

success demands KNOWLEDGE...



Effective cost reduction requires market knowledge

Procurement professionals today agree that cost reduction is their number one priority. But to be successful in achieving cost reductions in a global economy requires a considerable amount of understanding and knowledge of supply markets.

When operating on a global scale, there are vast numbers of options and variables that need to be considered. Much like a jet pilot, the procurement professional needs sophisticated tools and instruments to measure what is happening in the market and how they are performing.

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SEMINAR INVITATION

Dealing in the Future

The role of procurement within a company is set to change in the near future. This seminar will explore what the changes are likely to be and how procurement will increase its contribution to the organisation of the future.

Date: Thursday 2 November 2006

Time: 5.00 – 7.15pm followed by canapés and drinks

Venue: The Institute of Mechanical Engineers,
1 Bird Cage Walk, Westminster, London, SR1H 9JR

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

SUSTAINING low costs

Britax, the leading child car seat producer, has engaged Vendigital to provide active management support of its procurement spend in a long-term relationship.

Vendigital is providing its full category management service to Britax. This comprises cost reduction activities across its categories, followed by active market and supplier management so that the benefits of cost reductions are subsequently maintained and enhanced. This draws on Vendigital's vast experience in contract maintenance, supplier management and professional procurement services.

Thomas Lung, Operations Director Europe at Britax explains: "Our procurement teams in the UK and Germany must ensure the production lines are kept running, so their attention is focused primarily on higher cost A-category items such as plastic seat mouldings and covers. However, by putting greater emphasis on our B-category with the aid of Vendigital, we believe there are huge savings to be made."

Vendigital has become an integral part of the Britax team. With corresponding offices in the UK and Germany, Vendigital ensures that there are no language barriers and can help foster a fully coordinated European approach across Britax's two procurement sites.

A new spend management tool has been implemented for Britax. This incorporates a full spend analysis, purchasing history and sensitivity analysis around raw material price fluctuations and the like. "This is an important tool and will ensure we are fully prepared for every supplier discussion," says Thomas.

For Britax's UK User Guides, Vendigital hosted an online auction that identified potential savings of 42% and the auction for German User Guides identified savings of 35.7%. Other projects include the sourcing of metal parts, injection mouldings and local warehousing.

Thomas concludes: "By working with Vendigital, we are implementing a different style of doing business. Whilst we aim to reduce costs in the short term, we believe that by working with Vendigital over the coming years, we can maintain the lowest costs and continue to make dramatic improvements to our procurement across Europe."

"...with the aid of Vendigital, we believe there are huge savings to be made"
Thomas Lung, *Operations Director Europe*, Britax



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Cost Reduction

The greatest challenge facing procurement professionals is cost reduction, according to 53.5% of the purchasing directors and managers who took part in our recent survey*. This is, of course, no surprise given how commodity prices have moved in recent years. The requirement to reduce costs is clear, but "how" and "when" is the subject of much debate.

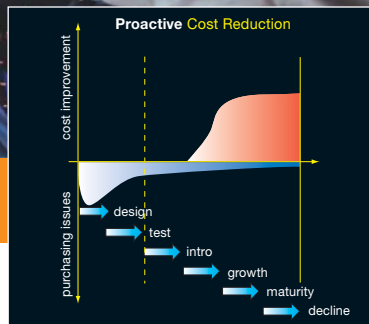
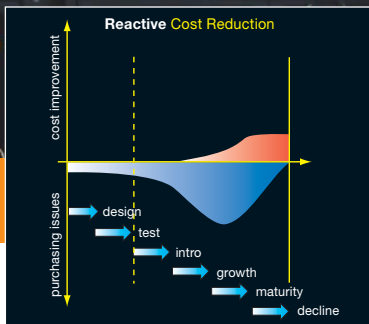
The approach most purchasers take to cost reduction falls broadly into one of two camps. Either one works with current suppliers to help them reduce their costs and consequently their price, or alternative suppliers are identified that already have a lower cost base and hence can offer a lower price.

Which approach is deployed depends on the complexity and strategic importance of the item being purchased. However, it can also depend on other factors such as culture. Japanese companies for example are much less likely to switch suppliers for cost reasons than their European counterparts. But which approach is the most effective?

Working with the current supplier is often perceived as a lower risk option. Helping them to purchase better, improve their processes and introduce them to new technologies that improve their efficiencies can genuinely reduce costs but it can also mean a considerable investment in time. This approach also assumes that you (the buyer) has superior knowledge, know-how and resources to provide the supplier, which is often not the case.

In today's global economy the approach that is yielding consistently high results – 26% averages – is that of market purchasing. (See Prof. Richard Lamming's comment on P3). Identifying representative numbers of the global supply market and negotiating with them in a best practice manner introduces the optimum suppliers and results in eye catching cost reductions.

So which approach is most effective? The answer may be that the approaches are not mutually exclusive but that they should be deployed depending on how the current costs compare to market price.



A considerable amount of purchasing and/or engineering time and effort may be required in order to help a supplier reduce their prices. It is clearly not sensible to make this investment if there are other companies in existence that can produce the same items at equivalent or better quality at significantly lower prices. However, if the current supplier is within a few percent of the market price then investing the time to further reduce their prices, if one is capable of doing this, may make sense.

Vendigital undertakes lots of cost reduction programmes where the procurement of current products and components are carefully compared to market price. Whilst this work is often very successful and creates significant savings for our customers it also frequently highlights the issue of "When" a cost reduction initiative should be undertaken.

Some companies are taking a proactive position and building in the sourcing plan for a product at the design stage.

Clearly this requires more effort at the design stage but it does reduce the purchasing effort over the whole life cycle. Significantly it also means that at the appropriate point in the life cycle, a comprehensive purchasing exercise yields quicker and better results.

In today's global economy, the cost effectiveness of a component is governed by the proportion of the potential supply market that is accessed by the purchasing approach. It is also determined by the extent to which the design of the item is suitable for manufacture by the supply market.

*75 purchasing directors/managers within manufacturing companies contacted by phone during July 2006.

For further information on our work in achieving cost reductions please call Vendigital: +44 (0) 1793 891777

Richard Lamming comment

In recent years political, economic, social and technical changes have combined to create a truly global economy. This globalisation continues at a rapid rate to increase the number of variables that the purchasing professional has to deal with in order to ensure that their contribution to their business is as effective as possible. These changes are demanding that purchasing itself changes.

Within the global economy, the numbers of potential supply options for most categories are significant enough to be viewed as a marketplace. The range of capabilities and efficiencies of the individual suppliers within this market can be enormous, presenting exciting opportunities as well as significant challenges. The opportunity originates from the innovation potential within the market, both to do things better thus adding more value, and to be more efficient thus reducing costs. Approaching the market with the traditional mindset (for example, seeking quotes from half a dozen companies) means the probability of finding the optimum suppliers is extremely low: the sample size often does not represent the total population. The challenge for the purchasing professional is to approach the market as a market, and the technique of Market Purchasing provides a meaningful way of dealing effectively with all the variables that the global marketplace represents. This greatly enhances the probability of finding the optimum suppliers and consequently, in an environment of intense competition, optimises the value-to-money ratio.

The market should not however be regarded simply as a means of creating intense competition. The market is individual to each buying company since each company has its own views on what they require from a supplier. Given that the market is bespoke to each buyer, a relationship must be developed with it. Without this relationship true competition will not be achieved and certainly its innovative potential will not be realised.

There is nothing new about markets that rely on relationships as well as competition – this is how commodities have worked for centuries. The arrival of new technologies and global perspectives means that such a market can now be created personally for the customer-organisation, bringing the benefits of the rich combination and the opportunity for exploiting innovation.



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

> LOW COST COUNTRY SOURCING Event

Our Low Cost Country Sourcing event mentioned in the last newsletter provided an interesting forum for sharing views and experiences. The discovery that sparked considerable interest was that 57% of purchasing professionals thought their low cost country suppliers would be competitive for only 1-2 years and a further 20% cited just 2-3 years.

In announcing the findings of our LCCS study, Professor Richard Lamming, Director of the School of Management from Southampton University, helped to create the perfect setting for a lively discussion.

"Companies need to know when their current source is no longer competitive and they also need the ability to identify new, lower cost suppliers quickly," explained Professor Lamming.

"This requires a robust process. When a company has decided that low cost sourcing is going to be the source of competitive advantage for a product, it effectively commits that product to an ongoing PROCESS of change – not just to manufacture in a specific PLACE."

The research also showed the complexity of the global marketplace with 21 separate countries identified by respondents to the survey as being amongst the top three low cost country sources.

"Given this complexity, in general, much greater numbers of potential suppliers from more countries must be included when running tenders. Doing this helps to make sense of the global marketplace and to identify the optimum suppliers not just good suppliers. The use of e-sourcing; eRFx platforms and online

auctions make what was an unrealistic tendering task a very practical proposition," continued the Professor.



Other speakers included Gary Turner (left), Partner of PriceWaterhouseCoopers and Wendy Stopher (right), Group Sourcing Director at Domino Printing Sciences

> £300k pa SAVING on transport and IT



For Archant's complex and time critical haulage needs, Vendigital delivered considerable savings and helped to rationalise the number of hauliers. The IT equipment project resulted in an approx. £150,000 (17%) annual savings.

"The results were great and Vendigital did a really good job," confirms Brian. "We managed to cut our costs by 15%, which is far more than we thought was possible. And our purchasing team is delighted – Vendigital gave them a great result plus an insight into the very latest approaches in procurement. They showed us a level of detail that was beyond what we had previously considered."

With advertising revenues under pressure, the newspaper publishing group Archant Regional, needed to ensure that it was operating efficiently and buying effectively.

Brian McCarthy, Finance Director of Archant Regional explains: "We wanted to be constructive in our approach to cost savings. As a regional newspaper company we treat our suppliers as we do our readers and place high importance on maintaining good relationships."

Vendigital was brought in to help Archant Regional adopt innovative new ways to improve its purchasing. The initial areas identified were Transport and IT Equipment.



"By working with Vendigital, we've made some dramatic improvements in our procurement processes. In addition, the online auctions managed by Vendigital resulted in a significant 15% saving worth over £300,000 per year."

Brian McCarthy
Finance Director, Archant Regional

> In the NEWS

Cancer Research UK saves £2.5m



The UK's media has reported widely on Cancer Research UK and Vendigital's enormous success in saving £2.5 million through a series of online auctions.

Over 20 business titles (print and online) covered the story on the charity's Procurement Improvement initiative and the saving of millions of pounds via online auctions to source office supplies, IT hardware and laboratory consumables.

Belinda Turner, Procurement Director at Cancer Research UK says, "Initially, there was some scepticism that online auctions could deliver such huge savings. Now with three projects under our belts, we are convinced that this approach is extremely valuable. As a 'not for profit' organisation, we must ensure our costs are managed as tightly as possible so that the maximum funds are spent on our research into fighting cancer. We are delighted with these results."

Back issues of Dynamic Procurement are available, please see our website
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