

## Press release

### **Low cost country suppliers likely to become uncompetitive within 2 years according to new survey**

**Swindon, UK - 4th July 2006:** A new survey of 100 purchasing directors/managers within manufacturing organisations\* by procurement specialists Vendigital, found that 57% of respondents thought their low cost country suppliers would be competitive for only 1-2 years and a further 20% cited just 2-3 years.

This short-term view stems from the problem that areas recognised as the lowest cost often experience a high influx of business and foreign investment. Consequently this erodes their 'low cost' advantage when compared to other regions or countries.

Companies frequently move to a low cost area to gain a competitive advantage. However, when the competition moves some time later, not to the same area but to the lowest cost region at that time, they gain the competitive advantage. Clearly, competitive advantage can only be derived from a low cost source until the competition discovers a lower one.

The study, announced by Professor Richard Lamming, Director of the School of Management from Southampton University at a Vendigital seminar last week, looked at how companies can develop a sustainable competitive advantage through the use of low cost country sourcing.

"Companies need to know when their current source is no longer competitive, they also need the ability to identify new, lower cost suppliers quickly," explains Professor Lamming. "This needs a robust process. When a company has decided that low cost sourcing is going to be the source of competitive advantage for a product, it effectively commits that product to an ongoing PROCESS of change - not just to manufacture in a specific PLACE".

"After finding new lower cost suppliers, companies must be able to switch to them quickly. The capability to switch from one supplier to another efficiently is however, often dictated by the design of a product. So if low cost sourcing is to be an option, it's far better to make plans during the design phase of a product's lifecycle on which components or sub assemblies will go the low cost sourcing route, yet only 5% of companies think about designing for low cost sourcing. It's also vital that this design phase includes a strategy on how to retain intellectual property and technical innovations when sourcing from low cost economies." ➤

Professor Lamming outlined further findings from the study:

- 97% of respondents actively source product or components from countries they define as 'low cost'.
- Whilst the use of low cost countries is high, the extent of the spend is still limited, with over 66% of organisations committing less than 15% of their spend to these lower cost economies.
- Experience in LCCS is also still limited - 64% of those surveyed have less than 5 years of experience.
- 57% of companies regarded China as their number one low cost source, followed by 12% and 8% rating India and Poland respectively as their most important low cost source.
- Within the top three destinations 25 different countries were identified by respondents, yet 91% of companies get quotations from five or less countries before making sourcing decisions.

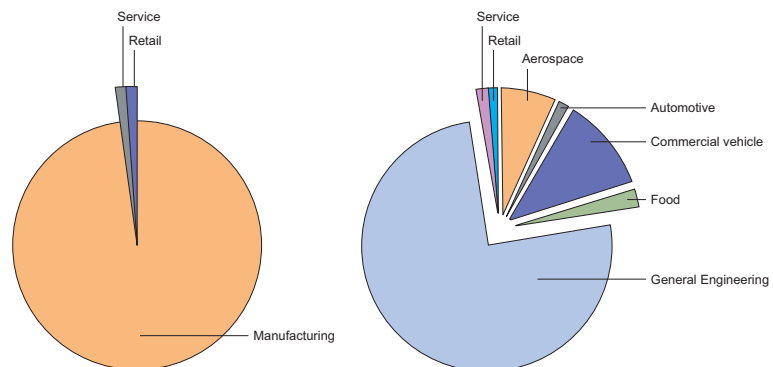
Adrian Griffiths, Director of Vendigital adds, "The fact that so many, quite similar companies have found success in so many different countries demonstrates the complexity of the global marketplace. Given this complexity, in general, much greater numbers of potential suppliers from more countries must be included when running tenders. Doing this helps to make sense of the global marketplace and to identify the optimum suppliers not just good suppliers. The use of e-sourcing; eFRx platforms and online auctions make what was an unrealistic tendering task a very practical proposition."

For further information, please contact:

Fiona Cousins, Vendigital PR T: 01252 850182 E: [fiona@osmo.co.uk](mailto:fiona@osmo.co.uk)

### \*About the survey

The survey of 100 purchasing directors/managers was undertaken during 10-minute telephone interviews during June 2006.



### About Vendigital

Vendigital is a procurement organisation that delivers rapid business improvement. Its team of purchasing professionals works with leading industrial and business customers to deliver average cost savings of 26%. To sustain and improve on these gains, customers tap into Vendigital's experience to use the very latest technology and best practice purchasing techniques.

Vendigital enables customers to maximise their position in global supply markets. Cost reduction programmes individually tailored to a customer's needs utilise many of the techniques developed by Vendigital such as: savings optimisation analysis, global supplier headhunting, e-RFx platforms, online tendering, e-auctions, value auctions and results implementation.

Programme benefits are sustained through outsourcing the management of product categories to our specialist team as well as utilising Vendigital's e-RFx and online negotiation technology in house. Established in 2000, Vendigital has offices in the UK, US and Germany.

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