 5% of the parts between the current incumbent suppliers[37].

9 e-Auction

e-Auction technology, which stands for electronic reverse auction technology, is typically the second entry point for a company moving from a paper-based sourcing process to a modern technology-enabled supply management solution and an organization's second stop to supply management savings.

The savings from e-Auction technology are essentially the same direct savings, from goods and services cost reductions, and indirect savings, from process efficiency and value generated from supply base expansion, found in RFX technology, with the major difference being the speed at which the event can be conducted.

With RFX, the sourcing manager has to drive the entire process, from the initial creation, to the supplier reach-out, through response comparison to final award. With electronic auctions, once the sourcing manager creates the specifications and sets up the auction, including the weighting and award rules, the process drives itself. The suppliers sign on at the appropriate time and place their bids. When a time-limit or bid floor is reached, the auction ends and the award is made.

The major advantages of e-Auctions are the ability to define precise lot requirements and acceptable bid ranges, which can ensure cost reductions meet a minimal threshold; the ability to define different auction types, which can drive more competitive behavior in the supply base if properly selected; and the extreme efficiency that can allow a large number of non-strategic or low-value categories to be brought under management.

Properly applied on the right categories at the right time, e-Auctions have been generating savings for over a decade. Back in 2003, in one of the first significant studies on e-Auctions, CAPS Research found that direct cost reductions usually averaged between 10% and 20%, that cycle time reductions could be as much as 40%, and that there could

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be a “power shift” from strong suppliers to weaker buyers not previously attainable[32]. In its initial application of e-Auctions between 1999 and 2002 on 912 Million of spend, GlaxoSmithKline (GSK) realized savings of 165 Million over historical prices[32]. In the heyday of reverse auctions, FreeMarkets, now defunct, reported back in 2001 that it saved its customers an estimated 20% on the 30 Billion worth of spend it had helped them source since 1995.[33] And even though they fell out of favor when market conditions shifted earlier this decade and the power shifted back to suppliers, some researchers are predicting the return of the reverse auction as the market returns to buying organizations. For example, Professor David C. Wyld, in a recent report from the IBM Center, estimates that the federal government could save 8.9 Billion annually by increasing the use of reverse auctions[34].

8 P2P

P2P stands for Procure-to-Pay technology, which is sometimes also called req-to-check, and refers to the business processes that cover the activities of requesting (requisitioning), purchasing, receiving, paying for and accounting for the goods and services received. It is part of an e-Procurement solution suite, and generally focuses on the requisition, invoice management, and e-Payment components of the P2P cycle.

The savings that come from P2P are primarily process and visibility based. Automating the requisitioning and invoice processing functions can reduce cycle time and reduce associated manpower costs. But more importantly, the visibility into what is being purchased can significantly reduce off-contract (maverick) spend, which results in up to 40% of negotiated savings never being realized in an average organization. Furthermore, the detailed transaction data will prove invaluable down the road.

When P2P is used to restrict buyers to contracted suppliers and to lay the foundation for an e-Sourcing strategy, an overall average saving of 13.2% in goods and services can be achieved according to research by Aberdeen[29]. While P2P will only be a piece of the puzzle, its indirect benefit can be significant, especially since it can reduce the manual purchase order processing costs by up to 80%[29]. Given that the average cost

to process a purchase order has been calculated between \$40 and \$60, the manpower savings add up fast. And P2P savings can be broad. For example, Boden has used P2P to save over 100,000 pounds on the cost of domestic shipping and over 200,000 pounds on warehouse handling costs[30]. For a company that only does about 230 Million pounds a year, this was substantial and likely a contributing factor to its record profit year[31].

7 Contract Management

Contract management is often defined as the execution and monitoring of a contract for the purpose of maximizing financial and operational performance and minimizing risks. This typically involves tracking purchases against contracts to insure preferred suppliers are used, rates adhered to, and discounts and rebates collected on agreed upon schedules. However, it is an enterprise activity and from an enterprise perspective, it takes on many more meanings, especially when legal and sales requirements are also considered. While procurement is concerned that the right products are being bought from the right suppliers at the right price, legal is concerned about mitigating risks and sales is concerned about dotting the i's, crossing the t's, and making sure payment terms and dates are clearly specified.

Contract management technology enables significant savings above and beyond P2P as it not only reduces award cycle time (as templates are ready to go and processes and procedures are standardized) and improves spend visibility (as it gets more spend under management) but also improves compliance, prevents evergreen renewal, and allows for quick identification of the Top N suppliers.

With a good contract management solution, the creation of a contract for a good or service in a typical category purchased by the organization can be as simple as filling in the cost, terms, and expiry date fields. This can save weeks, and tens of thousands of dollars, of legal time. All contracts can include standard organization terms and conditions, which can allow a buyer to know at any time whether a supplier is in compliance without a costly analysis. The ability to quickly determine which suppliers have the most contracts and which suppliers have the highest value contracts allows an organization to quickly

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identify which contracts need the most enforcement to prevent savings leakage. And the end of evergreen contracts, with prices 10%, 20%, and even 30% or more above market rates, can instantly result in millions of dollars of year-over-year savings.

There are a number of savings success stories as a result of the implementation of contract management, but the biggest argument for savings from the implementation of contract management is the cost of not doing contract management. For example, a National Audit office report in the UK found that better contract management could generate efficiency savings of between 160 Million pounds and 290 Million pounds a year in the UK public sector[26]. So even though most of the savings from implementing contract management will be realized in the first year, with little return thereafter, the one time savings could pay a lifetime of system costs many times over. Just eliminating inaccuracy and non-compliance through contract automation could allow a company to realize a savings of 2%[27]. Goldman Sachs estimates that a typical Fortune 1000 company could experience a potential reduction of 40 basis points in hard and soft costs using contract management software[27].

Burlington Northern (BNSF), Hewlett-Packard (HP), and Interpolis Verzekeringen (IV) have all seen significant benefits from implementing a contract management solution[27]. BNSF saw contracting cycles cut by 60%, its process streamlined from 16 manual to 7 automated and auditable steps, the mitigation of millions of dollars in potential fines through the ability to ensure suppliers are properly insured, and an ROI in only 62 days. HP saw the time to prepare consolidated reports on global operations, which used to take 4 business days, reduced to an hour. IV increased contract compliance by 5% while reducing procurement costs by 6% and realized full ROI in 7 months. And a large hospital realized 800,000 a year in annual cost savings through IT Contract Management Optimization alone[28].

6 GTM

Global Trade Management (GTM) can be defined as the practice of streamlining the entire life-cycle of global trade across border, logistics, and settlement activities to significantly improve operating efficiencies and cash flow. It encompasses global sourcing, e-Procurement, import and export



management, document creation, global trade agreements, supply chain finance, regulatory compliance, trade document creation, global taxation, risk management, and global logistics and is a very involved activity for many multi-national enterprises.

Global Trade Management technology tends to focus on the import / export management, trade document creation, and regulatory compliance aspects of global trade. Considering that it's not uncommon for a single global shipment to require 20 or more documents for import and export, that misclassifications in duty calculation can cost an organization up to 10% of the purchase cost, and that violations of European directives or US security directives can result in entire shipments being seized or destroyed, a properly deployed Global Trade Management solution can save an organization millions of dollars. In fact, some Billion-dollar organizations have saved over 100 Million with a properly deployed solution.

A study by researchers at Stanford University found key benefits of IT-Enabled GTM to include a dollar savings amounting to 1.7% in Annual Sales for Exporters, a dollar savings amounting to 0.6% in Annual Sales for Importers, benefits amounting to a 28% increase in Annual Profit for Exporters, and benefits amounting to a 10% increase in Annual Profit for Importers (given an average profit of 6% of sales). In addition, manufacturer to invoice time is reduced by 9%, Days Sales Outstanding (DSO) is reduced by 29%, and order-to-receipt time is reduced by 35%[22]. Studies by Global Data Mining have found that error rates in global trade processes approach

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10% to 20% in an average company without a GTM system, that the savings opportunities often go well beyond the 2.5% to 10% that initial studies by the Aberdeen Group suggested, and that direct compliance related savings opportunities can be substantial[23]. For example, an analysis of trade data for five organizations with 66B in revenue found direct-compliance related savings of 261.2M. That may only be 0.4%, but that's only one opportunity. Other opportunities include better Free Trade Zone (FTZ) management. For example, the average savings projected from the utilization of FTZ for a company with \$100 Million in annual imports is about 1.5%[24].

A Gartner study has found that a global trade management solution can reduce COGS by 2% to 3% by leveraging free trade agreements across the supply base, improve cash cycles by 4 to 5 days with improved visibility, reduce entry cost by 30% or more with automated import compliance, and reduce landed cost by over 5% with global logistics management capability[24].

5 SIM

Supplier Information Management (SIM) is the act of insuring that all information corresponding to a supplier, including location, contact, performance metrics, certifications, and contracts, is appropriately tracked and managed. An organization that practices good supplier information management tracks all data associated with a supplier in a central repository. In addition to basic company contact information, key contacts, their contact information, the company will also track current business ids and tax numbers, certifications, insurance policies, goods and services offered, contracts, and standard (payment) terms and conditions.

Good supplier information management technology makes it easy for an organization to track all of this data and for buyer and authorized supplier representatives alike to update the data in real-time (with review and approval by buyer administrators, if required). The primary savings opportunities offered by good supplier information management solutions revolve around duplicate and overpayment detection and recovery, fraud detection, fine prevention, and supply base optimization.

With good supplier information, it is easy to not only identify all payments that correspond to a supplier, but what contracts

and goods they correspond to. When invoices are grouped by supplier and contract, it's easy to find duplicates by a quick review of invoices with the same payment date and amount. When invoices are grouped by supplier, it is possible to do a quick analysis to see if any are for unusually large or small amounts, products not normally sourced from the supplier, or related to purchase orders not from assigned buyers. Each of these could indicate fraud and a quick manual review could identify potentially fraudulent invoices for further review. By accurately tracking payments, tax, and import/export requirements, the organization significantly reduces the risk of massive fines. With all relevant information at your virtual fingertips, it's an easy, quick, exercise to identify which suppliers might have goods and services to meet an organizational need. The time savings alone on sourcing and supply management projects enabled by SIM is massive. Less time means less personnel needed to manage data, and the savings on these low-value tactical tasks soon become massive.

Best-in-class organizations have realized that supplier development strategies can improve quality and performance by 20 percent; increase time-to-market cycles 10–20 percent; reduce new product costs by 18 percent; and reduce errors, mitigate risk and improve performance[18].

To keep up with the influx of data generated by modern sourcing and procurement systems, Supply Management organizations have had to increase employee headcount and system resources by 35%. With appropriate SIM technology, supply management executives find as much as a 7x improvement in time and expense required to manage suppliers. For example, using SIM, some organizations have achieved a 75% reduction in the time required to enable a supplier product catalog and a 92% decrease in the time required to review/approve supplier insurance certifications[19].

In addition, after implementing SIM, some organizations have achieved a 70% reduction in supplier information management costs and a reduction of over 30% in the cost of sourcing and contract management processes[20] while achieving up to a 500% time savings on initial projects[21].

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4 SPM

Supplier Performance Management, which attempts to insure that a supplier delivers on-time at the requisite level of quality in the prescribed quantity, is a continuous cycle of supply and capability assessment, performance monitoring, and improvement identification. It's all about connection, coordination, checking, control, and cultivation. In sophisticated SPM, suppliers are often integrated into an information exchange, buyer requirements are synchronized with supplier capabilities, scorecards are designed and implemented to generate metrics, performance is measured against SLAs, exceptional situations are identified, problems are resolved, and disruptions are minimized. SPM technology enables all of these capabilities by providing a web-accessible portal that allows buyer and supplier to share information in 360-degree scorecards, identify hiccups before they become roadblocks and collaborate on solutions, and identify potential opportunities for quality and performance improvements and cost reduction.

The major savings opportunities offered by Supplier Performance Management (SPM) solutions revolve around quality and performance improvement, collaborative process innovation, and mitigation of potential supply disruptions that can cost millions of dollars. By tracking performance on a regular basis, lapses in quality or sub-standard performance can be quickly identified. By providing a common platform, both parties can collaborate together to find ways to improve processes, procedures, and methodologies to improve productivity, quality, or value-add and effectively reduce cost. And by identifying lapses in production as soon as they occur, mitigations can be devised to find alternate sources of supply until production can resume.

Savings from SPM are indirect as compared to other supply management technologies. Insuring suppliers ship on time reduces expediting fees. Insuring suppliers perform quality checks reduces returns costs. Insuring suppliers bill accurately reduces overpayments and insures discounts are credited in a timely fashion. Reducing the rate of failure reduces the cost of recovery. Recovery costs to a business disruption are often more than the costs of the product or service being sourced. Supply chain disasters have destroyed billion dollar companies.

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Foxmeyer, a 5 Billion dollar wholesale drug distributor in 1996, ended up filing for bankruptcy as a result of a botched ERP upgrade, Hershey Foods lost at least 150 Million in revenue in 1999 due to a mucked up order management system, and Nike had a 100 Million revenue shortfall in 2001 due to issues with its new planning system[17]. Each company was heavily reliant on its suppliers and one can't help but think that better SPM, integrated with the company's processes, would have helped.

3 Spend Analysis

Technically, spend analysis is the process of aggregating, classifying, and leveraging spend data for the purpose of gaining visibility into cost reduction, performance improvement, and contract compliance opportunities. It is part of an overall spend management and visibility process that includes the analysis, award, and monitoring of corporate spend. Additionally, it is the first and last step of the strategic sourcing process that drives total value and allows an analyst to answer who is buying what from whom, when, where, and at what price.

Spend Analysis technology enables the buyer to analyze spend and spend related data for the purposes of identifying potential cost reduction opportunities. A good spend analysis solution allows for easy, flexible, and powerful data load; data transformation from any data format to any other data format; powerful reporting and output; anytime data refresh; powerful real-time performance on data sets of millions of transactions and flexibility in organization and hierarchy; and full user control.

Savings opportunities from spend analysis are numerous and plentiful. From duplicate payment and missing rebate identification, through contract labor and inventory redistribution and optimization, to demand management and maverick spend identification across the organization, the savings opportunities are almost limitless.

Spend Analysis is number three on our list because it is one of only two sourcing technologies that have been found, repeatedly, to consistently deliver double digit percentage savings. As per Bartolini's & Dwyer's study at Aberdeen in 2008[09], an average company will save 11% with a modern spend analysis system. Plus, as per AT Kearney's 2010 Indirect



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Procurement study, savings on indirect categories can be significantly higher. They found that organizations who were best-in-class could expect to save at least 10% in 47% of categories analyzed[10]. Savings on some categories can be substantial, with savings up to 20% on legal, 25% on Marketing, and 40% on consulting and integration not uncommon[11]. And, since an organization can use spend analysis to identify, and put a stop to, bypass spend, the savings opportunities identified are almost 100% realizable. It only takes a spend analysis pro a couple of days to identify the worst perpetrators of bypass spend, report them to the CFO and their supervisor, and have their behavior corrected. Many spend analysis pros have achieved over \$100,000 in savings using this strategy. Not bad for two days of work. And it's not limited to big companies – even a hospital can apply the technology and improve their operating margin 6.15%[12].

2 Decision Optimization

Decision Optimization is the application of rigorous analytical techniques to a well-defined scenario to arrive at the absolute best decision out of a multitude of possible alternatives in a

rigorous, repeatable, and provable fashion. Strategic sourcing decision optimization is the application of rigorous analytical techniques that allow for capacity, allocation, risk mitigation and qualitative constraints to a well-defined true-cost scenario using what-if analysis to arrive at the absolute best decision in a rigorous, repeatable, and provable fashion.

Strategic sourcing decision optimization provides a number of opportunities for savings. As one of the only two sourcing technologies repeatedly found to return double-digit savings, it can guide a buyer to an award scenario that maximizes value while minimizing cycle times. Not only can it be used to optimize good and service acquisition costs and freight costs, but it can also be used to optimize inventory costs, network costs, and even labor costs. But most importantly, it can allow an organization to optimize the end-to-end lifecycle costs of a good or service simultaneously, which ensures that a cost reduction in one component of the supply chain does not result in a significant cost increase in another component of the supply chain. It doesn't do any good to take 10% off of the unit cost by outsourcing to a different country if the freight costs and import costs increase the overall acquisition cost by 15%.

Decision Optimization is number two on our list because it is one of only two sourcing technologies that have been found, repeatedly, to consistently deliver double digit percentage savings. In studies done by Aberdeen in 2005[01] and 2007[02],

it was found that the average ROI of applying strategic sourcing decision optimization technology was 12%. That's an across-the-board average of 12%! In other words, if you applied it on 1 Billion dollars worth of spend, you could expect to save 120 Million. In today's economy, if you applied strategic sourcing decision optimization to 1 Billion of spend, you could probably save 12,000 jobs and be a hero.

Examples of significant savings are numerous. P&G, who publicly released the results of their application of decision optimization technology to over 3 Billion of spend between 2002 and 2005, saved a total of \$294.8 Million, or 9.6%[03]. At about the same time, General Motors (GM) saved about \$600 Million applying decision optimization technology to a multi-billion dollar spend[04].

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Single projects have also seen considerable savings success. Ford Research and Advanced Engineering was able to save \$50 million with a new supply chain design[05]. A large insurance company walked away with 20M in savings on what was approximately 100M of temporary labor contracts and Conoco Phillips saved over 20M on a single 110M hardware category[06].

Even the public sector (in Sweden) has saved using strategic sourcing decision optimization. They were able to reduce the cost of cleaning services by over 6% and the cost of domestic travel over 55%[07].

The point here is simple. It doesn't matter what sourcing process you use, – as long as a true strategic sourcing decision optimization solution, as defined in the wiki-paper[08], is applied to the sourcing problem, considerable cost reductions will be found.

1 Integrated, Collaborative, Sourcing

All of the technologies described in this paper can deliver significant savings, but the reality is that these savings are often only the tip of the iceberg. Proper utilization of an integrated and collaborative end-to-end sourcing suite can often deliver a return on investment greater than each individual solution can achieve on its own. While 10% to 12% savings can typically be realized by the appropriate application of a well-timed reverse auction, an extensive SPM effort, a focused spend analysis, or an expertly applied strategic sourcing decision optimization solution, the reality is that if the right combination of technologies are applied in the right way, they can often deliver 15%, 20%, 30%, and even 40% savings on hundred-million plus categories which were heavily scrutinized in the past and where little or no savings are expected.

These claims are not theoretic either. They have been achieved in reality, and verified by the author, by at least one company

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that has focused its efforts on an integrated, collaborative solution. BravoSolution, one of the providers of the type of platform that is being described herein, was able to obtain the following results with their platform:

Category	Spend (M)	Expected Savings	Realized Savings
Folding Cartons	220	Unkown	20%
Rigid Plastic Containers	52	< 8%	18%
Logistics	180	5%	22%
Less-than-Truckload	80	6%	44%
Ocean Freight	30	10%	25%
MRO	30	4%	17%
Facilitie	25	6%	18%
Rigid Packaging	430	Unkown	23%

In other words, when the three outlier cases (of folding cartons, rigid packaging and less-than-truckload) are excluded, the average savings was almost 3.3 times greater with an integrated, collaborative, approach than the expected savings that would otherwise have been achieved through a single point solution.

So what is an integrated, collaborative, solution? It is four things. First of all, it is a platform where all of the key sourcing technologies are integrated into a single solution. This allows all of the data to be shared among all the sourcing solutions and analyzed in each solution using the strengths of the solution to determine which of the solutions is the most appropriate to the category and where most of the sourcing effort should be focused.

Secondly, it is a platform where a strategic category manager can get a complete view of category dynamics and use them to focus in on a solution that improves stakeholder alignment.

If stakeholders are not in sync, it does not matter what level of savings are identified, negotiated, and / or contracted, as the savings will not be realized unless the plan is followed end-to-end.

Thirdly, it is a platform where the organization's suppliers can truly participate in the sourcing event in an interactive manner. If all the suppliers can do is submit a bid for product P from ship from F to ship to T using Lane L, that's not going to net the organization much in the way of savings if the most cost efficient solution the supplier has for your organization is product P' (in the same category that will meet organizational needs just as good as P) from ship from F' to ship to T using lane L' because that factory is the most cost efficient producer and the supplier has enough volume on that lane to guarantee low FTL costs. A good supplier knows the most cost effective way to provide its customer organization with the goods and services the customer needs relative to its business, and if the platform does not capture that knowledge, the organization will miss out on the significant savings available to it.

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Finally, it is a platform where all of the team members can work together collaboratively on a sourcing event. Regardless of whether the intent is to run a multi-round RFX negotiation, a reverse auction, or a finely tuned strategic sourcing decision optimization model, benefits will only be maximized if all stakeholders are able to contribute not only their requirements but their knowledge as well. In order to get the best results, the best product for the organizational needs must be selected from the best supplier at the best location for sourcing and shipped to the best location for distribution to the end customer. If the strategic category manager doesn't know about a mid-tier supplier with a new technology that can make a better product at a lower price point, the best supplier might not even be invited to the table. If the engineering supplier relationship manager does not get to provide his or her input, the strategic category manager might not know that a particular supplier location has a 5% higher defect rate and the location that costs 1% more to ship from actually saves the organization 7% in the long run as returns are minimized. And if the strategic customer account manager is not able to provide her input, the strategic category manager might not know that the third biggest customer's demand is sporadic and the need is easiest met if most of the inventory is stored in Atlanta and not Chicago. If the platform is truly collaborative, then all buyer and supplier stakeholders can participate in the effort to create the best total value scenario for the organization. And, as illustrated above, when the organizational stakeholders are aligned with the supplier(s), the savings can be massive.

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About BravoSolution



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Supply management executives are now, more than ever, under pressure to deliver more savings, develop and manage strategic supplier relationships, accelerate procurement cycles, and maintain process excellence. Confronted with these diverse yet consistent challenges, CPOs and sourcing professionals must seek tailored solutions that deliver rapid ROI to their business.

BravoSolution offers leading software and services to fit the needs of today's sophisticated supply management organizations. Our services organization, one of the world's largest teams of professionals dedicated exclusively to sourcing and procurement consulting, delivers lean, targeted services

to support strategic sourcing and procurement initiatives. Our industry leading software toolkit supports the full supply management lifecycle across a myriad of industries, geographies and business models.

As of today, over 40,000 procurement professionals in 60 different countries are benefiting from BravoSolution's technology and services, unlocking tangible benefits including increased process efficiency, decision support, cost reduction, improved process governance, greater quality relationships with vendors and the ability to share, understand and act upon the wealth of sourcing-related data held within their organization.

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