

Market Baskets: Delivering Value or Driving Distraction



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A common tool used to evaluate suppliers and make award decisions in a large volume, product-driven environment is the use of what are called “market baskets.” The concept behind the market basket is to present a set of suppliers with a representative sample of items to be acquired and request pricing for those items. The pricing is then utilized as part of the supplier selection process.

In a highly fragmented supply environment such as the Maintenance, Repair & Operations (MRO) space, moving beyond market basket pricing as a driver of supplier selection is a key factor to long-term success. While a market basket approach works well for selecting a commodity provider, it can be distracting when looking for a more holistic solution. Pricing will always be a part of the selection process, but is by no means the end-all-be-all.

It's important to be aware that there are numerous other qualifiers and capabilities to consider.

Understanding what other drivers to evaluate requires keen insight into the challenges of MRO market baskets:

The use of “loss leaders” within the market basket pricing creates the perception of value. When

you dig deeper, you'll find it's not sustainable.

Market baskets provide you with limited or poor quality data to support the sourcing process. Missing manufacturer names and part numbers, incomplete part descriptions, unclear unit of measure and no volume or utilization information means you're not really comparing apples to apples after all.

The market basket pits quoted prices, a simple price captured at a point in time, against the quality of sourced pricing, negotiated prices that leverage your spend efficiently. Sourced pricing is derived from a disciplined and repetitive model of engaging the supplier marketplace rather than just capturing a price.

It's clear that, when looking at the overall supply chain, price isn't the driver. How best, then, do you determine the proper factors to drive your supplier selection process?

To arrive at the answer, one must start with a few basic questions:

What is the business problem or issue driving the request for proposal?

What is expected from the suppliers? Receiving and fulfilling orders, providing sourcing and supplier management services, inventory management and inventory reduction, engineering services, delivering value as part of a transformative project or all of the above?

How will savings or value be captured in the transactional activity?

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Answering those questions helps you define the qualifications of your supplier beyond just buying and consolidated billing activities. Connecting MRO to your enterprise objectives and the overall supply chain means that the market basket position in the decision-making process should be minimized or possibly eliminated altogether.

How should a Procurement professional approach supplier selection to achieve enterprise-wide business objectives?

First, ensure that the supplier utilizes a market-leading position in the capture and reporting of savings at the transactional level with clear processes for establishing last price paid across the entirety of the set of products to be acquired, not just a market basket. This will allow you to clearly measure against your goals.

Next, ensure complete transparency in the procurement and reporting process by

requiring visibility to prices paid and fees charged for the services provided.

Finally, focus on the process to drive compliance to contracted prices, thereby driving savings realization – if a supplier has great prices, but can't execute the buy correctly, it's meaningless.

Keeping the focus on strategic business issues, not the market basket.

Without a complete understanding of the business challenge to be solved, without market-leading processes from the proposed suppliers, and without a clear understanding of the differences between integrator vs. distributor or manufacturer vs. outsourced supply chain services provider, the focus can shift to whether or not the market basket is competitive.

Even if the market basket is competitive, it's such a small percentage of the overall MRO spend, that you could be missing the big picture.

This shifted focus can distract from solving the business issues that are of real strategic importance to your enterprise as a whole. Price can always be negotiated, but look at their capabilities as well. They either have the capabilities to deliver a holistic solution or they don't.

About the author

Take strategic sourcing and mix it with operations in addition to organizational management and throw in over 15 years of experience leading IBM's procurement teams and you'll find [Kurt Meiers](#), one of the most savvy sourcing directors this side of the MRO supply chain.

Kurt's industry experience and client-centric approach makes him a sourcing expert for both SDI's internal and external clients. His expertise in all sourcing and category management activities means our clients have full confidence in SDI's ability to drive value throughout their enterprise.

About SDI

SDI is the supplier-agnostic business process outsourcer that takes the bigger view of the MRO supply chain.

For 40+ years, we've demonstrated value by demonstrating to our clients how the supply chain works best when the supply chain works together. Lower costs, smarter inventories and increased performance are all natural results from a more connected, coordinated and optimized MRO process.

For more information, please visit us at www.sdi.com.

