



## *Best Practices Journal...*

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### **Over 10,000 Supply Chain Leaders Now Receive This Bi-Monthly Journal.**

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**Strategic Procurement Solutions, LLC** is a niche professional services firm dedicated only to the advance practice of Supply Management.

**Key Services include...**

- Procurement
- Staffing Services (Temporary, Project, Contingency Search)
- Online Supply Management Skills Diagnostics
- Professional Development Services (Training, Coaching, Org Development)
- Expertise in Strategic Sourcing of High ROI Spend Categories
- P2P Efficiency Enhancements, and
- Outsourcing Project Expertise (LCC & BPO).
- Supply Management Consulting Services

**Strategic Procurement Solutions'** clients range from Fortune 100 to Russell 2000 in size; and include numerous Global enterprises as well. We also work with leading Public Sector supply chain groups.

### **New articles in this Edition:**

- **"Innovators, Imitators, and Idiots"** - by Robert Dunn, M.B.A.
- **"Where Have All The Auctions Gone?"** - by Mark Trowbridge, CPSM, C.P.M.

### **"Innovators, Imitators, & Idiots" - by Robert Dunn, M.B.A., Principal**

Billionaire Warren Buffet has observed that, **"First come the Innovators, then come the Imitators, then come the Idiots."**

Although bluntly stated, Mr. Buffet shrewdly summarized the progression of marketplace supplier positions...one of several key factors to be understood by Supply Management professionals as they develop strategies to acquire the best products and services.

This article will explore this aspect of marketplace expansion, and then review a marketplace analysis tool used by many Supply Management groups to guide their own sourcing strategy development.

First, let's consider the billionaire's observation:

- **"First come the Innovators"** – Any new market segment is created by "innovators". New technologies, services, or concepts are created by an innovative firm...and that market takes off. Sometimes innovative competitors seek to establish their offering as the new "standard". And sometimes a sole innovator holds a patent or IP right which allows them to hold a monopoly position while the marketplace grows...but not forever.
- **"Then come the Imitators"** – As customers begin to procure products and services in the new marketplace, other firms rush to enter. Sometimes they offer products or services very similar to those of the marketplace leaders, but other times have to provide additional value to gain entrance.
- **"Then come the Idiots"** – As any product or service segment becomes a commodity, a large number of firms compete based

largely upon price rather than quality. Most of these firms lack the innovative insight to create their own offerings without mimicking the firms which lead the marketplace. Price is the main differentiating factor between firms, and often quality problems exist with the low-cost providers.

As supply-chain groups identify their own marketplace strategies, they need to ensure that their desire to lower costs does not move them too far away from working with industry leaders who will continue to enhance quality and value. Innovative firms have usually departed from stagnant market segments, because their value is not adequately compensated, and the second two types of firms typically dominate those segments.

But in progressive market segments, Innovative and Imitator firms will continue to dominate. Rapid changes in these segments, along with frequent market leadership changes based on value-contribution, largely-eliminate the ability of low-value firms to compete.

Strategic Procurement Solutions has some great training programs to help supply management groups analyze their key marketplaces, to develop winning strategies. We also regularly assist clients with sophisticated analysis of market trends as part of overall sourcing projects. **Consider Strategic Procurement Solutions if your organization needs assistance in building accurate measurements of your supply chain ([Info@StrategicProcurementSolutions.com](mailto:Info@StrategicProcurementSolutions.com)).**

### **"Where Have All the Auctions Gone?"...by Mark Trowbridge, CPSM, C.P.M., Principal**

Earlier this month, I traveled to Asia to present our firm's Advanced Procurement Negotiations™ training program. The workshop participants came from a number of leading companies with operations in China and Singapore. Some of them worked for manufacturing companies which actively sell products to other leading corporations.

Along with the in-depth training content related to negotiations, there was great interest by the participants in a perceived decline in the use of reverse auctions. The Asian manufacturing companies indicated that their sales groups were receiving fewer and fewer requests to participate in auctions, and more invitations to participate in traditional negotiations.

Their questions mirrored observations Strategic Procurement Solutions has been hearing from our supply-chain colleagues around the world. The pendulum which originally swung towards auctions has begun to swing back to a more-balanced approach to supplier relationships. But that's not to say that auctions don't have a very valid role to play in the procurement world.

It's interesting to note that auction technology is actually an automated way of "negotiating" one or two-dimensional acquisitions. Ideally oriented towards "commodity" acquisitions, the technology burst onto the supply management scene nearly a decade ago. It has been widely applied in securing "savings" ...but many procurement professionals have questioned the use of auctions for complex acquisitions.

Here are a few observations about the use of auctions which may help you to determine the best means of negotiating your sourcing deals:

- **Single purchase events of true "commodities" are still ideal for auction technology.** This is the best use of this type of tool, and longer term pricing arrangements can also be appropriately sourced using auction tools. The further one gets from commodity sourcing,

however, the less appropriate an auction event becomes.

- **The more complex the group of products or services you're acquiring, the more you should focus upon a traditional RFP and/or negotiations.** A survey of 5,000 procurement managers done by IOMA several years ago found that "Renegotiation of existing supplier relationships" was the single-most-beneficial practice being utilized by companies to secure savings. You don't use email to present complex issues to a colleague; nor should you use auction technology to negotiate complex and interdependent terms.
- **Important supplier relationships may be damaged by introducing an auction.** An auction is like using a hammer to ratchet down prices. Unfortunately, hammers aren't the best tool to use in "key" supplier relationships.
- **Leading suppliers often choose not to participate in auctions.** In all but the most commoditized market segments, industry leaders are choosing not to participate in auction events. Their reasoning is twofold: They (1) believe the value of their relationship can't adequately be addressed through an auction forum; and (2) don't like being on the receiving end of a hammer.
- **Over-utilization of "market basket" groupings lessens the value and impact of an auction event.** If you have a large number of items, consider utilizing an accurate pricing spreadsheet in a traditional sourcing or two-stage bidding process...leading to negotiations. You may be surprised that the results may be even-better than an auction.

**Contact Strategic Procurement Solutions if your organization would enjoy training in Expert Strategic Sourcing™ or Advanced Procurement Negotiations™ (or any of our firm's many other onsite training programs). The former program helps participants select and optimally use the best approach to each sourcing opportunity (whether using a hammer or endoscopic surgical device). The negotiation program trains participants in planning, staging, and conducting highly-productive negotiations.**