



it's about KNOWLEDGE

knowing true market price is **business critical**

Knowledge is essential to getting optimum prices...

...Any city trader, since they buy on a stock market, will know what is the market price for the equity or commodity they are buying before they buy. Why should buyers in any manufacturing company be different?

The complexity of the components or materials being purchased in a manufacturing environment is

much greater than in the stock market and knowing the market price is critical. The value derived from a relationship with a supplier must always be matched to the cost of that relationship. The cost of the relationship can only be determined by knowing market price...

[See main feature >>](#)



Automotive wire harness — savings of 16.9% — implemented

In this issue

Feature auction

Auctioning knowledge is paying off; WET AG win major new contract via Vendigital auction.

Richard Lamming comment

Professor Richard Lamming (*University of Bath, School of Management*) comments on why the correct sharing of knowledge is vital in achieving optimum cost and value in the supply chain.



"We were impressed with Vendigital's auction process. The information about the contract was complete and we felt able to trust them that we were competing on a level playing field. Understanding how our prices compare to our competitors' was

also enlightening for us, you don't often get good information like that.

The nice part of it is, having seen everyone else's prices we know that we can win business at market price because we are a best in class supplier."

Supplier: Mr Limmer, Head of Sales WET AG, Wiring Technology



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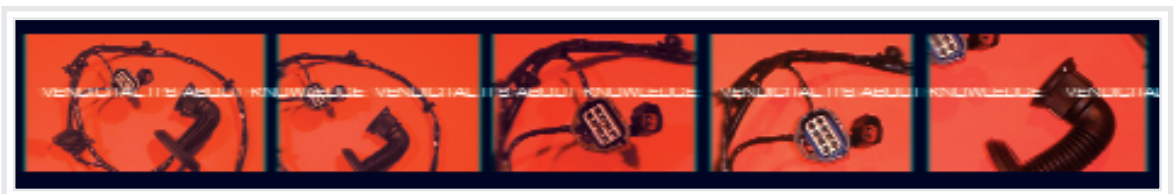
knowing true market price is **business critical**

Recently one of our customers, a global automotive wing mirror manufacturer, wanted to analyse the value that they were getting from their relationship with a supplier of wiring harnesses. The problem was similar to that of most buyers in manufacturing; how do you get to know what is the true market price for a unique and complex item? The answer is that you have to create a market place, but that is easier said than done.

In our last quarterly newsletter we showed how important it is to create a sufficiently large marketplace to

be sure that the price obtained was representative of the total marketplace. This project was no exception. We contacted over eighty suppliers that we knew in Europe and that were active on our wire harness market database. These were then pre-qualified against a rigorous set of criteria specified by the buyer. E.g. Years in the automotive wire harness business, turn over, quality accreditations etc. By finding out which of these companies had the capacity and specific capability for this particular product, the numbers were further filtered down to arrive at the 'short list'.

Once approved by the buyer and registered into a secure environment, the short listed companies then received the full details of the contract via the internet. The use of the internet to communicate this information has many benefits. For example, suppliers get to know the same information at the same time. Many of the suppliers had specific questions to ask about this contract, in all around fifteen detailed questions were asked. They asked them via the website, they were answered by the buyer on the website so that every other supplier knew what questions had been asked and the answers to them. In short, each





Richard Lamming comment

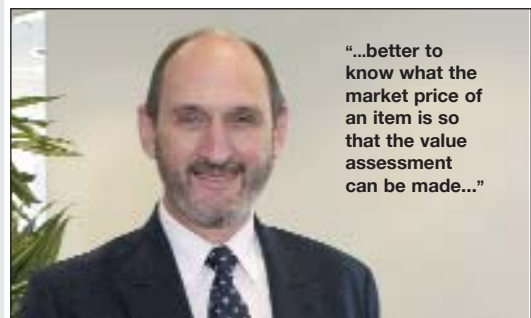
Within every supply chain there are relationships between each buying and supplying company that need to be managed. For the overall supply chain, or more realistically the supply network, to remain competitive in the end-marketplace, each relationship must maintain the optimum balance between cost and value. The challenge for each buyer is to keep costs down and the value of the supply up. The question is, how far down can the costs go in each relationship? To drive them too far down may result in the continuity of supply being compromised, so buyers try to develop an understanding of the supplier's own costs through so-called 'open-book' costing.

The premise of 'open-book' costing that identifying costs (including a mutually acceptable margin) will enable the customer and supplier to arrive at the optimum cost for the value that the relationship delivers. The problem with this is that by demanding that the supplier opens its books, the buyer is creating an impossible situation: asking the supplier to take an un-hedged risk. Since this is not commercially sustainable, the suppliers have to protect themselves by distorting the information and the buyer does not get to understand costs or overhead structures. In fact, the supplier's best efforts typically go into 'playing the game' with a similar tactical activity evident on the part of the customer.

It is considerably better to know what the market price of an item is so that the value assessment can be made about a particular supplier. This judgement is independent of the supplier's own costs. Getting to know what the market price is for a specific item has, until now, been the difficult part. It can only be reached when a sufficiently large number of bidders are assembled to represent the marketplace as a whole, and each knows what they are bidding for, knows that the information they have is identical to that which the other bidders have and knows what every other bidders' price is.

The online auctioning process, done correctly, provides the necessary market knowledge to the buyers and the knowledge needed by each potential supplier to create a true market price.

For a more comprehensive critique of 'open-book' negotiation and what's wrong with it, please contact: richard.lamming@vendigital.com



"...better to know what the market price of an item is so that the value assessment can be made..."

Professor Richard Lamming is currently *Director of the Centre for Research in Strategic Purchasing and Supply* in the *School of Management* at the *University of Bath*.

supplier knew that the information that they had was the same as all the other suppliers had and that the playing field was level.

Knowledge is essential to getting optimum prices...

...Any city trader will know what is the market price... before they buy. Why should buyers in any manufacturing company be different?

The method of negotiation used was also about knowledge. When doing deals, knowledge is power, but how much should the potential suppliers know? Buyers usually play their cards close to their chest until they see what a potential supplier has to offer. This secrecy has been proven to be ineffective in finding market price. Even if the buyer tells a supplier what the competitors prices are,

suppliers rarely believe and act as if they are completely genuine. The doubt will always remain as to whether the competitor's price was for exactly the same thing. During an auction however, each supplier is assured that they are quoting for the same thing as the competition and they are in possession of the same facts. They can also see their competitor's prices. With this knowledge they can decide what to do about their own prices. In other words, knowing the market price is also important for the supplier in making decisions during a negotiation and the direction of their business.

In this wire harness auction the headhunting of suppliers and the method of negotiation combined to deliver a cost reduction opportunity of 16.91%. Subsequently, the buyer reviewed the bids, visited the potential suppliers and ultimately the opportunity became a reality with the business being resourced to WET AG.

V DYNAMIC People ^



Kurt Wolf
MD, Vendigital Germany

Kurt's experience both in purchasing and in IT systems has been key to the success of *Vendigital* thus far. Whilst studying business administration at *Wuppertal University*, Kurt was also programming software for optimising production, logistic and purchasing tools for several companies, one of which was *United Technologies Automotive (UTA)*. This combination gave Kurt an insight to the benefits of applying software-enabled processes to the purchasing function.

In 1995, he went to work with *UTA* purchasing production materials. In 1998 he moved to their strategic purchasing function based in Paris.

Here he was integral to the establishment of *UTA's* global electronic procurement project. During 1999, recognising the potential of e-procurement and in association with other like-minded purchasing professionals from the automotive industry, he formed *ServeLine.com* an e-procurement and online auctioning company.

In 2002, *ServeLine* became part of the *Vendigital group* and Kurt now heads up the German operations. In this capacity his experience, industry knowledge and linguistic abilities have been of great value to our customers.

V BREAKING News ^

Further reading

We were recently given coverage in the magazine '*Internet Works*' on the subject of knowing market price.



Potential realised

The eye-catching results of an auction conducted a few months ago for *Linx Printing Technologies* has recently been fully implemented.

Brian Cattmull said "The auction presented us with a choice of potential suppliers. We have subsequently been able to evaluate these alternatives knowing that the benefits were worth the effort."

Following that evaluation, the business was moved to several suppliers found by *Vendigital* and approved by *Linx*. With savings totalling 56% on £400K of specialist turned components, *Linx* are enjoying the business enhancing benefits that large scale supplier headhunting and online auctioning processes deliver.



Brian Cattmull
Purchasing & Logistics Manager
Linx Printing Technologies

> 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 TIME...** another factor contributing to the success of online auctions as a business enhancing tool.

> BACK Issues

>> Qtr 4 2002 - it's about numbers

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