

success demands constant CHANGE...



Sustain the benefits from low cost sourcing in the longer term

There is no doubt that navigating the world in a yacht is not simply a question of unfurling a sail and setting a course. The multitude of variables that the sea and weather can throw at you necessitates a process of constant change to achieve the objective.

Sourcing components from some of the world's low cost economies is very similar. Lower cost economies have attracted numerous manufacturers over the years. Today, China is seen by many as the

place to be, whereas a few years ago it was Korea and tomorrow it may be India. Alternatively, if the price of oil combines with a carbon tax to push the costs of transport to new heights it could be somewhere completely different.

The key to successful low cost sourcing is to appreciate that it is a continual process not a country – a process with a clear aim but agile enough to respond to the ever increasing rate of change in global markets.

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INVITATION



Low Cost Country Sourcing – turning quick wins into sustainable advantage

Professor Richard Lamming will provide insight to this subject at a seminar hosted by Vendigital

Date: Thursday 22 June

Time: 5.00 – 7.15pm followed by canapés and drinks

Venue: The Institute of Mechanical Engineers,
1 Bird Cage Walk, Westminster, London, SW1H 9JJ

Register: Visit www.vendigital.com/seminar
or rsvp via the attached letter

BEYOND cost savings

As the world's leading manufacturer of peristaltic pumps, Watson-Marlow Bredel is always searching for high quality suppliers that can enhance its own innovation and market position. To this end, the company invited Vendigital to undertake a Savings Optimiser Programme across all areas of its purchasing.

"Whilst this was uncharted water, I felt sure the journey would take us beyond cost savings and provide us with access to more innovative and higher quality suppliers," says Peter Morgan, quality and materials manager at Watson-Marlow Bredel.

"My initial priority was to improve the way we prepared our budget for the coming year. I didn't want to establish financial targets based on best guesses and insufficient market data, so I invited Vendigital to analyse our entire spend portfolio and to identify the categories where we could achieve the greatest improvements."

Vendigital's Saving Optimiser Programme commenced with two analysis workshops attended by members of Watson-Marlow Bredel's procurement and engineering teams as well as Vendigital. Multiple spend categories were profiled using 23 criteria to allow Vendigital to assess the likely cost savings and implementation timescales for each. By following a defined analytical process, the group could select the optimum projects to be included within the 2006 improvement programme.

Peter continues, "We selected the five projects that would deliver the greatest returns whilst allowing for the limits on our resources to implement changes in supply. The anticipated savings have ensured my budgets are now based on more robust information and analysis."

Vendigital's first project was to review the printed circuit boards (PCBs) used in Watson-Marlow Bredel's peristaltic pumps. An extensive search for suppliers across Europe and the Far East found over 600 potential companies. Over 80 suppliers met the agreed criteria and took part in the tender, with 9 companies attending an online auction. The tendering exercise has created some significant potential savings for Watson-Marlow Bredel. They are now visiting suppliers to determine which offer will be accepted and implemented.

"We've been able to determine an accurate global market price for our specific PCBs and are now gathering data for project number two," he adds.

"take us beyond cost savings and provide us with access to more innovative and higher quality suppliers,"

Peter Morgan, *Quality and Materials Manager*
Watson-Marlow Bredel



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Sustain the benefits from low cost sourcing in the longer term

Just about every purchasing professional is involved to some degree in Low Cost (Country) Sourcing. For many, this has become another way of saying, "Let's go to China". Many companies are achieving significant cost advantages in doing this. However, there are a significant and growing number of companies that are finding it difficult to sustain the benefits in the longer term. The lessons that can be learned from these cases can be as valuable as those from the success stories.

Those that have moved categories of spend to far off shores will readily admit that the whole process was not without difficulty. It can be a minefield with language barriers, quality issues, payment problems or significant working capital implications and shipping delays. These issues combine to cause major production delays and other disruptions which all add to the costs.

When reflecting on the issues behind the problems, two features stand out. Firstly, decisions were frequently made in the absence of properly evaluated options.

Just because a price in China is much lower than the current price it does not validate the decision to move there. Often the total cost incurred in going to China is greater than sources much closer to home that were never identified or evaluated. Many options, including those nearer to home, should be fully investigated before a decision is made about the right country or area into which to move.

Secondly, many do not consider in enough detail whether the categories they are taking to China, or another distant country, are suitable. Labour content and logistics costs on their own are insufficient to make a decision to commit a category to low cost sourcing. All the key factors should be considered and quantified using robust analysis. The Vendigital Distance Sourcing tool, as featured on the back page, is a way of doing this. The reason that so many factors should be considered is that, for low cost sourcing to be a sustainable source of competitive advantage, it may involve moving a category of components many times.



Richard Lamming comment

The adjoining article correctly points out that Low Cost Sourcing is a continual process rather than a single re-sourcing to a specific place. The implication of this statement is that supplier relationships are becoming more transient and the switching of business to alternative suppliers increasing in frequency. This is indeed true for the right categories of spend at the appropriate stage in their life-cycle but this approach should be just a part of a comprehensive sourcing strategy. The challenge for the procurement professional is to ensure that the optimum procurement approach is applied at each stage of a product's existence and that each function in their own organisation is aligned to and facilitating that approach.

This requirement can be clearly illustrated in the case of low cost sourcing. Certainly success in this process is dependent on developing, or having access to, advanced procurement techniques. However it is equally dependent on the ability to move the manufacture of parts around the world quickly and efficiently and the key to this is the design of the component. There is no point in designing something that is destined for low cost sourcing and making it from materials that are not globally available. The value density of a component when packed into a container needs to become a design objective, as does the robustness of the manufacturing processes essential to its creation. Designing-in difficult processes will mean switching from one supplier to another becomes difficult thereby limiting the ability to maintain a competitive advantage through low cost sourcing.

Designing for easy supplier switching and economical transportation enhances the purchasing professional's ability to take advantage of market opportunities. However, the associated risk with this is the appropriation of the design by competitors. The magnitude and consequence of this risk cannot be controlled by sourcing alone but must be undertaken in conjunction with decisions about the rate of new product launches, the make vs. buy balance and the nature of the relationship with the customer – they all play a vital part in managing this risk. Traditionally, these decisions are not made by purchasing, but to succeed, companies need to integrate these disparate decisions into a cohesive sourcing strategy.

Low cost regions keep changing at a considerable rate. Once a company's business advantage becomes the use of low cost economies, then it must be able to manage this rapid rate of change.

This can be illustrated even within China. Early movers set up suppliers on the East coast, but these sources are already becoming less competitive, due to high salary inflation, when compared to suppliers based further west in China.

The rapid change in the cost of labour is not the only thing that can quickly change the competitiveness of a supplier. Emerging economies typically experience high people turnover, and suppliers frequently lose the key people that have been trained in the manufacture of their components. In addition, rapid and large movements of currency and transport costs all contribute to the changing landscape.

This rate of change means that the optimum supplier can become sub-optimal far more quickly than we

may be used to. When this happens the sourcing process has to be repeated to re-establish current market price. If the cost advantages have been eroded, components must be moved again. If not, the competitive advantage through low cost sourcing will be diminished. In this context, taking two or three years to set up a new supplier is not an option since by the time the new supplier is operational, they may no longer be part of a low cost economy!

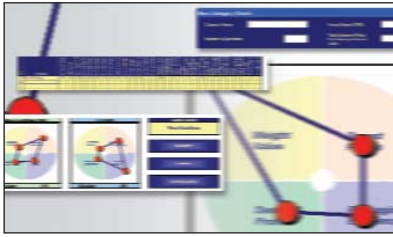
Competitive advantage through low cost sourcing becomes sustainable when a company can combine advanced global sourcing techniques which constantly evaluate supply options with the ability to design components that can quickly be moved from one supplier to another.

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



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

> Distance SOURCING ANALYSIS



When considering sourcing from low cost economies, careful and detailed analysis is required before deciding whether a category of spend is suitable. To assist in the decision making process, Vendigital has developed a unique "Distance Sourcing Analysis"

tool which identifies if a spend category is appropriate for long distance sourcing.

The Distance Sourcing Analysis tool considers the four main characteristics of a spend category which have a direct impact on its suitability for long distance sourcing i.e. logistics, manufacturing requirements, design & development and transferability. Each of these category characteristics is divided into a further four sub-sections in order to specifically show what makes a spend category suitable for long distance sourcing or what might present a problem.

Detailed data for each spend category is entered through an easy to use interface and the analysis tool produces graphical and numerical reports on each category's optimum long distance sourcing position against each characteristic and sub-section.

The level of deviation in each area leads to a recommendation to source from long distance, middle distance (for example Eastern Europe for a UK company), nationally or locally.

If you'd like to put a category of spend to the test, please call Vendigital on: +44 (0) 1793 891777

> In the NEWS



"The chances of finding a supplier (within a global supply market) that matches your requirements in the traditional way are pretty remote" concluded a recent report in Manufacturing Computer Solutions magazine.

Recognising that finding an optimum supplier can deliver average savings of 26% above the traditional process, Andrew Ward (journalist) spoke to Watson Marlow Bredel Pumps to learn how it has adopted the latest procurement processes.

Peter Morgan from Watson Marlow Bredel said "Vendigital was an opportunity to make some step changes...we get better results with less work."



Savings of £212,000 per year, representing a 35% saving on the University of Northumbria's original stationery expenditure was the result reported in our local press, The Swindon Advertiser.

The purchasing project was run by Vendigital and concluded in an on-line auction. Twelve suppliers attended the auction during which 312 bids were made during a 90-minute event.

Trevor Gabriele, Deputy Finance Director (Accounting) at Northumbria University says, "The Vendigital platform is ideal for the public sector. The bulletin board is particularly useful, since suppliers have an open view of all questions put to the University and every answer.

"We were delighted with the results," he continues. "The auction was excellent and the savings were beyond our expectations."

> Cost REDUCTION



Vendigital is delighted to announce that it has been appointed by Longley Farm, Yorkshire's favourite producer of cream, yoghurt and cottage cheese, to provide category management services to the dairy over the next three years. This means Longley Farm's Buyers now have at their disposal, a team of purchasing professionals equipped with the latest purchasing techniques.

Vendigital will help Longley Farm improve its market research, tendering processes, negotiations, and ongoing supplier management across all areas of the business.



I-POD WINNER

Congratulations to Peter Schneider from Marquardt GmbH – winner of our i-pod competition.

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

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