

dealing GLOBALLY...



Supplier “head-hunting”; market pricing; broker knowledge – global solutions

The impact of China on the cost of many commodities has in recent times been very marked. No manufacturing business, regardless of their geography, can be completely insulated from China’s influence. Companies must have an effective strategy to deal with the challenge that this influence presents. Throughout 2004 various strategies have been deployed to either mitigate

or take advantage of the phenomena that is China. The challenge will not disappear in the imminent future so it is worth reflecting on how well our existing strategies have worked so far and considering what alternative strategies may be available.

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Feature: Lessons from the PAST – As 2004 fades away, the challenges of the year remain. 2005 presents some interesting opportunities for those with the right procurement strategies.

Case Study: Bonar – Prices against the tide. When buying Aluminium extrusions in today’s market, price reductions may be the last thing to expect.

Comment: Prof Richard Lamming – Playing on a sloping field. When commodity prices are rising, making the right calls in purchasing is more important than ever.

In the News: Neil Robinson of Offshore Systems Ltd (Part of Vetco Gray) reflects on the final outcome of their recent project for “Supply Management.”

Suppliers Views: Suppliers feedback concurs with the buyers about the advantages of online tendering.

“The range of supply options identified using these techniques was much greater than would have been achieved if we had gone about this in a traditional way.”
Neil Robinson, VetcoGray

AGAINST the tide

For Bonar Floors the rising price of Aluminium that has been seen in recent times created the risk and pressure of increasing costs for one of their important purchases, Aluminium extrusions. The question this posed was, is the price rise inevitable? If every possible supplier was equally busy and had exactly the same cost structure then the answer would be "yes". However, markets are not perfect. Companies' costs do vary as does their spare capacity and efficiency. The only way of taking advantage of this fact is to locate the lower cost suppliers with spare capacity and the highest efficiencies. This is not easy and can be very time consuming, but is exactly what Bonar Floors did for 13 extrusion profiles worth over £500,000 GBP by engaging Vendigital's services.

352 potential extrusion suppliers were contacted by Vendigital's project team. After a robust tendering exercise, the most qualified five suppliers ultimately bid for the contract via an online negotiation. Was the result worth the search? The business moved to a new supplier for a price reduction approaching 10%!

Bob Morrow Purchasing Manager at Bonar Floors, "Some people in our organisation were very concerned. The incumbent supplier was reliable, their quality was good and their prices were historically better than a few other known suppliers. The fear was that a good supplier was going to be replaced with a cheap, unknown supplier. Vendigital's approach obviously ensured that these concerns were unfounded. The end result was that we achieved a cost saving against a rising market from a supplier that is probably even better than the previous one."

Andy Hall Operations Director at Bonar Floors "The tools and processes available through companies like Vendigital make the concept of market purchasing possible. The market potential that comes to light in dealing with supply markets and not just a few possible suppliers is exciting and presents many additional business opportunities."



BONAR FLOORS



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Purchasing Manager
Bonar Floors

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Lessons from the past

"Those that cannot remember the past are condemned to repeat it", George Santayana 1863 – 1952. In looking forward to 2005 and in resolving to make changes within our businesses, it is essential to reflect on, and make sense of, the issues that occupied our minds during the past year. Many of the challenges ahead are going to remain the same. The predominant theme for many in manufacturing has been the China effect. Companies of all sizes have felt the impact of this booming economy as its demand for materials drove commodity costs upwards. Reflecting on how well we rose to this challenge is vital, because it is far from over.

One common solution has been to try to offset the rising material costs fuelled by China's demand, by sourcing components from within China to take advantage of its lower labour costs. This works in principle but, two major issues are often overlooked. First is the practicality of dealing in China. Language, culture and its time zone can present deal breaking obstacles when not addressed. Second is the

issue of Logistics. Ex-works prices out of China can be very eye catching, but a much greater proportion of the overall cost becomes the Logistics to get the item back to Europe or to the States. This significantly increases the risk of cost variations. This is in part due to shipping, which, with exports from China rising quickly is experiencing demand rising above capacity at a time when oil prices are also volatile. In addition to, and probably more important than potential shipping cost fluctuation is the value of the inventory within the long supply chain. The risk of a quality problem writing the supply chain inventory off and causing significant line stoppage is the major potential cost variation. Of course all of these risks can be mitigated, but the cost of doing this is frequently underestimated.

Anticipating the future we should ask, what could have been done differently in the past? When reviewing current or intended supply sources from China, much depends on the answer to the following question. "When the decision was made to go to China because the



global solutions

cost saving looked too great to be ignored, what was the true comparative cost in other economies, for example Portugal, Czech Republic, Brazil or Mexico?" If the answer is "don't know" then the decision to go to China may have been a poor one. Certainly China's prices can be compelling when comparing them to those of long standing suppliers near to home. But the world is more complex than an "either, or" choice between a tired source near home and a startling, but untried, opportunity in China. The issue therefore that should occupy the minds of decision makers this year should not be China alone, but how to ensure that the multiple variables that globalisation presents are turned into optimised supply chains.

Imagine the capability to present significant commodity groups within your business to a market place. A market place comprising companies that have been "head hunted" globally to meet your specific requirements. Then, in a negotiating mechanism born out of the stock market, these companies compete for your contracts and in so doing present a comprehensive picture of the total

cost of sourcing your commodity in each of the global regions. Overlay this regional cost data with the risk profile and practicality of doing business in these regions and the result becomes the ability to make strategic decisions based on facts not islands of data.

This capability is already reality, we call it "Market Purchasing." Vendigital specialises in this approach achieving for our customers average cost savings of 23%. The approach is appropriate to all Pseudo Commodities, components or materials specific to your company but potentially available from many suppliers around the world. Pseudo Commodities typically represent 40% to 60% of all the purchased items in a manufacturing company. Such significant savings on Pseudo Commodities makes the potential impact of Market Purchasing on the bottom line enormous.

Yesterday's future has arrived. Will your 2005 be reflected on as another year of some incremental improvement or one in which significant progress was made to reduce costs by optimising supply chain decisions?

Richard Lamming comment

Playing football on a sloping pitch requires different tactics in the two halves of the game. The same principle can be applied to Purchasing. Over the past decade the "slope" has been largely in the favour of buyers, wishing to reduce prices. In the last year or so, the situation has changed and the game has become considerably more challenging as commodity prices have increased. In the current economic climate purchasing professionals must raise their game to maintain the value that they provide to their businesses.

The risk in maintaining the supply of strategic items and their associated supplier relationships in a rising market may well lead to cost increases. This risk raises the need to achieve cost reductions on pseudo-commodities as a counter measure. Conducting rough-cut tenders with suppliers sometimes described as the usual suspects is not, and in reality never has been, an acceptable approach in such situations. Locating a few almost random suppliers in Asia-Pacific and making a supply decision based on this limited number of options, even though it may appear significantly beneficial in the short term, is equally inadequate.

Sourcing decisions must be based on well researched facts, with the global options fully recognised. This is because the financial impacts of making errors in supply chains may be impossible to rectify. Of course, lower total-cost supply options can be subsequently engaged following a previous error but the unnecessary costs incurred because the optimum supply chain was not identified and established at the outset cannot be recovered. This is a cost that a business should never incur but particularly not when under pressure from already squeezed margins.

When playing uphill, an unproductive effort simply drains the energy levels of the players thus reducing the capability of subsequent initiatives. Similarly, rising markets provide much less margin for error in a business. In the current economic climate purchasers must identify the optimum global deals every time. In such a market, the role of a broker can be crucially important in market research and supply option assessment, ahead of making what may turn out to be business-critical decisions.



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

> Doing a GREAT DEAL



The Return on Investment achieved via e-sourcing and online negotiation programmes continues to be eye catching. Some of the ROI is delivered by the actual projects conducted. Even in the current economic climate where costs are typically rising, the average saving being achieved by Vendigital on components and materials for use in a manufacturing environment remains in excess of 20%. The rest comes from the efficiency improvements within the buying process.

So the obvious aim for progressive companies is to do lots of projects and get these techniques embedded within their organisations! The problem is that nobody has unlimited resource. So in order to assist our customers to achieve more without having to double their purchasing teams we have developed a very experienced team of Project Managers, DEAL makers and Project Coordinators.

They provide assistance in:

- Developing Strategic Objectives
- Establishing manufacturing facilities in lower costs regions
- Managing structured change management programmes to embed Best Practice within an organisation.
- Identifying potential cost reduction projects that will yield the best results (See: "Savings Optimiser" – Dynamic Procurement Issue 6)
- Writing "Requests for Quotation"
- Headhunting potential suppliers from around the world
- Managing the potential suppliers through the tendering process
- Making sense of the results and
- Project Managing the switch of supply to the new supplier, if required.

**The benefit to our customers?
They can do a GREAT DEAL
without having to DO a great deal.**

> SUPPLIERS' Views

In the last edition of this newsletter we highlighted what one of our customers, Brian Cattmull of Linx Printing Technologies had to say to journalist Andrew Ward for Manufacturing Computer Solutions about the benefits of the Vendigital approach. It seems fair therefore to say what one of the suppliers at their last tendering event had to say in their Supplier Feedback Questionnaire:

"Everything was very well detailed and clearly explained by the professional staff at Vendigital. We prepared very carefully and are very pleased with the outcome of the extremely exciting process."

Jeremy Way
Innotec Manufacturing Ltd

Clearly it is not only the Buyers that appreciate the benefits!

> In the NEWS



Neil Robinson, VP of Supply Chain Management

This quarter we were pleased that one of our customers, Offshore Systems, (formally part of the ABB group, now part of Vetco Gray Inc.) talked about their first e-sourcing and online negotiation project in Supply Management. Neil Robinson, VP of Supply Chain Management cited three main benefits of such a project over a traditional tendering approach:

Extensive Market Research – "The number of potential suppliers involved in the tendering exercise was much greater than would normally be entertained, which made finding ideal suppliers more likely."

Efficient Tendering Software – "Given the complicated nature of this contract the benefits of the software were very evident... ..The e-tendering software meant that we – and of course the suppliers involved – could be confident that the communication was accurate and complete."

Effective Negotiation Mechanism – Despite the increasing levels of service required from the supplier, potential costs savings of between 13% and 27% were also indicated. These potential suppliers were subjected to rigorous supplier quality assessments... ..the supply of production components has now commenced."

And the conclusion?

Neil Robinson again, "The range of supply options identified using these techniques was much greater than would have been achieved if we had gone about this in a traditional way."

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

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