

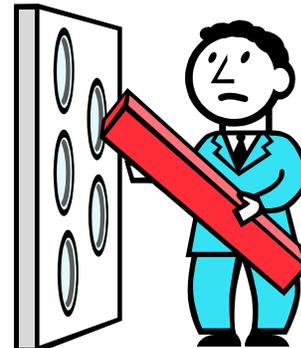
About This Issue - This June 2005 edition of our newsletter contains more techniques to help our clients & colleagues accomplish their strategic procurement objectives.

Strategic Procurement Solutions is a consulting firm specializing in advanced Strategic Sourcing, Training, and Organizational Improvement services. Robert Dunn, C.P.M. & Mark Trowbridge, C.P.M. are principals in the firm who lead teams of professionals in supporting leading procurement clients. More information can be found at www.StrategicProcurementSolutions.com.

Note to Readers: We are currently scheduling onsite training & consulting with clients for the 3rd and 4th Quarters of 2005. Please contact us if you would like to reserve space in our schedule.

When Bidding Doesn't Fit... by Mark Trowbridge, C.P.M.

Today's new sourcing tools (eRFx, Reverse Auction, etc) are great! They can help the competitive bidding process by streamlining the management of supplier proposals...and (with auction technology) facilitate dynamic bidding between multiple suppliers.



But like children with a new toy, new procurement technology has tempted some procurement groups to “overuse” competitive bidding as a practice. **This article will provide more observations about when competitive bidding works...and when it doesn't.**

First of all, let's define the purpose of getting multiple bids when acquiring a product or service... There are four reasons to solicit multiple proposals:

#1

Competition – The primary reason to solicit multiple tenders is to cause the bidders to compete for the sale. This competition exists in the realms of pricing, quality, etc. The knowledge they are competing against other bidders should help each firm to present their best offering.

#2

Clarification – A RFQ or RFP can help to ensure the bidders are all proposing an acceptable quality of product or service. The communication process can also help to derive information about the industry and competitive firms

#3

Fairness – If managed properly, competitive bidding process will offer each bidder a fair opportunity to secure the business. This is one of the reasons the public sector (Governmental entities) tends to compete most of their requirements.

#4

Confidence – The knowledge that a bidding process occurred, provides the business owner or stakeholders with confidence a premium wasn't paid.

But when does competitive bidding not provide the best outcome? There are numerous circumstances where *other techniques provide a better outcome than "Three Bids and a Cloud of Dust"*:

Don't Bid If... There are a Lack of Qualified Competitors

This seems pretty obvious. But some procurement folks still have a sole source supplier "compete" against firms who can't fully compete. *If the sole source supplier has half a brain, and understands their place in the marketplace, a sole source supplier will often "pad" their proposal in a bidding process.*

It is usually best to approach the supplier well in advance of the procurement need to negotiate a total package.

Don't Bid If... There is a Shortage of Supply

When supply of a particular commodity is scarce, issuing a competitive bid may *worsen the buyer's position*...sometimes to the point of causing a shortage.

In these situations, smart buyers should use *long-term contracts and collaborative negotiations* to achieve beneficial arrangements with a preferred supplier. Suppliers will give preferential treatment to those customers who they can depend upon...not those who threaten to go out to bid.

Don't Bid If... You Are Procuring An Intangible

One of the basic requirements for any competitive process is that the product or service must first be accurately described. If there is not clarity in the definition of requirements, suppliers can't price aggressively.

That is why Reverse Auctions are a poor tool for acquisitions where there is a high-degree of intangibility in the requirements.

An example might be Creative Agency Marketing Services. In that instance, the intangible aspects are as/more important than the tangible ones... Such as the agency's approach to advertising, the resumes of their project team, and creative concepts that might benefit a particular client.

Don't Bid If...You've Done It Many Times Before.

The Law of Diminishing Returns says that “*Continuing application of effort toward a particular goal will decline in effectiveness after a certain level of result has been achieved*”. So why do some supply managers think that they’ll get a better price on a stable commodity for bidding the same thing out a third or fourth time?

For mature product categories (i.e. those that have been produced & purchased for many years), doing “yet another” bid is unlikely to yield significant benefits. But this is what some buyers do. They do another competitive bid for products that they’ve bid numerous times before....using the same group of suppliers.

A better approach might be to dissect the capabilities of the incumbent providers, and determine whether other products needed by the buyer could be produced by those firms. A higher volume of business could allow the seller to spread overhead costs (account team compensation, technical support, marketing, accounting, transportation, etc) over a larger sales base and achieve a savings for the buyer.

Don't Bid If ...It's a Collaborative Alliance Relationship

Many procurement professionals don't realize that *5% to 12% in additional cost savings* can often be realized by value-managing their alliance supplier relationships. These savings are in addition to those captured when the relationship was initiated...at the beginning of a contract term.

We recently helped a large manufacturing client to reduce the costs of their loading dock & warehousing services. *Rather than conducting a competitive bid* between various players, we did a *collaborative negotiation* with the primary incumbent...leveraging additional volume and related activities. *Result? A multi-million dollar savings over three years.*

Is competitive bidding a good technique? **Yes**. Should it be regularly-employed by any good sourcing organization. **Absolutely**. But there are times when smarter sourcing strategies will yield better results...

Ways to Lose...or Keep...An Internal Customer... by Robert Dunn, M.B.A., C.P.M.

One of our firm's *most popular* two-day onsite training programs is titled "Outstanding Customer Service for Procurement Professionals". Our one-hour presentation at the ISM International Conference by the same name was oversubscribed and ISM had us present it multiple times.



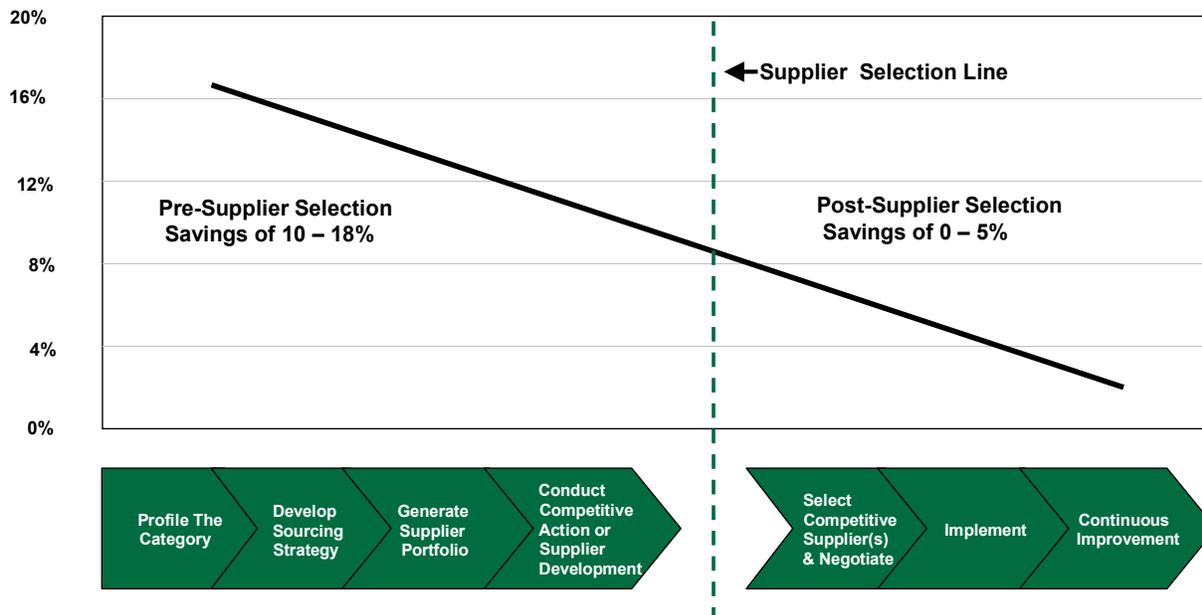
So why is Customer Service of such interest to procurement professionals?

It's because failure to manage spending across an enterprise will result in consequences that are fatal to supply chain optimization:

- **Fragmentation of Supplier Expenditures** – Dissatisfied customers “go around” procurement’s preferred suppliers. You can’t leverage spending when it is outside your control.
- **Late Involvement in Procurement Transactions** – Dissatisfied customers only want procurement to “paper the deal” with a contract or p.o. The following chart illustrates how savings are lost through late sourcing involvement by procurement:

Early Procurement Involvement Pays

(Avg Savings Percent)



- **Lack of Standardization** – Dissatisfied customers use what they want. The objective establishment of product standards is diluted when different customer groups acquire what they want.
- **Maverick Spending** – Dissatisfied customers will sometimes commit to a transaction themselves, or select products that aren't the company standard.

While this article doesn't brush the surface on how to provide outstanding customer service, here are 10 things to do, and not to do, when working with your internal users:

#	Ways to <u>Lose</u> a Customer	Ways to <u>Keep</u> a Customer
1	Treat them as if they are one of many.	Take time to make each customer feel their needs are most important.
2	Say "I don't know".	Say "I don't know, but I'll find out and call you back."
3	Don't follow-up after making a commitment.	Take time to follow up. If you are going to be late, call them in advance and explain the situation so they don't have to call you.
4	Tell them "It's not my job, you need to call Sally". We call this <i>cubicle volleyball</i> ...	Explain that it isn't your job, but you will find the right person and have them call them back. Then follow-up to make sure it has been done.
5	Make sure your voice sounds bored and uninterested. Slouch in your conference chair. Don't maintain eye contact.	Stay engaged in the conversation. Maintain a body position and eye contact that reflects real interest in the conversation.
6	Blame or accuse the internal customer.	Remember the old motto... <i>"The customer is always right"</i> . Be creative in meeting their needs, while achieving your company's objectives. Take criticism on the chin, and stay positive.
7	The words "you'll have to" will alienate any customer.	Take time to explain the reason for the process, and give them available options.
8	Let them know you are too busy to help them.	If you are too busy, get additional help for this customer...but don't tell the customer you can't help.
9	Make the customer feel inferior.	<u>C</u> ustomers <u>A</u> re the <u>R</u> eason <u>W</u> e <u>E</u> xist (CARE). Without customers, there is no need for my job.
10	Be sure to use a lot of jargon.	Don't use purchasing expressions like "sourcing", "demand management", "FOB Destination", etc. when explaining a purchasing transaction to a customer.

Marketing research has shown that a person who's had a *positive* customer experience will (on average) tell 3 other persons. But one who has had a negative customer experience will tell 10 other persons.

If you need more information about *Outstanding Customer Service*, please contact us through our website below.

Editor's Note: **Strategic Procurement Solutions'** objective is to provide top quality supply management services to client organizations in the private & public sector, and to enable those clients to exceed their internal users' expectations regarding promptness, price, and quality. One means of doing this is through this educational newsletter, which provides bi-monthly articles about "Best Practices" in procurement. Contact us at www.StrategicProcurementSolutions.com for more information about our services, or if you do not wish to receive this newsletter in the future.