

outsourcing category MANAGEMENT...



Enhancing the contribution of 'B Class' categories of spend

Vendigital is assisting purchasing teams to increase their company's profits by providing category management services. Many companies already outsource the purchasing of spend with low value and low strategic importance, typically referred to as the 'C class' categories. This is done to reduce the relatively high transactional costs associated with buying such items and to potentially gain economies of scale.

By contrast, Vendigital is providing category management services for 'B Class' categories of spend. These categories are often not large enough for in-house knowledge of supply markets to be developed sufficiently to purchase effectively. The benefits of outsourcing them are significantly reduced unit prices and/or increased value due to the category management focus that they are then given.

[See main feature >>](#)

In this issue

Feature: Outsourcing Category Management – Improving the contribution from 'B' class items.

Case Study: Endress & Hauser – Making good decisions based on sound facts.

Comment: Prof Richard Lamming – Keeping abreast of global markets.

Value Auctions: The next generation of online negotiations.

In the News: Malcolm Wheatley talks to Vetco Gray about their experience of e-sourcing.

New Office: Vendigital opens a new office in the USA.



Endress & Hauser find market price represents a 30% saving.

BUYING market price

Endress+Hauser is a leading supplier of measuring instruments and automation solutions for the industrial process engineering industry. As with many such companies they buy a vast range of specialist items, two of which are known as 'adaptors' and 'flanges', both in essence being turned components. Recognising the complexity and size of the global turned components market, and encouraged by the result of a previous project conducted by Vendigital, they enlisted Vendigital's assistance to ensure that the adaptors and flanges were being purchased at the global market price.

With extensive experience in the turned components field, gained from hundreds of tenders conducted, Vendigital was able to identify potential suppliers from around the world that were capable of and interested in supplying E&H's components. Over 850 turned component suppliers were contacted to determine their appropriateness and interest in the contract. Over 70 suppliers considered the contract in detail via Vendigital's eRFx platform. When the market price was established using an online negotiation the cost of these components was definitive. But was the result worth the effort? "The total spend was around €660K across 18 part numbers. Without Vendigital's experience it is unlikely that we would have achieved the 30% savings that we did. We would not have had the resource with experience of these parts to throw at the project" said Uwe Koschany, Project Manager at E&H. "What was also surprising is that the optimum answer was not as simple as taking all the parts to China. The lowest overall cost came from a range of suppliers including some in Germany and the UK. This is good since we can maintain the benefits of having local supply knowing that they are more competitive than even the best Chinese suppliers. All things considered this was a great result showing that a comprehensive project was really worth while."

Reflecting on the project Bernd Wolf, Head of Purchasing for E&H GmbH comments; "The interesting thing is we have lots of different items that typically we would not invest the time and effort to achieve Vendigital's level of knowledge in each market. I am now keen to find out how much benefit we can gain in total, across similar categories, by 'buying in' the market experience and tendering resources."

"Without Vendigital's experience it is unlikely that we would have achieved the 30% savings that we did."

Uwe Koschany
Project Manager
E&H



outsourcing category MANAGEMENT...



Enhancing the contribution of 'B Class' categories of spend

Category Management is not a novel idea. Typically it is applied to the categories of significant cost within a purchasing portfolio and undertaken by employees, but this is a norm that is quickly changing.

When a purchasing portfolio is subjected to a classical Pareto analysis, categories of spend are traditionally defined as A, B or C. 'A' comprising the largest and or most strategically important categories with 'B' and 'C' representing the smaller and or less strategic categories. Category Managers, either "home-grown" or specifically recruited, are assigned to the 'A' class categories. Supply market research is conducted, tenders are run and supplier relationships are enhanced to improve the value of the supply.

'B' and 'C' class categories are by contrast relatively neglected. Communication with the suppliers is often limited to the quantities required in the next time period and sporadic price negotiations as and when the supplier comes looking for a price increase. However, probably because of the lack of focus they have received

over extended periods of time, when approached in a comprehensive fashion B class items frequently turn out to be rich seams for cost-reduction.

"It's because we don't have enough people to manage these categories proactively," is the traditional statement, but are more people the solution? Certainly more people would enable more categories of spend along the Pareto curve to be considered, and some benefit will almost certainly accrue. However, when lots of people are employed, their ongoing cost can offset the savings. In addition, with an intense focus on relatively small areas of non-strategic spend, good people get bored and leave. Even if they don't, and focus lots of attention on their category, the supply market information at their disposal will be limited to that gleaned by infrequent tenders causing their input to become increasingly ineffective.

Professor Lamming has for several years indicated that the solution, particularly for SMEs, is to outsource the 'deal making' of 'B' and 'C' class items. This suggestion rests upon two premises.



Firstly, a company like Vendigital has a greater capability to find potential suppliers and run tenders using world class techniques than most companies. Secondly, that the numbers of tenders being run within each category gives a flow of up to date market information.

For a company like Vendigital, 'purchasing' is the reason for existence and not just another business function, all be it a very necessary one. It should therefore not be surprising that it has access to the best supplier data bases, extensive supplier searching networks and makes full use of the very best tendering techniques. More fundamentally, the numbers of tenders being run within many categories of spend is large. With responsibility for extensive proportions of purchasing for multiple companies, Vendigital tenders on a frequent basis those items which each company on their own might only look at once every few years. This leads to a constant presence in these markets providing the market information required to maintain an elevated viewpoint over the landscape of possible deals.

By outsourcing categories of spend to a company like Vendigital, those categories which normally would not have received the attention that they could have, your B and C categories, effectively become Vendigital's A categories. As such they frequently become significant sources of savings. Potential negative material price variance from these items is also reduced, but the benefit does not end with cost savings and cost control. The focus provided by category management often leads to an increase in value from the supply chain. This may come from supplier innovation or optimised service levels. Vendigital's capabilities in Value Engineering, Project Management and Online Value Negotiations (see back page) ensure that all these benefits are also achieved, and in the shortest possible timescales.

If you want to discuss the concept of procurement outsourcing and the competitive advantage clients are gaining from this then please call Vendigital: +44 (0) 1793 891777

Richard Lamming comment

In the financial markets some deals are only available for fractions of seconds and sophisticated software has been developed to recognise, evaluate and take advantage of these transient opportunities. When buying such things as machined components or plastic mouldings the timescales involved are of course much greater. However, nobody would deny that the supply markets for bespoke components have changed greatly in recent years and that the rate of change is increasing. This change results from technological improvements that reduce the cost of manufacture, political change facilitating the emergence of new sources of supply, and reductions in product life cycles that spawn lots of design changes.

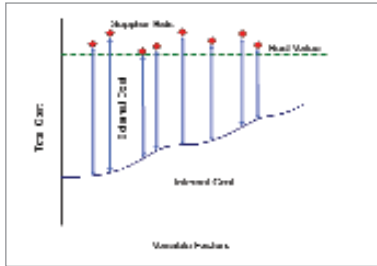
This rate of change presents a constant stream of opportunities for companies to improve their products and reduce costs. However, it also presents an enormous challenge for the purchasing professional who has a variety of spend categories to manage. The challenge comes from two directions: pricing pressure from suppliers and demand swings in sales markets. New products, design changes and raw material price fluctuations all give incumbent suppliers a perfect opportunity to improve their margins. Frequently the beleaguered purchaser does not have the time or the up-to-date market knowledge to determine whether the increase due to these changes is fair or proportionate but has to agree the change swiftly to ensure continuity of supply. Movements can happen in markets at anytime; if a category is tendered infrequently the price may stay relatively high for a long time before being brought into line.

Today's purchaser requires two things to succeed in quickly changing markets: the ability to tender categories efficiently, into pre-identified liquid marketplaces, and the dependable flow of information from the market that will trigger a tender at the opportune time. The first of these is easier to achieve than the latter. That requires significant levels of spend to create the activity within the category to gain the information – spend levels that many companies simply do not have. Such information can be obtained however by outsourcing the deal making in order to gain the necessary scale and process capability to ensure that actual prices track the market price.



Professor Richard Lamming is Director of the *School of Management* at the *University of Southampton*.

> Value AUCTIONS



When putting together a tender there is always a lot of debate around the service levels that are required. Ultimately, for example, parts need to get to the production line, but should the company or the supplier get them there? There is always some stock needed within the supply chain, but should the vendor manage and own the inventory or should the buyer own it? Cash will be required to finance the supply chain, but should the buyer or the supplier finance this? Typically a buyer determines what they believe is to their advantage and requests quotations for that level of service. The cost of supplying the

service must be eventually carried by the buyer, the question is, is it better to pay for it directly and upfront, or to amortise it into the price of the component. Clearly it depends on whether it is more cost effective for the buyer or the supplier to provide the service but this in turn depends on the circumstances and capabilities of each supplier in the tender.

Vendigital has developed a unique and market-leading online negotiation technique that allows bidders to input their price and the service levels they wish to offer. Buyers input the cost to themselves of providing the services, the software works out the total cost of the supply depending on what services a supplier has offered. So, for example, a supplier that is in a position to supply components to the buyer's production line at a lower cost than the buyer doing it themselves can reduce the overall cost of supply by increasing the value that they are offering.

The online Value Auction has arrived!

> In the NEWS



Big supply chain software implementations were supposed to be a 'cure-all' a few years ago but does that still hold true in a much changed global environment? This was the question posed by Malcolm Wheatley

in a recent article in The Manufacturer. He concluded that "Despite a bumpy start, supply chain software can offer a genuine return."

However, part of his evidence for this conclusion came from an interview with Neil Robinson, European vice-president of supply chain operations at Bristol based Vetco Gray, a manufacturer of drilling and pipeline products for the oil industry. In the interview Neil commented "Conventional e-auction procurement software wasn't the right answer for us. We met up with Vendigital and realised they understood mechanical engineering and weren't simply focused on large volumes of readily sourced standard materials."

Clearly there is a lot more to success within complex supply chains than a piece of software, a fact that our customers understand!

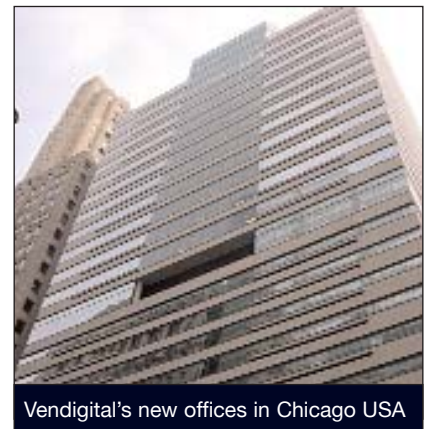
> Win an IPOD



Please give us your views.

We are very interested to know if you agree or disagree with the views and concepts presented in this newsletter. If you would take a few minutes to visit our website at www.vendigital.com and let us know what you think by answering a few questions we will enter you into the prize draw. One of our readers will win an iPod nano.

> New office in USA



Vendigital's new offices in Chicago USA

Many of our customers are global organisations. To better serve them we have opened another office located in Chicago, USA. It is very important to us that we support our customers in a comprehensive manner, wherever they are. For our customers in the USA, thanks for your support and business and we look forward to working even more closely with you.

Back issues of Dynamic Procurement are available, please see our website
More information: Please contact: adrian.griffiths@vendigital.com

VENDIGITAL[®]
dynamic procurement

Epsilon, Windmill Hill Business Park, Whitehill Way, Swindon, SN5 6NX, UK
T +44(0) 1793 891777 F +44(0) 1793 891778

Theodor-Heuss-Ring 23, D- 50668 Köln, Germany
T + 49 (0) 221 77109588 F + 49 (0) 221 7710931

203 North LaSalle Street, Suite 2100, Chicago, Illinois 60601, USA
T +1 312 558 1542 F +1 312 346 9603

www.vendigital.com

© Vendigital. All rights reserved.
Unsubscribe: If you no longer wish to receive this newsletter please let us know using the contact details above