



it's about NUMBERS

e-sourcing and on-line auctioning adds up to be **business enhancing**

The numbers add up, e-sourcing and online auctioning is here to stay ... *Vendigital* is averaging 23% savings on direct materials for its customers ... This is a business changing tool you cannot ignore.....

In this edition we profile *AP Hydraulics*, a brake manufacturer who makes quality their first priority. They have implemented the startling results that e-sourcing and online auctions have delivered and improved quality at the same time.

[See main feature >>](#)



Auction components — overall savings of 24.7%

Welcome to DYNAMIC Procurement

Online auctioning is arguably THE most exciting new purchasing technique to appear for years. It has, and continues to, provoke many debates.

Vendigital is at the forefront of the development of this business enhancing technique. This quarterly newsletter aims to give an insight into the reasons why online auctioning, and the work preparing for an auction, delivers amazing results.

In each edition **Professor Richard Lamming** of *Bath University*, the UK's leading purchasing academic, will critique the observations and provide further enlightenment. In addition, we would encourage YOU to put forward your thoughts on the various debates, particularly if you have had first hand experience. (see back page)

We hope you find "Dynamic Procurement" thought provoking and look forward to your comments.



"Vendigital opened the gates to **1000s** of potential global suppliers who we wouldn't normally get the opportunity to find"

Buyer: David Nesbitt MD,
AP Hydraulics Ltd



"Without Vendigital, AP Hydraulics would never have found us and we wouldn't have increased our sales by **15%**"

Supplier: Herve Saddier MD,
New AP Hydraulics Supplier

14
countries

323
suppliers

24
cost sa

30%
cost difference

84
minutes auction

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Cost effectiveness is derived from matching exactly a buyer's requirements with a supplier's capability and capacity.

The problem facing purchasers buying direct materials, particularly engineered items, is the difficulty in finding suppliers who can not only make the product but who can make it very cost effectively. Cost effectiveness is derived from matching exactly a buyer's requirements with a supplier's capability and capacity.

Searching for that perfect match can be very difficult and time consuming. The consequence is that when looking for a new supplier the normal procedure is to put 3-5 sets of drawings out to a favoured group of companies. This is followed by negotiations with the supplier who produced the best quotation, with a view to reducing the price further. However, the likelihood of finding a perfect match between a buyer's

requirements and a supplier's capability/capacity in such a small sample is remote and buyers end up placing business with the best combination of cost and quality that was available within the sample.

Vendigital recently conducted a purchasing project over a 7 week period for AP Hydraulics Ltd (APH). APH is part of the AP group that has been manufacturing brakes, clutches and hydraulic systems for the last 80 years. During the project we evaluated the differences between the quotes of the potential suppliers.

The cost difference between the quotes received from the 40 companies contacted was 30%! Had only 3-5 companies been contacted the probability that one of the cost effective suppliers were identified would have been remote.

We sent an outline of the contract to 323 suppliers identified on our databases in 14 different countries. For technical and capacity reasons most discounted themselves from the invite to tender. Of the number contacted, 40 companies said that they could meet the request and were then, following the buyer's approval, sent the complete contract information. The cost difference between the quotes received from the 40 companies contacted was 30%! Had only 3-5 companies been contacted the probability that one of the cost effective suppliers were identified would have been remote.

Improving the probability of finding the perfect solution can be achieved by approaching 100s of potential suppliers manually. Anyone that has attempted to run a tendering process involving even a dozen companies will know that approaching 100s of companies is out of the question.

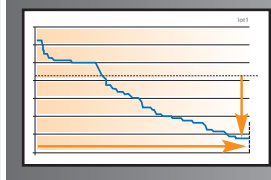


Richard Lamming comment

What is being highlighted here is the huge influence that a marketplace can make to the price of an item. The best price from a random sample of only 3 or 4 companies is, for a commodity item, not representative and will not reflect true market price. This is a fact well known to those buying equity, metals, corn etc. For such commodities marketplaces have long been in place and the concept of market price well understood. However, in many businesses the inadequacies of the traditional tendering process have overridden the logical move to create a marketplace. In addition, buyers, hiding behind the notion that their products are somehow different and not commodities, have been able to create comfort zones in the way they work.

The exciting thing that online auctioning is doing is removing the excuses and the inefficiencies and creating new marketplaces. Market price can now be established for almost all components and materials.

Why is this important? The end consumer always has choice in the retail marketplace and will reject a product if it is not good value. Traditionally it is difficult to determine in a complex supply chain, which companies are not cost effective in their supply of materials, components, services etc. With the arrival of online auctions, market places can exist all along the supply chain. It is not just about price, it also enables the *value* of supply to be analysed at each point, improving the competitiveness of the overall chain. That overall chain competitiveness is vitally important to all the businesses it comprises and online auctions will provide the way of better understanding the value at each interface — for customers and suppliers.



"If anyone told me 6 months ago that I would be buying brake components from a French company at 25% less than the previous supplier, as a result of an online auction, I would have said they didn't understand my business. But I am and I'm now looking forward to the next event."

Lot one of four — saving 16% **Buyer:** Peter Hotchkiss *Purchasing Manager, AP Hydraulics Ltd*

Professor Richard Lamming – biography



Richard is recognised as a leading international expert in contemporary developments in procurement, strategic sourcing, supply chain relationships and the implications of e-commerce. Richard has an engineering background and had practical experience of purchasing in the manufacturing sector before becoming an academic in the 1980s.

Richard's doctoral work focused on innovation in manufacturing supply chains and his research at MIT led to the development of the supply concepts associated with lean production. He is currently *Director of the Centre for Research in Strategic Purchasing and Supply* in the *School of Management* at the *University of Bath*.

The ensuing volume of questions demanding answers would become overwhelming and unmanageable. The necessary communications would take too long and would probably break down entirely amidst confusion over who has been told what.

The use of *Vendigital's* automated RFX software (it can be used for Requests for Quotation or Requests for Proposals) makes such communication easy. Combined with highly experienced staff and an international network to facilitate global supplier searching, it is a powerful resource for improving the probabilities of finding the perfect match between requirements and a suppliers capability/capacity.

The result of this extensive supplier searching approach is clear to see. In this particular auction *AP Hydraulics* resourced the business to a company they would never have otherwise found, for a cost saving of 24.7%, and an increase in component quality.

To find out how *Vendigital* can help you, contact:
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v DYNAMIC People ^



Dominic Jephcott
Founder and MD, Vendigital Ltd

After graduating from *Cambridge University* in 1990, Dominic continued at Cambridge to do a *Masters in Engineering Management*. He went from university to work for what was then *T&N* at their Advanced Manufacturing department located in Rugby, England. He quickly demonstrated his ability to improve the profitability of companies whilst working for the 'Task Force'. This was a small group of relatively young engineers that were given international assignments within *T&N's* group companies. This success paved the way to him becoming the site director at Ilminster with executive responsibility. The site comprised a cluster of small, specialised engineering companies, formally part of *T&N*, latterly owned by *Federal Mogul*.

The executive responsibility for those companies highlighted in Dominic's mind the importance that purchasing plays in improving the profitability of any business. With the belief that this business function could be done better in so many different companies, Dominic resigned from *Federal Mogul* in 2000, sold his house to cover his expenses, started putting together a team and raising the business funding required to start *Vendigital*. The plan came together in Dec 2000 and *Vendigital* was formed.

Since then, under Dominic's direction, the business has grown both organically, and by the acquisition of *Serveline GmbH* this year. He remains passionate about delivering the best possible results for *Vendigital* clients.

v BREAKING News ^



<< An unbiased view:

We are always conscious that, when talking about the results of one of our auctions, people think, "You would say that wouldn't you". The auction discussed in this newsletter has also been featured in the October issue of *Manufacturing Computer Solutions*. Their reporter, Dean Palmer, independently interviewed David Nesbitt of *AP Hydraulics*. So if you don't believe us ...

See www.mcsolutions.co.uk

(Give us a call if you want us to send you a copy)

Size matters?!

Everyone recognises that BIG contracts have the ability to attract a lot of attention. In the last few weeks *Vendigital* has run several auctions for relatively small contracts. For example, £225K of electric motors. The result of this auction is that our customer is now assessing several opportunities with cost savings of >15% from potential suppliers in Turkey and Brazil. Similarly, £115K of PCBs — the buyer has now implemented savings of 20%. It does not always have to be a BIG contract for the numbers to add up for an auction.

> READERS Views

>> If you have a view on the issues discussed, please write to the address below or e-mail: adrian.griffiths@vendigital.com

> NEXT Issue

>> It's about KNOWLEDGE... another reason that online auctions are achieving startling results!



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