

E-sourcing and online auctioning

it's working on...

E-sourcing and online auctioning – success across the spectrum

The procurement techniques of e-sourcing and online auctioning have been around over 10 years. Many companies have used these techniques successfully to reduce the costs of their bought in materials and services. Every professional buyer has heard of the techniques and their successes in determining market price for commodity items, but if you thought commodity items only meant things like stationery and electricity you would be mistaken.

In this edition of our newsletter we review the range of applications that these methods have already been successfully applied to. We hope that this will trigger fresh ideas in your mind regarding your own purchasing portfolio and the benefits that these techniques can deliver for you.

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In this issue

Feature: Broad Appeal: e-sourcing and online auctioning are powerful purchasing tools for use on commodities. What may be a surprise is what comes under the title "commodity".

Case Study: ABB Oil & Gas use the most sophisticated purchasing tools to purchase critical equipment.

Comment: Professor Richard Lamming considers the role of auctions within more complex supply negotiations.

News: Vendigital celebrates its 4th birthday and reflects on where it all started.

Vendigital teams up with PwC to reduce costs.

Success is electric; IMI enjoy the benefits of another auction.

Case Study: ABB Oil & Gas

ABB

Neil Robinson *Director of
Procurement, ABB Oil & Gas*



COMPLEX commodities

We were pleased this quarter to have conducted a project for ABB's Oil & Gas division. The project involved a range of hydraulic manifolds that form an integral part of an oil-flow control system. These are complex, stainless steel machined blocks with demanding geometric tolerances as well as cleanliness, surface finish and testing specifications.

The hydraulic system is required to operate under high internal pressures on the seabed for 25 years without failure since repair is both difficult and costly. Coupled to the product complexities, the contract included rigorous service requirements to improve flexibility and response times.

In this project, we sourced potential suppliers that had the experience and the capability to make and test these technically demanding products. After a tender process that included confidentiality agreements, requests for information (RFIs) and requests for quotation (RFQs), the qualified suppliers attended an online auction. During this bidding event, the suppliers were able to position their offers within the select marketplace. The result was that, for a contract approaching £1M, five possible suppliers were identified with the best supply options presenting cost saving opportunities on the parts of between 13% and 27%.

Neil Robinson, director of procurement for ABB Oil & Gas, and his team have subsequently been able to assess the potential supply options using their normal, rigorous supplier assessment procedures. Following this assessment Neil commented, "This was a thorough marketplace review and we are delighted with the quality and flexibility of the suppliers that have been identified. We are now working on the full implementation of the opportunities that this exercise presented."

"...we are delighted with the quality and flexibility of the suppliers that have been identified."



Neil Robinson
Director of Procurement, ABB Oil & Gas



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BROAD appeal

The benefits of using e-sourcing and online auctioning on simple commodities has been well documented. However, they are being applied successfully to ever more complex items and situations. The consequence is that these techniques now have a very broad appeal.

To illustrate this point, below is a list of the recent items and services that we have applied these techniques to, on behalf of our customers:

Adhesives; Ball Screws; Chemicals; Die Castings; Electronic Components; Fabrications; Gas; Hydraulic Brake Components; Injection Moulding Machines; Labour (Contract); Machined Components; Nozzles; O-Rings; Plastic Mouldings; Radios; Steel; Transport; UV Absorbers; Waste Contracts

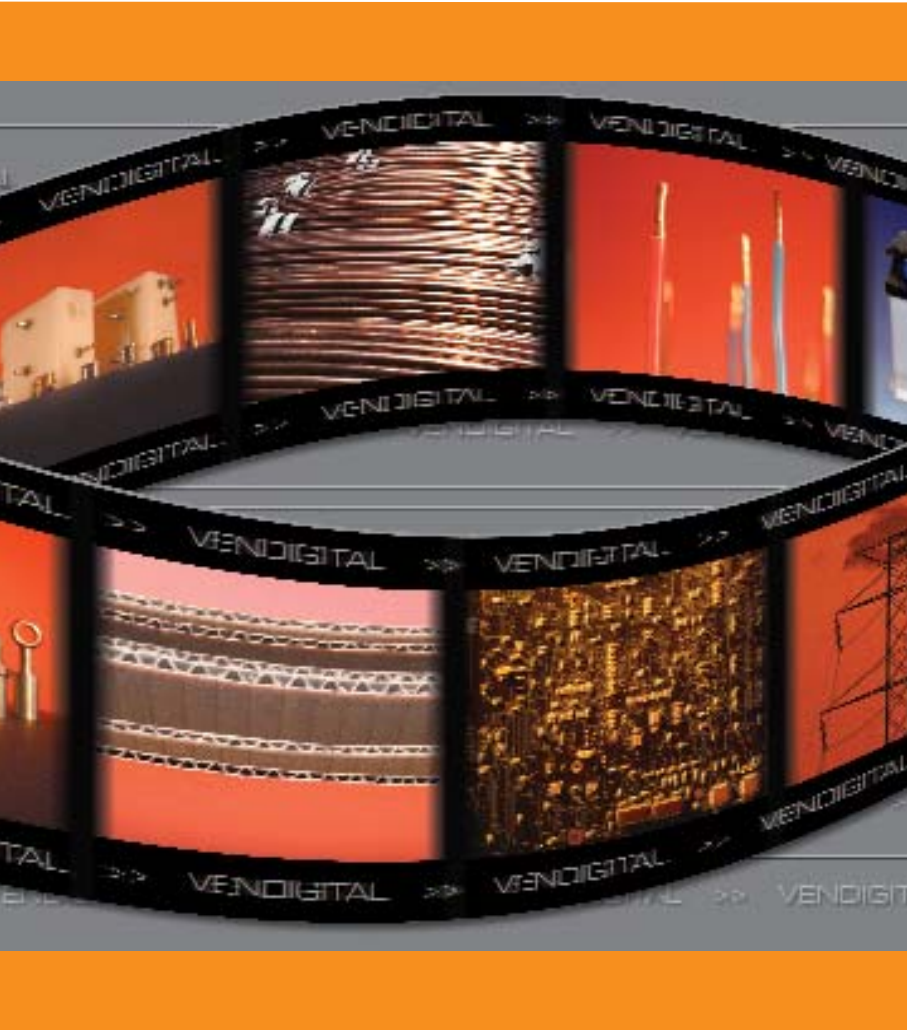
Clearly this includes direct as well as indirect materials and services, but importantly it ranges from the relatively simple items such as packaging (featured in Dynamic Procurement

issue 3) through to the very complex such as the extreme performance hydraulic manifolds in the ABB case study.

What is also interesting is that the benefits are as clear for the high volume automotive components, contracts such as turned brake components (see issue 1) or the wire harnesses (see issue 2); to the one-off capital purchases of e.g. injection moulding machines or tools.

What makes an item auctionable?
We should define what we mean by e-sourcing and online auctioning. E-sourcing is a rigorous supplier headhunting process. We search globally for potential suppliers that meet our customer's criteria. Online auctioning is a negotiation method that allows suppliers to position their prices within a market place of potential suppliers.

Given these definitions, it is indisputable that E-sourcing can be beneficial in every situation.



Richard Lamming comment

The range of items mentioned in the previous article reminds us that most items in a typical purchasing portfolio may be purchased in a marketplace. This may present a challenge to purchasing professionals who have built up their own purchasing portfolio. It is becoming clear, however, that new market access techniques and approaches, now becoming available and being further developed, need to be evaluated for all purchases.

Traditionally, supply negotiations have tended to follow the same course. Quotations for an item or service are obtained from a limited number of companies, providing a range of prices and services that become the frame of reference for the ensuing face-to-face negotiation. Frequently, the objective of that negotiation is to combine the best services and prices on offer within the sample of potential suppliers into the same supplier. Market-pricing techniques facilitate a broader and more comprehensive frame of reference. When combined with a more sophisticated price negotiation this typically results in better services and prices.

The point to note is the role of the price negotiation within a wider supply negotiation involving multiple potential suppliers. Establishing a supplier in a supply chain clearly involves much more than just the offer price. The value derived from quality, delivery, reputation, innovativeness or the proposed design, service or technical solution will each play a part in the purchasing professional's decision. However, within the overall negotiation there will always be a negotiation about price – as a key factor in estimating the total cost. It is becoming clear that this is best done via on-line auctions, enabling the potential suppliers to position their bids strategically within the assembled private marketplace as they see fit. With the suppliers' prices and value offerings fully understood, the purchasing professional can then make an informed decision about supply, based on both value and cost.

A comprehensive marketplace search always delivers a benefit. Online auctioning on the other hand should be used in a more selective fashion.

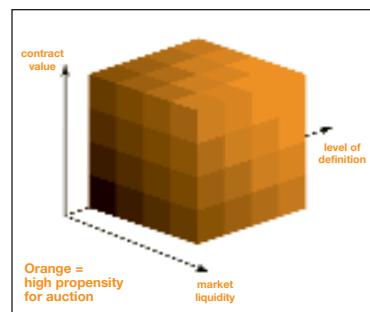
The overriding question in determining "auctionability" is always "is it a liquid marketplace?" If it is not then an auction will not produce the desired result. A liquid marketplace simply means that there are 3 or more potential suppliers that are interested in the business and capable of supplying it.

If an item can only be purchased from one company because they have a patent or it's a branded item then the price cannot be set using an auction. If the value of an item is too small to raise the interest to the potential suppliers then an auction is not the best technique to use.

What's the best way of determining if something is auctionable?

We have developed an analysis tool that aids in the assessment of the auctionability of an item.

This Propensity to Auction (PTA) analysis, represented in fig 1, is a quantitative analysis tool that allows our customers to select the most appropriate categories within their spend portfolio to gain the greatest benefits.



In Summary

E-sourcing and online auctioning, utilised correctly, create significant supply chain improvements. Critical to success is knowing when their use is appropriate.



Professor Richard Lamming, the CIPS Professor of Purchasing and Supply Management. *Founder of the Centre for Research in Strategic Purchasing and Supply in the School of Management at the University of Bath.*

V NOTABLE Date ^

This quarter we celebrate the fourth anniversary of the commencement of our first e-sourcing and online auction project.

The project, undertaken for the Lear corporation, involved protective channel for automotive wire harnesses worth over €2M.

The result, implemented by Lear,

provided a 11% cost saving. Since then we have continually been developing our software and the business processes that are key to making success a habit.

Good software and processes are vital. However, the most important ingredient is great people with lots of experience and we are pleased to have all three! Experience only

comes with practice and we would like to thank all the companies that have placed their confidence in us, enabling us to develop the breadth of experience that we have.

We are pleased that our customers confidence in us has resulted in them implementing savings averaging 23% on projects whose total value exceeds €1B.

V BREAKING News ^

PRICEWATERHOUSECOOPERS®

Dynamic Alliance

When it comes to understanding the numbers and creating cost reduction opportunities PwC's business / audit experience combined with Vendigital's understanding of e-sourcing and online auctioning

is a hard combination to beat.

Gary Turner, Director, PwC Advisory and Assurance said:

"The working relationship that we have, has and continues to create significant benefits for our clients. The combined skills and capability of our companies can step change an organisation's financial performance."



Gary Turner, Director,
PwC Advisory and Assurance

IMI

Success is Electric

IMI in the US has just completed the implementation of an e-sourcing and online auction project conducted by Vendigital on \$750K of electrical components. Over 100 different items including switches, relays and lighting components were offered to a marketplace created by the Vendigital team.

The project aggregated the demand of several sites and rationalised suppliers from 20 to 1. In addition to the benefits that the supplier provided the unit costs were also reduced by over 18%. Nancy Stark, IMI's US auction champion wrote after the event;

"HEY PAUL ...WE DID IT!!!! Great auction results, don't you think????? I very much enjoyed (again) working with you. ...you and your team are GREAT!!! thanks for all your hard work."

Thanks Nancy, we really appreciate working with you to!

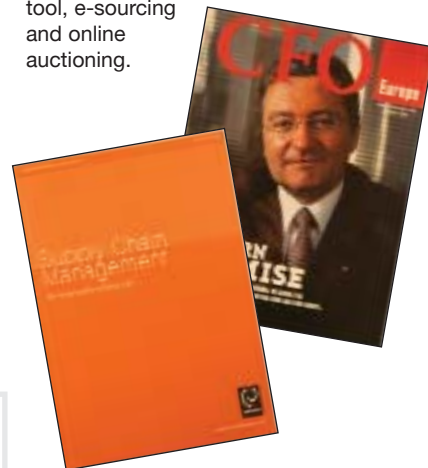
Trusting an Auction

Recently a paper written by Adrian Griffiths of Vendigital was published in the journal *Supply Chain Management*. The paper examines the ability of online auctions to affect relationships between buyers, existing suppliers and potential new suppliers. Whilst, if used poorly, auctions can be detrimental to these relationships, used well they build trust and

enhance the relationships essential for purchasing success.

More power to you

CFO Europe; Oct 2003 printed a letter by Vendigital about the ultimate business intelligence tool, e-sourcing and online auctioning.



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- >> Qtr 4 02 – Its about NUMBERS

For back issues of Dynamic Procurement please contact us.

> More INFO'

Adrian Griffiths at Vendigital:
E adrian.griffiths@vendigital.com
T +44 (0) 1793 497000

VENDIGITAL®
dynamic procurement

603 Delta Office Park, Welton Road, Swindon, SN5 7XF, UK
T +44 (0) 1793 497000 F +44 (0) 1793 497333

Berrenrather Straße 188b, D-50937 Köln, Germany
T +49 (0)221 65045 0 F +49 (0)221 65045 100