

## E-sourcing and online auctioning

it's 'exceptional' and the 'norm'...

E-sourcing and online auctioning – is becoming routine

In recent years, Ferrari has made success a habit. Schumacher winning has become 'the norm'. Similarly, exceptional benefits through using e-sourcing and online auctioning have become, for many companies, the norm.

In the last newsletter we showed that these techniques, when applied well, can benefit commodities from temporary labour to extreme-duty, hydraulic manifolds in the oil industry. The complexity or quality requirements integral to a contract are not a barrier to well run projects creating significant savings.

But does the size of a contract limit the use of these techniques? They are very successful when applied to large contracts, but what about normal day-to-day purchasing.

In this edition of our newsletter we look at how these techniques can be successfully applied to small spend levels in a cost effective way. Success in doing this means that market pricing with its significant benefits is a viable technique for large contracts right through to routine purchases.

[See main feature >>](#)

### In this issue

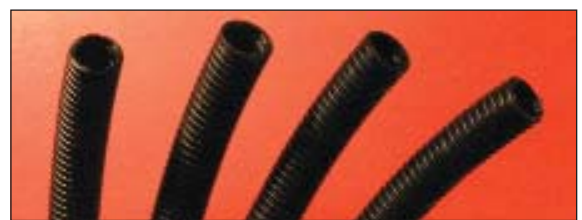
**Feature: Making "exceptional" the "norm"** – market pricing techniques are showing their value across the purchasing portfolio.

**Case Study: Size Matters** – German company KWL finds that it is not only the big contracts that benefit from advanced purchasing techniques.

**Comment: Professor Richard Lamming** – more opportunities lead to further challenges.

#### Suppliers views:

- > **90% of suppliers say they would do it again;** Survey shows that suppliers are happy enough with auctions, when they are run well.
- > **Better prices without the grind;** Treating suppliers well during a tender is more than just being nice.



KWL gains a 22% saving on wire protection tubes

## SIZE Matters

How does a purchasing professional know if the price they have for a contract represents good value? The answer is of course to compare it to market price. However, finding sufficient qualified suppliers that are interested in the business to create a marketplace so as to determine market price, can take a considerable amount of time and effort. The potential benefits of conducting such a project have to be worth the cost and effort of doing so.

So what happens when 29 part numbers only equate to €58,000? This was the issue faced by KWL's Herr Roger Herrmann, member of the Management Board. "These e-sourcing techniques are very good if you have attractive contracts with very high volumes. What we wanted to know was how to use them on the low value contracts that can often be much more difficult to deal with?"

The answer was to use Vendigital's efficient online tendering process. This enabled the enquiry to go to 85 companies, locating 6 that were capable, had the necessary automotive approvals and crucially were interested in the business. This process not only had to be efficient from the buyer's perspective but also from the suppliers'. If winning this business was going to be difficult and time consuming because of poor documentation or missing information then suppliers would be put off.

With clear and complete information to review, suppliers then had the opportunity over a two-day period to place online bids for the parts of the business that they were interested in. By revisiting the auction at intervals throughout that time they were able to review their prices against their competitors' and adjust them if they wished. The directly implementable result was a 22% cost saving.

This was done as part of a larger exercise that included various wire harness protection tubes, tapes, seals and plugs. The biggest product group was less than €160K. "What really impressed us" said Herr Herrmann "was that these techniques gave such a good return on such small contract values. Once we've become familiar with the processes this is something we could ultimately do ourselves as part of our everyday purchasing process to guarantee competitive pricing everytime we go to market".



**KWL** KUNDENWISSEN

## E-sourcing and online auctioning



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### Making 'exceptional' the 'norm'

It's no longer in dispute that purchasing at market price is clearly beneficial to any organisation, and that the combination of e-sourcing and online negotiation allows this to happen. It stands to reason that for all purchases, large or small, the ability to understand true market price at the point of procurement would be of high value. So how can this happen cost effectively? The answer is that e-sourcing and online negotiations must become part of the purchasing process, applied not only to the large projects, where the returns will be substantial, but also on the smaller, everyday enquiries that the buyer has to deal with.

#### Benefits

Since big numbers grab the headlines, the tendency is to focus on the successes of these techniques relating to big value contracts. This potentially hides the fact that their benefits on the smaller contracts, as the KWL case study illustrates, can be significant. The reason for significant benefit is that e-sourcing

typically deals with more potential suppliers than a traditional tender process. This increases the probability of matching a buyer's and a supplier's needs exactly. E-sourcing efficiently increases the probability of locating the suppliers that are interested in the business regardless of the contract size.

#### Costs

Achieving the benefits has to be cost effective. This cost effectiveness is derived from the purchasing efficiency that comes with the adoption of these techniques. For example a traditional price inquiry involving a new part number worth just a few thousand pounds would warrant little more than sending out the requirements on a fax or e-mail to a limited number of known suppliers.

Each of these would probably ask questions about the requirement. Upon receiving clarifications a price is submitted in a proposal that often slightly adjusts the requirements making like for like comparisons difficult.



**'norm'...**

A purchaser using e-sourcing and online auctioning techniques will have their own desktop purchasing portal. When they conduct a major project on an important commodity within their spend, they will develop a rich database of potential suppliers on their personal database for that commodity. Not just random companies, but companies hand-picked to meet the purchaser's requirements. The benefits of this large project will typically provide significant returns on the cost of developing the bespoke database.

When subsequently faced with a low value pricing exercise as discussed above, the purchaser can quickly build a unique Request For Quotation (RFQ) for the current requirement. The desired suppliers from the bespoke database can, at a "click," be approved for the RFQ and sent notification of the tender. Using their secure login, the supplier will be able to view the requirement, ask questions about it and then submit their prices. This submission can be

done either as sealed bids, or, if three or more are interested in the business, via an online negotiation or auction run at a time determined by the buyer. Using this type of system, market price with all its benefits can be determined with minimal effort. In addition, all the information, questions and clarifications as well as prices pertaining to the contract are maintained in a readily accessed format for future reference.

**In Summary**

The use of e-sourcing and online auctioning is growing rapidly. This is because their use delivers better supply options, better prices and in a more efficient and repeatable manner. In addition, the data capture provided by the process significantly enhances the effectiveness of subsequent purchasing of similar items. The question is no longer whether these techniques can provide benefit across the purchaser's portfolio but how quickly can their use become the norm rather than the exception?

**Richard Lamming comment**

**In any organisation, the purchasing function is a limited resource. Time and effort must therefore be focused upon the areas of the purchasing portfolio that will provide the best returns for the efforts and a Pareto analysis usually reveals that this contains the larger contracts. However, the same tendering process that is used on these larger contracts is also used for the smaller contracts in the portfolio "tail".**

The effort in conducting the tender is reduced typically by approaching fewer suppliers and providing less complete contract information. This limits the effectiveness of the tender and even if successful in finding a lower cost supply option the lack of clarity and completeness around the requirement often result in a less than perfect implementation.

The private purchasing portal and market pricing techniques discussed in this newsletter effectively provide a mechanism for reducing the effort required to conduct tenders on smaller contracts but without limiting their effectiveness by cutting the number of suppliers approached. Bringing these market pricing techniques to bear on smaller contracts can yield excellent results. The challenge that these results present for purchasers is the implementation of the opportunities when it is not the incumbent supplier that is presenting the savings opportunity. This challenge is of course not unique to the smaller contract, it is equally faced by the large, but the smaller contracts require not only a rigorous implementation process but an extremely efficient one since while potential savings in percentage terms may be impressive, in absolute terms they are smaller. This means they are more easily squandered by a cumbersome or badly managed implementation project.

It is however important that changing suppliers, when it is clearly shown to be the right thing to do, is not avoided because of perceived but undefined risks. Any risks that may be present should be understood and managed. This is particularly important within marketplaces since the suppliers have much greater visibility of the competitiveness of their position, that is fundamentally why they work. Failure to make any meaningful attempt to implement competitive bids when the supplier meets all the necessary criteria will mean that the liquidity of that buyers' marketplace will be eroded.



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

## SAVINGS' Optimiser™

The aim of every purchasing professional is to target resources to the areas of spend that will yield the highest returns. Many factors influence this choice including:

- the probability of being able to find a lower unit cost
- the magnitude of the potential saving
- the condition of specifications
- effort required to conduct the tender
- the ability to switch suppliers
- tooling costs
- testing requirements
- resource constraints
- timescales.

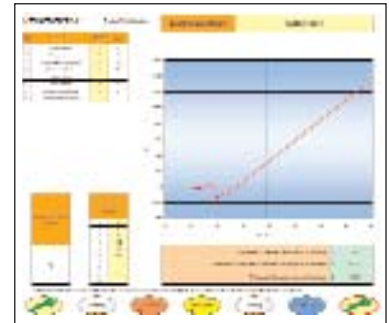
Assessing these multiple influences and identifying the best projects and the most appropriate sequence of

undertaking those projects, within the unique constraints of the purchasing professional's environment, is the function of our new SAVINGS' Optimiser™.

Launched this quarter, SAVINGS' Optimiser™ utilises algorithms and parameters developed and refined during hundreds of e-sourcing and online auctioning projects conducted by Vendigital over the last few years.

SAVINGS' Optimiser™ can be used as part of a spend analysis workshop conducted by Vendigital, or on a stand alone basis under licence. Its aim is to generate quantitative and reliable analysis rather than qualitative, opinion based results.

The output provides an estimate of the likely financial returns and the cash flow arising from a programme of procurement cost reduction that utilises the advanced e-sourcing and online auctioning purchasing techniques.



## SUPPLIERS' Views

### Over 90% of suppliers say they would do it again.

Without bidders a marketplace does not exist. If suppliers do not wish to take part in an auction then an auction cannot create any value for a buyer, so it is important to understand what suppliers think of negotiating price via auctions.

After each e-sourcing and online auctioning project that we conduct we survey the suppliers to see what they thought about the project and our involvement in it.

One question that we ask to determine their attitude to the negotiation process is simply "Would you take part in another auction?" **A huge majority of over 90% of suppliers say YES, giving the process an emphatic endorsement. Of the remainder, less than 1% say NO, the rest being undecided.**

### Better prices without the grind...

Treating suppliers properly during a tender is more than just a question of courtesy, it is about financial greed! Ensuring that suppliers are confident about the tendering process by ensuring they have complete and accurate information, quick responses to their queries and appropriate timescales in which to prepare their costings amount to more than social graces. Experience shows us that it delivers the best commercial results.



... the result for our client was a 41.8% saving ...

We recently conducted a project to look for suppliers of coffee beans and coffee machines that both grind the beans and brew the coffee, known in the trade as "bean to cup" machines. The total contract was in the order of £260,000. Our customer selected 14 companies to invite to the tender, one of which was a company called Pelican Rouge Ltd. Following numerous tasting sessions to pre-qualify the suppliers the project culminated in an online auction.

Stuart Fraser, of Pelican Rouge, said after the project: **"The total management and support given by Myriam at Vendigital was both informative and professional. It was this support that ensured that a fair and open tender took place. The whole process ensured that we were able to see that our actual tender end price was in line with our competitors..."**

But it was not just the suppliers that were happy, the result for our client was a 41.8% saving, now fully implemented.

### > BACK Issues

- >> Qtr 4 03 – Its WORKING ON...
- >> Qtr 3 03 – Its about PROCESS
- >> Qtr 2 03 – Its about TIME
- >> Qtr 1 03 – Its about KNOWLEDGE
- >> Qtr 4 02 – Its about NUMBERS

For back issues of Dynamic Procurement please contact us.

### > More INFO'

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