

ARTICLES

July 1, 2008 Issue 020 : [Return to Articles](#) : [Printable Version](#) **Procurement Talks: An Interview with Expedia**

Success in buying, or selling, depends upon knowledge. That means understanding what is being bought, who is buying it, and why.

Sounds simple enough. But finding someone with that kind of insight, and the inclination to share it, is like finding a snow cone in a desert.

To help increase buyer/seller understanding we're presenting an interview with a leading procurement professional; Gary Kawasaki, Senior Director of Corporate Procurement for Expedia.

Gary, a self-described procurement geek, has held leadership positions in procurement at Microsoft and Boeing, in addition to his current position at Expedia.



As Director of Procurement & Contract Services at Microsoft, Gary played a principal leadership role in the creation of a new, professional, corporate-wide procurement organization for Microsoft. He was instrumental in the development of a web based online ordering tool that was rolled out to all Microsoft employees.

Prior to Microsoft, Gary was Senior Materiel Manager for Research & Technology at Boeing's Defense & Space Group. There he managed cross-functional groups responsible for procurement budgets in the hundreds of millions for commercial and government research and development projects.

Gary's interview provided a wealth of insight into procurement's role, strategies and tactics. I've had to shorten that information and rearrange it for this article, and I'm responsible for any mistakes or confusion.

Regards,

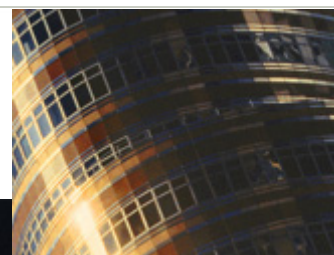
Chris Arlen, President, Service Performance

Can Procurement validate an incumbent's pricing without putting the contract out to bid?

There's really just three primary ways to validate if you're getting a fair and reasonable price:

1) COMPETITION

Find people doing the same thing and get them to compete. You don't know what their costs are, it's only a price comparison.

2) COST BASIS


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"One of the most productive weeks I have experienced in the past 14 years."

-Greg McGhee
 Vice President, Professional Facilities Management, Inc.

3) PRICING SET BY LAW

As you can guess, this is for government business. Enough said.

Boeing uses all three methods to varying degrees. For the defense and commercial aircraft businesses they primarily use cost basis.

That's because for many buys there are only a few vendors, landing gear for example. You work to understand that process. Then it's full disclosure.

Over the decades all vendors have adopted the same accounting standards. With good finance and procurement detective work you can sit down and do this.

Then it's just asking for copies of suppliers invoices and hours. Do the fact finding, and after that it is what it is.

But almost no one does this level of cost analysis in the private sector. Possibly in the telecom industry where there's more visibility into the cost structure and in the manufacturing industries.

Do you check vendor pricing in other ways?

When a vendor is not strategic but still a significant spend, we'll get market-basket pricing. Market-basket pricing deflects the argument that we could get it cheaper somewhere else.

For example, office products worldwide. Lots of companies can do the work. We went through an exhaustive RFP process and picked the best.

But it's a dynamic business. Margins are razor thin. And learning our system can be painful. So rather than rebid every year, we have the incumbent go into their market and provide a market-basket of pricing.

Using their market intelligence they provide a comparison of their pricing to competitors. They have to know that to do their business.

If I can get this market-basket priced the same as the other vendors, it deflates the imperative to bid someone out. Some individual items are higher, others lower. But we can analyze the total spend at the aggregate based on usage.

This process removes the whole issue of vendor margins. It allows me to look at quality, how they're stocking our virtual shelves. And I can see what's my internal cost of changing out vendors.

We may be paying more than the office product discounter down the street for a few items, but this brings in more qualitative aspects. It isn't always about price.

We also get feedback from important internal users. If they're content, no complaints, no service shortfalls then we'll stick with the incumbent.

We're not worried that an incumbent is gaming the market-basket pricing since we can audit a random sample of items.

(For a Revenue-IQ version of market-basket pricing read "[Dear Customer...about your RFP](#)")

How has procurement evolved?

In procurement's traditional role, we'd own vendor relationship from start to finish; requirements definition, input from Business Owners, source selection, RFX, and contract negotiation.

In the performance phase for vendor relationship we don't manage, we'd be involved with Business Owners in on-going performance measurement. We'd be reassessing what the Business Owner was getting with what was expected.

Managing the outputs, corrective actions, and adjusting the agreement as needed.

That's procurement owning the full cycle of the traditional purchasing transaction.

However, many smaller companies (customers) don't do a very good job at vendor management. That task falls back to the Business Owner who often times lacks the appropriate skills. Procurement will give them tools, and help protect our company.

But at end of day they (Business Owners) are responsible to get the vendor to deliver on their commitments.

Why has it evolved that way?

Lots of cost pressure on keeping organizations lean. Procurement could only be so big.

In the final analysis, our company gets the most value out of us in the front end, by picking the right vendors. That where you put your 9 procurement headcount in a 6,000 employee company.

Does Procurement quantify the cost of running an RFP process?

We typically don't think about conducting RFP's from just the perspective of what it costs to run one.

We do recognize that for vendors it's costly to prepare proposals, so we don't do them arbitrarily.

For procurement, it's a lot about the investment of time to perform the sourcing and the implementation costs. We take into account the administrative cost to both the company and the vendor, how much lead time the buy require and whether the overall need and potential benefit to the company warrants the effort.

If the current vendor is charging 25% more than we think they should and it takes three months to run an RFP process. That's three months of the 25% higher price against our time.

Business owners frequently ask us to switch incumbent vendors. We want to ensure that all factors are weighed before we agree to proceed.

What happens when Procurement doesn't agree with the Business Owner's choice of vendor?

Couple of levels to that. Let's say our internal client (the Business Owner) outsources a call center and they want a vendor whom we know has a negative track record. If we disagree with their decision, or if the risk is too high, we'll escalate it up our chain of command, up our side, and let the execs battle it out.

We can get overridden, it happens sometimes. At least you want to know the risks going into the deal. And if there are things from a risk mitigation standpoint that we can build into the agreement, we'll do that as well.

If it's in Expedia's best business interest to do a deal with this particular vendor, say they may be a big customer of ours, we don't have a choice.

Our role is to get the best possible deal from a value and risk mitigation standpoint. We'll put things into the agreement, such as a very favorable termination provision. So we can get out of the agreement if things go south.

We'll also insist on putting Service Level Agreements (SLAs) into place with

financial penalties. Or with breachable consequences so we can get out of the agreement quickly.

For example if the SLA is egregious enough, we can breach the contract instead of just dinging them with a financial penalty.

This is for catastrophic failures, for a call center that might be if the call center goes down and they don't have call routing or the emergency plan in place like they said.

We'll often negotiate a requirement for the outgoing vendor to provide transition services. These are just hooks into the agreement so the vendor will help us while we're looking for someone else. We'll negotiate that into the agreement, and hold them accountable.

When do you know your outsourced relationship is in trouble? What are the signs?

As we don't manage the relationship, the first signs are when internal Business Owners start to complain.

Those internal Business Owners with SLAs start to complain about a deterioration in vendor performance.

But it's a two way street. Vendors also complain they're not getting what they need from their Business Owners. Many agreements require Expedia to do something so the vendor can do their job.

We (procurement) try to arbitrate between the vendor and our Business Owner in order to sort out performance issues.

READER QUESTION: What triggers would automatically put a bid out for an underperforming group.

Any major failure where the performance of the incumbent was so egregious that we knew we just had to get out. If it's that bad, we may not bid it out. We'll see who we can go to fast and just write a contract for the sake of maintaining continuity..

And it would depend on how soon after the bid process was completed. If the failure happened within a few months of the contract being completed, we'd contact the number 2 vendor, if they still met our qualifications.

READER QUESTION: I would like to know how they break down the decision making process. Do they use a matrix with associated points and are all items equally important, or weighted?

Yes, most times. Procurement will weight criteria, if multiple Business Owners are involved. We'll come up with it so it serves all Business Owners.

READER QUESTION: If so, what generally is most important to them and what really gets the most points on a weighted scale.

There's no one right answer. I'd like to think that price is the most common weighted factor, but that's not always the case.

We're moving into new corporate offices and we put out a big services RFP. For that buy we didn't go with the low cost provider. Even though all vendors bid on the same items. More important to us was the vendor's commitment to our schedule.

We made delivery schedule an important criteria, which may offset the price considerations. Also, the vendor's past track record was important.

The more complicated the acquisition, the less price is the most important

criteria. For most services, you're buying service quality, reputation, etc., more than the lowest cost solution.

There's also this important concept of value. It's nice to have a tidy definition, but value varies depending on the circumstances. In my experience, it's always been in the eye of the beholder.

What do you look for in vendor proposals?

The thing that stands out the most is "does the bidder really understand the Expedia business?" That they've done their homework and really know us, or presented so that it resonates with what's important to us.

It's really incumbent upon a vendor to educate us about their value proposition. Typically our Business Owners know what they're buying, but that's not always the case. Assume that they don't know much. Vendors may have to take a step back and say "this is what we do and how it'll benefit you".

READER QUESTION: I am interested in hearing from you about how a company can work around the standard directive of registering on-line as a potential supplier, and then never hearing back. These large companies (Microsoft) are very protective of these departments, and there is not a way to "personalize" or to find out where you stand and who the decision maker is.

Vendor registration is often times intended to put up a screen between the Business Owner and vendors. It's a filter to control the communication and help keep things impartial when it comes time to make a sourcing decision.

We want to keep the business interaction as objective possible. It's pretty difficult to get around a well-designed process, so you're best bet is to just learn to live with it.

How do you make contact then?

One approach to meet with Business Owners outside the process is through industry associations and professional conferences.

Business owners who take their jobs seriously will generally participate in industry conferences to stay current.

Cold calls to procurement generally only work if we're looking for something in the space the vendor is calling about. It's hit or miss for the call.

Do you prefer to find vendors yourself, rather than they solicit you? If so, where do you go to find them?

I'd rather find vendors, than they find me. We use a lot of different resources to find vendors like professional associations, search engines geared to specific industries, vendor conferences, other procurement colleagues, etc.

What's the best way for vendors to make their first initial contact with you (drop in, phone, email, letter, referral, etc.)?

Email works the best in my case. We maintain lists of companies by commodities, services. Procurement guys have more work than they can handle so the best approach is to provide a concise description of your products or services that can be easily cataloged for future reference.

What do vendors do that absolutely drives you mad?

When vendors are too persistent and don't listen to what we're telling them. Another thing that gets to be annoying is the omnibus claim. The "Oh yeah, we can do that. Now what was that you wanted us to do?"

What's the most effective, least invasive way for vendors to get on your bid list?

If vendors send me something really crisp and concise there's a good chance I'll review their materials. And list other clients they do business with, especially if they're in similar technology based industries.

It's also important for them to do their homework first. Find out what's important to us and email a succinct offering that can be viewed in 10 seconds or less. That's the kind of thing I'm likely to save for future bids.

Has your prior work shaped your understanding and expectations of outsourcing? If so, how?

Boeing was a more traditional procurement background. We wouldn't think about outsourcing anything we didn't know backwards and forwards.

It's different at Microsoft and Expedia. New companies need to acquire this expertise. We don't have the time, or desire to develop it in-house, so we go outside for it. Creates lots of interesting challenges.

It also makes it very exciting. That's why I'm still here, because every one of these buys become a learning opportunity. In trying to articulate our needs, I learn a little more about what we're buying.

Have you read the [Service Contract Manifesto](#)?(trick question)

No. Should I?

Absolutely. Thank you for your time answering our questions.

[Image by eggman](#)

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