



it's about PROCESS

E-sourcing – the purchasing process that is **setting the standard**

When the first Model T rolled off Henry Ford's production process, the world of car building was irreversibly changed. Processes replaced the one by one handcraft approach. This approach to employing robust processes is equally important in purchasing. Only with rigorous processes in place, and using the most effective tools, the purchaser can be confident

that every time they conclude a negotiation, they have the best result that could have been negotiated in the market at that time. E-sourcing, when effectively applied, allows the buyers to know that they have achieved that optimised deal.

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In this issue

Feature: Processes essential to the optimised deal

Case Study: Forschner, the innovative cable systems manufacturer has implemented an aggregated deal

Comment: Professor Richard Lamming considers the PROCESS of market transactions

Profile: Roy Williams – the man behind Vendigital's e-sourcing and online auctioning projects

News: Vendigital launches new software platform Good Chemistry – chemicals put to auction



Professor Richard Lamming considers the PROCESS...

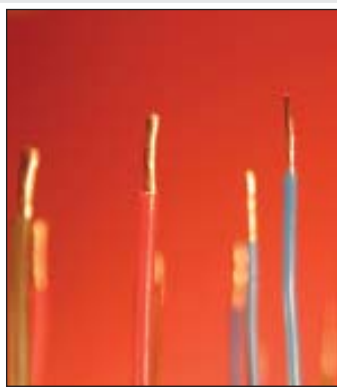
COLLABORATIVE commerce

Vendigital's experience of the wire harnesses and wire markets recently enabled Forschner GmbH, one of Europe's foremost wire harness manufacturers to achieve savings on its purchase of electrical wire.

Going to the electrical cable market with not only Forschner's demand but the demand of two other European wire harness manufacturers, the interest of the best suppliers was assured. The business on offer exceeded €2M, and the buyers involved in the project achieved cost savings ranging from 4 to 40%

Mr Schempp, Purchasing Manager, said after the 2 week project:

"The degree of rigour and the robustness of the processes that were used in this project were much greater than one normally associates with a purchasing exercise. It's no wonder the results were so impressive."



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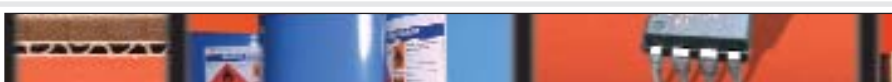
OPTIMISED Negotiations

Purchasing executives have to know that they have achieved the best outcome possible whenever they go to the market to negotiate. Whether they achieve a 5% increase or an 50% cost reduction they have to be sure that this was the best achievable result. The tender process has to be robust, effective and repeatable. This can only be achieved by using defined processes, refined by experience.

E-sourcing and online auctioning are techniques that when used well will deliver outstanding benefits, conversely if used badly they can do a lot of damage to a buyers credibility and a company's supply chain. To avoid errors and optimise the benefits they must be utilised as part of a well considered process.

The process approach should start with the selection of items or services that will benefit from these techniques. Each of the variables that constitute an "auctionable" item or service should be considered in the selection. This should be done via a defined analysis process that ensures all purchasing staff within a business reach similar conclusions rather than leaving selection to each individual's "best guess". The added advantage of using a process for doing this is that the experience gained during each project can be fed into the process to refine and update it.

All purchasers are familiar with searching databases, networks, the internet etc in order to find potential new suppliers. Typically the search stops when several options have been





identified. A marketplace on the other hand must be representative of the entire marketplace. This requires an appreciation of that entire marketplace and so searching must be much more thorough and detailed. Which countries should be included in the search should be determined in a consistent manner. Which embassies, trade associations, databases, agents etc should be contacted within each of the countries cannot be random.

To have confidence that a marketplace has been assembled, rather than just a haphazard group of possible suppliers, a rigorous process is needed.

To determine marketprice via an online auction it is vital that suppliers

are, and appreciate that they are, competing on a level playing field. This means they should all be treated the same, receive the same software training, the same opportunity to bid, even when things go wrong. For example, if a supplier loses an internet connection during an auction they should not lose the opportunity to bid for the business. Appropriate failure protocols should have been put in place and been understood by the suppliers. The legal status of bids placed on their behalf during a connection failure must be clear and agreed to.

In summary, at each stage of the project, comprehensive processes should be followed to ensure that essential details are not overlooked and the outcome is a definitive one.

Richard Lamming comment

In the last edition of this newsletter, we highlighted the availability of techniques that allow the purchasing professional to use markets to determine market pricing for bespoke items and services. It is becoming clear that the results can be outstanding, creating competitive advantage for the companies using the techniques. However, even with the most powerful of techniques, behaving badly in a marketplace can also be very embarrassing if things go wrong. While errors in a tender which involves two or three suppliers may not have significant consequence (assuming there are alternative suppliers to approach) going to the entire marketplace and transacting your business badly can have consequences that are more serious than just embarrassment.

Anyone buying or selling in a marketplace, be it a stock market or a corn exchange, must follow the rules. This has always been so in traditional exchanges and it is now important in on-line auctions. If the process is not followed, the trader will be ejected from the market. Buyers must appreciate that negotiations conducted in a marketplace are transparent – that is why they work. The corollary to this is that many parties can observe the behaviour of the buyer in the market. Not trading by the rules will have a negative consequence, not necessarily immediately but possibly the next time the same requirements are put to the same market. So the question is: “To avoid mistakes, should the purchasing professional become an expert market trader?”

The answer is that the role of the purchasing professional should be strategic. It is less to do with the tactical ability to deal or negotiate across the table and more to do with establishing a strategic purchasing framework for the entire spend portfolio. It requires the deployment of the best tools for the appropriate categories and in the right manner. In a military metaphor, it is the role of a general setting out the strategy for battle, rather than that of the soldier, skilled in the tactics of engagement. Clearly, generals needs soldiers to fight the battle, but they do not have to be one. Without the general, however, the troops will not be effective. In the same way, the purchasing professional must understand how to deploy the most appropriate processes within a strategic framework; the tactical experience of the process itself may reside with others



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*.



V DYNAMIC People ^

Roy Williams; Operations Director

With ultimate responsibility for every auction conducted by Vendigital, Roy understands the process that delivers success better than anyone else.

A Cambridge honours graduate and Chartered Engineer, Roy joined a team of task force engineers working for what was T&N (now Federal Mogul). Their role was to improve the manufacturing processes for plants belonging to T&N around the world.

Roy's success in this field led to him becoming a business unit manager

for one of T&N's manufacturing facilities in the UK. Here, now with P&L responsibility, he appreciated the vital part that purchasing and supply strategy play in any organisation. This new focus led to Roy moving to the management consultancy WCI where he managed projects within their Supply Chain Management group.

This dual focus on supply and process ultimately resulted in Roy becoming one of the founders of Vendigital where he is qualified better than anyone to perfect the e-sourcing process.



Roy Williams
Operations Director, Vendigital

V BREAKING News ^

New Software

Users of the Vendigital online RFX and auctioning software may have already seen the new software platform that will completely replace the current version by the end of September.

Built from the experience of hundreds of projects it sets new standards for clarity and usability. Clarity and ease of use is particularly necessary for suppliers. (Remember buyers, you may get used to your platform, your suppliers may be bidding on several different platforms per week! It is vital that they do not get lost or confused with unnecessary functionality!)

Carrie Bonica from Arcoelectric in the US after using our new platform kindly wrote to us to say **"Thank you for all of your support, this was certainly the easiest bid I have ever done on line... you are very competent with this service."** (Thanks Carrie!)

Good Chemistry

The cost of chemicals goes down 18%

It's not just purchasing of components that benefit from the techniques of e-sourcing and online auctioning. This quarter, we conducted a number of projects on chemicals.

One project aggregated the demand of 21 plants across Europe belonging to one of our customers. The total demand of around £500K of various chemicals was put to a market created by headhunting approved suppliers. The result? 18% cost savings implemented by the buyer.

In the News

Suppliers Embrace Auctions

Online auctions are not to be feared but to be embraced. In a recent article in the Mail on Sunday, Steven Searle, a supplier at a Vendigital auction, saw the ability to see market price as a distinct advantage.



> BACK Issues

- >> Qtr 2 03 - it's about TIME
- >> Qtr 1 03 - it's about KNOWLEDGE
- >> Qtr 4 02 - it's about NUMBERS

Back issues of Dynamic Procurement are available. Please contact:
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