

dealing in THE FUTURE...



Markets; e-RFI; e-RFP; e-RFQ; online negotiations – value delivered

Forecasting is always difficult and in the business world, often completely wide of the mark. However, comparison with other similar businesses and the evidence of significant benefit from pilot studies can help to provide some credibility to any view of the future. In the automotive world the success of a concept car has often helped to guide the development of the

mainstream. In this newsletter we aim to provide our view of some of the changes that purchasing will undergo in the not too distant future and to provide some of the successes that the “concept cars” are seeing, as evidence to support our view. We are, as always, keen to hear from you our readers. Please let us know if you agree or have a different view.

[See main feature >>](#)

In this issue

Feature: Coffee House or Stock Market? – Will the way in which pseudo-commodities are purchased follow the financial industry from the coffee house to the stock-market?

Case Study: Global Markets – IDEX Corporation in the US experiences the present reality of the global market concept.

Comment: Prof Richard Lamming – Purchasers of the future will decide what to buy. Where and at what price will become the domain of the brokers.

In the News: Brian Cattmull, Linx Printing Technologies – recently featured in Manufacturing Computer Solutions where he gave his view on the value of global markets, e-sourcing and online negotiation.

Suppliers Views: Level Playing Field – 64% of suppliers expressing a preference believe that the presence of an independent “broker” like Vendigital levels the playing field during a tender.



The online negotiation involving over \$1.5 M of precision stainless steel machined components was the culmination of a nine week project ...

GLOBAL Markets

For our customer, the US based IDEX Corporation, it was late in the afternoon. For the suppliers participating in the online negotiation, whose locations varied from the US; Mexico; Poland; UK; China; Singapore; Taiwan it was a mixture of afternoon, late one night and early the next day. Located in Germany, at 2am, chatting to the IDEX teams in the US and our operations centre in the UK via conference call, we were struck by the present reality of the global market.

The online negotiation involving over \$1.5 M of precision stainless steel machined components was the culmination of a nine week project that had actively involved 521 potential suppliers from all around the globe.

e-RFx tools were fully used to communicate efficiently and effectively with this large number of potential suppliers. The optimum suppliers were invited to position their offers within the marketplace where they wished them to be via an online negotiation. During the one and a half hours, over 200 offers were made and in the end a few of the suppliers converged on the global market price for these specialist precision machined components.

"We thought we already knew a lot of suppliers around the world" comments Kelly Sloan, VP of manufacturing at Micropump, an IDEX group company, "but this level of market research was much more extensive and thorough than anything we would have undertaken. During the online negotiation, the power of approaching the markets in such a way as well as the benefit of this rigorous approach to procurement was evident for all to see. We are now in the process of assessing the suppliers identified by the project."

Looking to the future he adds, "By using Vendigital we know we will be able to identify and evaluate more supply options and establish a definitive market price for appropriate items in our spend portfolio. What we also anticipate is that, because this approach requires only a minimal input from our procurement resources, we will have more time to spend developing these new suppliers as well as our strategic suppliers which we know will give further benefits."



"By using Vendigital we know we will be able to identify and evaluate more supply options and establish a definitive market price ..."

Kelly Sloan
VP of manufacturing
Micropump



dealing in THE FUTURE...

Markets; e-RFI; e-RFP; e-RFQ; online negotiations – value delivered

Coffee house or stock market?

Are we getting the best deal? Many a Director has pressed their purchasing team for the answer to this question. Frequently the response is "we have benchmarked our supplier and they are very competitive." But is that a definitive answer to the question? If the item in question was a pure commodity the buyer would know what the quoted market price was and the answer would be definitive. However, much of what a company buys; components, raw material services etc. are unique to the company. No definitive market price is quoted even though there may be hundreds of companies around the world that could provide what is required. For these pseudo commodities, if traditional benchmarking is the mechanism used to determine whether the deal is the best deal, the answer is not definitive at all. In fact, we have found that on average, companies relying on traditional benchmarking are paying 23% more for their pseudo commodities than they need to be.

There are many reasons why benchmarking does not work reliably. For example, the suppliers contacted

know that they are just taking part in a pricing exercise. Realising that the likelihood of winning the business is remote, they do not invest too much time in pricing and risk assessing the item. Often a high price is submitted with the "we could definitely do it for that" attitude, or a ridiculously low price is submitted with the aim of upsetting the appletart. Either way, if they wish to, the buyer can interpret the data to arrive at the inevitable conclusion that the incumbent's price is a good one. Another reason that renders benchmarking unreliable is that the sample of companies chosen to provide prices is typically too small and unrepresentative of the total marketplace.

A parallel can be drawn here with the financial markets. During the 1700's, a person in possession of a ship full of any commodity would drop into a London coffee house and attempt to interest people in a deal. Clearly the resulting deal would be a function of who happened to be in the coffee house at the time. Unsurprisingly, in 1773, a few traders at one coffee house known as



Richard Lamming comment

At a conceptual level it is clear that establishing supply chains for pseudo commodities by visiting the market rather than relying on the “usual suspects” will have a profound impact upon a business. Software tools such as e-RFx and online auctions, which can translate the concept into practice, are already available and are being used by many progressive companies. However, it appears that, while many organisations have experienced some of the efficiency benefits that the software can provide, very few have utilised the techniques to engage meaningfully with their potential markets, which is after all the main reason that these techniques exist.

The most likely reason for this is that there is no easy way of locating a global market for anything other than a pure commodity (which is where the stock market comes in). It takes a considerable amount of time and effort as well as supplier data bases, international contacts, market knowledge and robust methodologies to find, and engage with, a global market place that may well comprise hundreds of potential suppliers.

Such a process would be arduous - and it would also not make commercial sense. Why would every company that buys, for example, castings or machined components strive to develop and maintain a full knowledge of the global marketplace for each commodity? Furthermore, why would a buyer who may only need to visit a global pseudo commodity marketplace a few times a year, believe that their knowledge is of more value than that of someone who is creating deals in the market every week? Clearly, efforts within a company would be far better spent on developing competitive advantage by being better than others at satisfying the customers' needs rather than creating and making deals within global supplier markets. As in financial markets, this is best done by the brokers who, because of the volume of deals they transact, invest considerable time and effort into market research and knowledge retention.

The purchasing decision of the future will be what to buy, components or sub assemblies or even complete products? These are strategic sourcing decisions and will remain core responsibility of Purchasing. Determining where they should be purchased and at what price, will be tactical sourcing decisions; in keeping with emerging best business practice, these decisions will be assigned to ‘brokers’ - the providers of online auctions - who will have the most complete and most recent market knowledge and experience.



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

Jonathans, set up the forerunner of the London Stock Exchange. Here much greater numbers of potential dealers could be interested in each opportunity. The success of expanding the “financial market” has resulted in a huge range of commodities being traded in the current stock exchange.

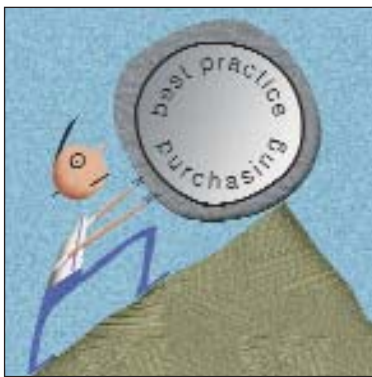
Returning to a company’s pseudo commodities, the techniques to find, communicate and negotiate with larger, often global, markets are already available. Many companies have dipped their toe into the water and run specific projects where, using e-sourcing and online negotiation to access larger markets, substantial cost reductions or improved quality and service have been achieved.

The reason for the impressive results is that the techniques address the two listed failings of benchmarking. Much greater numbers of companies are considered in the tender and, because of the rigour employed in the tendering process the potential suppliers have, and believe they have, a greater probability of winning the business and so pay more attention to their costing.

Whilst sporadic use of these techniques produces interesting and beneficial results, the full extent of the business benefits that they can produce will only be appreciated when they are integrated comprehensively within an organisation. The extent to which they will be integrated into everyday business is of course a subject of debate. However, our view is that ultimately all tenders will be conducted via e-RFx platforms. The efficiency of these systems, coupled with the rigorous management and retention of tender documentation, will ensure that progressive companies adopt these techniques across the board. In addition, the quality, service and cost benefits arising from “market focused purchasing” will ensure that, following the financial markets, the technique will become routine for all pseudo commodities. Pseudo commodities represent 40 - 60% of a typical company's purchasing portfolio.

The benefits of using these techniques across such a large proportion of spend, means that companies can, very profitably, invest a considerable amount of time and effort to ensure they achieve the goal.

V DYNAMIC Enablement ^



Taking advantage of the techniques being outlined in the other articles in this newsletter requires a significant change to take place in a purchasing department. The use of e-RFx systems alone, as the best way to conduct ALL company tenders and purchasing projects, requires a significant set-up. This includes configuring the software to suit the business, existing supplier details need to be loaded onto databases, supplier interfaces should be branded to reflect

the companies image and all the buyers across the group need to be trained in its use. RFX templates should be set up for the main commodities to minimise the disruption to the buyers and make the system use easier than "the old way" so people want to use it.

Going further and using the e-RFx to its full extent by adopting market based pricing for pseudo-commodities requires detailed global searches to be undertaken for a company's main commodities. The company's procurement strategy must be revisited to align it to the new approach. Apparent conflicts such as the desire for supplier rationalisation v's extending commodity markets, development of supplier relationships v's taking suppliers to online auctions must be resolved fully in the minds of the buyers around the group, or the initiative will fail.

All of this requires investment both in terms of time and money, but the

return on this investment is typically very high and quick. Vendigital specialises in the change management programmes required to successfully adopt these techniques and to realise the benefits that they deliver on an ongoing basis.

We believe that the change is best accomplished by running a series of live projects to train buyers and establish the processes. We analyse a groups purchasing spend, identify the optimum projects to provide the necessary training and financial returns. We then work with the groups purchasing teams to run the projects, whilst simultaneously installing and customising the software, training the participants, researching their pseudo commodity markets and establishing the RFX templates. And the best bit? Our fee is contingent on the programme producing a positive impact on group profits within an 18 -24 month period!

V In the NEWS ^

One company that has appreciated the value of a "broker" researching the markets and setting the prices is Linx Printing Technologies. Recently, Brian Cattmull, Linx's Purchasing Manager was interviewed by Andrew Ward for the magazine "Manufacturing Computer Solutions". In the article Brian emphasises the value of entering a market. In the project in question over 300 potential suppliers were spoken to. The process of filtering down from 300 to the last 5 meant that, says Brian, "These suppliers were automatically optimised for the job."

Also, he saw benefits in the price being established by Vendigital. Not only the impact on the actual price paid, but the positive impact it had on the new relationship. "A major benefit for us is that it gets price out of the way. There are no silly games or heated negotiation: instead you can concentrate on issues like quality, delivery and vendor assessment. The whole process is a lot less confrontational for both parties, and price becomes just one of the parameters on which we make a decision."



V SUPPLIERS' Views ^

Level playing field

The usefulness of a "broker" like Vendigital being involved in the deal making process is also supported by the view of a majority of suppliers. Following each project we undertake

we survey participants. Recently we have been asking the following question:

Did Vendigital's involvement in the tender process prior to this auction make you feel that the process was

less biased than if you were dealing directly with the buyer?

The result of the survey showed that 64% of suppliers that expressed a view said that it did!

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

More information: Please contact: adrian.griffiths@vendigital.com

VENDIGITAL[®]
dynamic procurement

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

www.vendigital.com

© Vendigital. All rights reserved
Unsubscribe: If you no longer wish to receive this newsletter please let us know using the contact details above