

OCTOBER 2011

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Welcome to the autumn issue of our newsletter. It has the usual company news and updates and we have also invited Peter Smith of Spend Matters to provide the Perspective. Peter warns of the dangers of complacency in sourcing and highlights how, in his experience, healthy scepticism brings about continual improvement. It is a fascinating read.

I always find the move from summer to autumn makes the seasons more tangible as the days get shorter and weather deteriorates (in the Northern hemisphere at least). However, what the transition also does is highlight how seasonal behaviour is often rooted in habit rather than any rational need. If we think about sourcing, most companies still tend to buy on a calendar year with autumn being the busiest period as they look to get things in place for the next year. In our experience this is not necessarily the best strategy as everyone gets very busy and sometimes too busy to allocate adequate time and resource to what can be complex projects. What we find is that companies running sourcing events 'out of season' often find that suppliers have more time to consider the requirements and are better placed to be more creative with their offers and are often more competitive. Clearly in some cases it is not possible to change but it is worth realising that tying the sourcing cycle to the calendar could be a habit worth kicking and you may find suppliers are excited at the prospect of bidding out of season.

Enjoy **By the Buy...** and many thanks for your continued support.

**Garry Mansell**  
CEO, Trade Extensions



## New website

To coincide with the continual improvements being made to the sourcing platform, Trade Extensions has revamped its company website. The website includes all the latest news and developments from the company and includes a number of useful resources such as the webcast explaining optimisation and how it benefits sourcing. Watch webcast [here](#).

## TEIM work

The latest software release now includes TEIM (Trade Extensions Instant Messaging) and helps sourcing teams to communicate with suppliers and colleagues during sourcing projects. When buyers log on they can immediately see which suppliers are online and it is possible to send individual messages and receive instant responses. This targeted communication makes the sourcing process more efficient as queries can be dealt with immediately. It is also possible for buyers to instantly send messages to groups of suppliers, for example all bidders on a particular project. The address lists are managed dynamically so buyers do not need to make adjustments as suppliers start bidding, they just need to 'send to all bidders'. An additional benefit of TEIM is that all messages are stored and become a useful record of the negotiation process.

## Don't take our word for it...

The industry blog Spend Matters recently reviewed our latest software release and in a separate post looked at how Trade Extensions optimisation software has broader uses than sourcing and can be used for other tasks such as complex planning projects.

Some of the highlights are reproduced below and the full series of posts can be downloaded from the Resources page on the Trade Extensions website - [here](#).

"... the solution [new auction features] is leaps and bounds above general-purpose e-auction tools in terms of the general collection and presentation of bidding information. The amount of information users can opt to intuitively display in a single screen from both a graphical and data sheet perspective is almost dizzying." Spend Matters, 28 July 2011

"On a comparative basis, there's really nothing quite like Trade Extensions' auction cockpit and absolute real-time bidding/bid analysis capability." Spend Matters, 1 August 2011

"Trade Extensions has architected its optimization capability that, as it has in the past, is not reliant on any one solver. Trade Extensions can use and substitute ILOG/CPLEX (IBM), XPRESS and Gurobi solvers based on the task at hand. Many other providers in the sector are locked into a single solver." Spend Matters, 3 August 2011

## "How will I award my business?"™

It sounds straight forward but often the easiest questions to ask are the hardest to answer. When it comes to designing a sourcing process, "How will I award my business?"™ is the first query any buyer needs to solve.

It may sound counterintuitive starting at the end of process but deciding the award criteria up front, forces buyers to identify their ultimate objectives and any constraints they have.

The thought process might go something like this:

**Q** "How will I award my business?"™

**A** "I want the cheapest solution."

**Q** "That means I could be working with lots of suppliers. Am I happy to do that?"

**A** "OK, in that case, I want the cheapest solution with FIVE suppliers."

**Q** "I've heard there's some good new suppliers. Am I happy to work with them?"

**A** "Mmm? Good point. OK, I am happy to introduce one new supplier if the overall cost is 10% less than last year."

**Q** "What about quality control?"

**A** "Obviously quality is vital and it goes without saying I would only invite suppliers to bid if they could guarantee quality."

**Q** "That means we need a pre-qualification stage. OK?"

**A** "Yes. And leave me alone, I'm trying to get to sleep!"

And we could go on.

The point being that the process of deciding how business will be awarded forces buyers to think about the structure of the buying process. In the example above, a desire to have the cheapest solution quickly becomes the lowest cost solution working with a maximum of five pre-qualified suppliers, one of which may be new on condition that the overall cost is 10% less than the previous year.

Trade Extensions, VP Sales and Business Development, Joe Critchley says, "Asking yourself how you will award your business and then interrogating each answer so there are no more questions to ask will give you all the information you need to design a successful process. It's important to recognise you are not committed to the using the precise award criteria you identify, but it is a good way of establishing what questions you are likely to be asking at the award stage to ensure you actually collect the relevant information during the RFI and RFQ stages."

Collecting the correct information ensures buyers receive the full benefit of the Trade Extensions optimiser in the analysis phase. Because it is so fast, numerous scenarios can be analysed very quickly so buyers can 'play' with the data and answer as many 'what if?' questions they can think of. In the end, buyers often find solutions they would never have previously considered and that is only possible if they collect the information at the outset by answering "How will I award my business?"™



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## Really Flexible RFX

Trade Extensions RFX process is **Really Flexible™**. The RFI, RFP and RFQ stages are the key to the buying process and as Trade Extensions is parameter based there is limitless flexibility on what data is collected. Spend Matters described the new auction features as “leaps and bounds above general-purpose e-auction tools in terms of the general collection and presentation of bidding information.” What’s more, because the data collected at the RFI stage is compatible at all stages of the sourcing process (see Back to Skool?) it can be included in the data analysis and decision making phases.

### Back to skool?

We are very proud of our academic heritage as it, literally, provides the brain power that makes our platform so effective. However, to the mere mortals in Trade Extensions and beyond who were off school when PhDs were awarded in Mathematics and/ or Linear Programming some of the concepts are a bit abstract. Therefore in this occasional series we shall try and explain some of the mechanics that allow us to operate as we do.



### No.1 - OLAP Cubes

One of Trade Extensions’ key strengths is that all its data is stored in OLAP cubes and not traditional databases. OLAP (Online Analytical Processing) Cubes make analysis very fast because there is only one set of data and it can be manipulated and delved into to find the answer you are looking for. The term ‘cube’ is slightly misleading because OLAP cubes are not limited to three dimensions and are often multi-dimensional. This means there is no limit to the amount of data stored in the ‘cube’ and data is compatible at every stage of the sourcing process making Trade Extensions’ analyses effective and fast.

### Graph software

A picture is often worth a thousand words which is why Trade Extensions now incorporates state of the art data visualisation software. The platform is compatible with the leading charting software packages which give users the ability to produce an unlimited number of reports and views using any of the data fields from the sourcing project. Users are already reporting that the charts make communication, with specialist and non-specialist stakeholders alike, much more effective.



## EVENTS – 2011

### ESC Shipper Forum 2011 - Greening the Maritime Logistics Supply Chain

Trade Extensions, CEO, Garry Mansell took part in the “Models for calculating Carbon Footprint and tools for co-operation” session at the recent European Shippers’ Council Forum. The joint presentation he gave with Drewry Supply Chain Advisors is available on the Trade Extensions Resources page here.

### Procurement Leaders

Trade Extensions is a Networking Sponsor at two upcoming Procurement Leaders events. The Vienna Forum (20 October) and the Boston Forum (9 November) are set to be key events on both sides of the Atlantic and bring together the top sourcing and supply chain management professionals. It will be great to see you there and full details can be found here:

**Procurement Leaders Forum Vienna – 20 October**

**Procurement Leaders Forum Boston – 9 November**

Trade Extensions makes full use of Twitter and Linked In so please ‘follow us’ keep up to date with company and industry news. Click on the logos below to ‘follow us’



Peter Smith, Spend Matters UK/Europe  
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## If it ain't broke, FIX IT!

There's a big temptation when things are going well to just keep going, to accept the status quo. It can seem like nothing can possibly go wrong. All through history we've seen examples of people, companies, even whole civilisations who have thought "everything's fine as we are, we don't need to change". But if you're not changing or growing, you're declining – or dying.

In my business career I've seen governments worrying about the power of IBM, then Microsoft. That seems crazy now as those firms, although still doing fine, have lost the dominance they once had. Now it's Google or Apple who are "getting too strong" for the public good. In some industries, there's more longevity; interestingly, consumer goods seems to have a lifespan greater than anything in the business to business world. Mars, Unilever or Nestle look like they'll be good into their second centuries. But when I was growing up, some of the iconic names of British business - or on the high street - were ICI, Woolworths, Midland Bank, Dewhursts and British Leyland. Remember them....?

*It's much easier to change and develop from a position of strength rather than waiting for the crisis to hit!*

So everything changes. What does this all mean for procurement people though? Just that complacency and arrogance are the absolute enemies of excellence, and if you're not improving, developing, you're probably dying.

If you believe that your organisation or your function doesn't need to change and adapt: if you believe that everything is just fine: then that's probably a good indicator that problems are just round the corner. The same applies to us as individuals too. And remember – it's much easier to change and develop from a position of strength rather than waiting for the crisis to hit!

The best people I've worked for, with, or managed, have always had this element of dis-satisfaction. They were capable of acknowledging and celebrating success, but they always wanted to do things even better, they wanted to try new ideas. That doesn't mean you have to be foolishly risk taking – one of the reasons I've always been glad I chose procurement rather than marketing is that procurement folk (unlike many marketers...) tend to have a healthy scepticism and therefore a sensible attitude to risk.

But we can't let that spill over into that "everything's fine just as it is" mentality.

So how does the profession look at the moment in terms of this issue? It's a mixed picture, as you might expect, but I see a lot of organisations who aren't pushing the boundaries as hard as they might. And given the economic outlook, it seems more important than ever to be doing just that. However, if you're reading this, you are probably not in that category anyway – you've embraced, or at least have an interest in some of the most advanced procurement and supply chain technology in the world. But I still meet CPOs from major organisations that have never run an electronic auction or an end to end e-Sourcing process – let alone considered optimisation processes. If you are in that category – give it a go.

And my perception is that the profession generally has not quite woken up to the significance of how "optimisation" platforms signal a fundamental change to some of the well-established paradigms of procurement, particularly category management. We started exploring this in our White Paper for Trade Extensions – available here. (If you haven't read it, please consider spending 20 minutes doing so).

*We can ask the market how it would like to structure the supply we need.*

Our hypothesis is that this technology enables us to approach the market in a very different manner to how we traditionally do so through category management processes. Instead of carrying out large amounts of analysis to (in effect) second guess the market, and the fundamental economics that lie behind it, we can ask the market how it would like to structure the supply we need. Given that it is the suppliers who understand those economics, that will lead to a more economically advantageous solution than we'll ever get by simply sitting in our proverbial darkened room developing complex "category strategies".

But that is just one example of how procurement needs to be challenging our own status quo and traditional thinking. I see some of the same issues in automation of purchase to pay processes; in attitudes to risk management (where most organisations and procurement functions are working at a level that can most kindly be described as "basic"), in attitudes to training and development, and in how procurement interacts with internal stakeholders. This isn't true everywhere of course, but it is pretty common.

*Be open minded, challenge yourself and current practice.*

There is no magic answer to this, but the most important message for senior procurement people is this. Be open minded. Challenge yourself and current practice. Develop your awareness of external information and events; some great ideas come from inside your organisation, but many don't. And above all, NEVER get complacent. Garry Mansell of Trade Extensions and I were discussing this topic recently, and his phrase was, "if it ain't broke...FIX IT"!

So even if things look pretty good, even if you're hitting your targets and delivering your goals – think about that. What more can we do? What can we do differently and better? How do we embrace change to make sure we stay at the front of the pack? They're the key questions to ask.

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For Your Business & Your Life

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## Brain Optimisation

One of the benefits of using Trade Extensions for online sourcing is that during the analysis phase you can be sure you comparing like with like – or apples with apples as the saying goes. Here, in a puzzle popularly known as the Covent Garden Problem, you can test your true apple comparing skills.

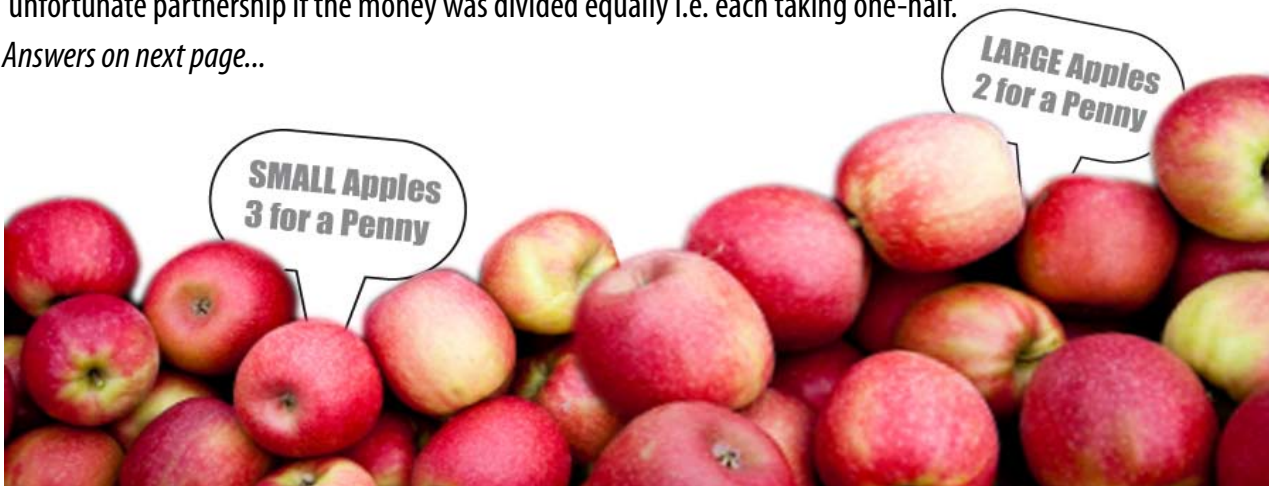
Mrs. Smith and Mrs. Jones both had an equal number of apples. But because Mrs. Jones had larger fruits, she was selling her apples at two for a penny. Mrs. Smith who had more modest fruits sold hers at three for a penny.

During a thick London fog, Mrs. Smith was called away and she asked Mrs. Jones to sell her apples in her absence. Mrs. Jones happily accepted the responsibility of selling her friend's stock and, to save time, she mixed the apples together and set the price at five apples for two pence. All the apples were sold.

The ladies knew how much money they usually made but when they counted the proceeds they found the total was seven pence short of what they expected.

Mrs. Jones felt particularly short-changed and the challenge is to calculate just how much money she lost by the unfortunate partnership if the money was divided equally i.e. each taking one-half.

*Answers on next page...*



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## The solution:

### Mrs Jones lost 21 pence.

The mixed apples were sold at five apples for two pence. Therefore the total number of apples must have been a multiple of five e.g. **5, 10, 15, 20, 25, 30, ..., 60, 65, ...** etc.

Because Mrs Jones sold apples in groups of two and Mrs Smith sold apples in groups of three, the minimum number of apples they could have together is **60**.

If the apples were sold separately, **30** of Mrs. Smith's apples would fetch **10** pence and **30** of Mrs. Jones's would fetch **15** pence. Therefore when sold separately, **60** apples would fetch **25** pence altogether (i.e. **10+15**).

However, when sold together at **5** apples for **2** pence, **60** apples would fetch **24** pence

i.e.  $(60 \div 5) \times 2$ . This represents a loss of **1** pence compared to the money generated selling the apples separately.

As the ladies lost **7** pence altogether, they must have had **420** apples between them to start with (i.e. **60 x 7**). This would have earned them **168** pence i.e.  $(420 \div 5) \times 7$  which means both ladies earned **84** pence.

However, because Mrs. Jones could have sold her **210** apples for **105** pence ( $210 \div 2$ ) she actually lost **21** pence (**105 – 84**).

The flip side is that while Mrs. Jones lost **21** pence despite doing all the work, Mrs. Smith earned **84** pence when she would have only made **70** pence if she sold her apples herself.

The moral of the story is that even when you are comparing apples with apples, make sure they are the same size apples – especially when it's foggy.



## Contact

**Trade Extensions** sets new standards for online sourcing and optimisation. Our sourcing platform helps organisations achieve their strategic buying objectives by specifying sourcing events, collecting offers and, most significantly, optimising the results. We also provide integrated spend analysis and contract management to help organisations identify, exploit and manage sourcing opportunities.

Get in touch to find out more and to see how we can help you.

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