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**Preserving Supply  
Base Integrity  
During an  
Economic  
Downturn**

**A Knowledge Leadership  
Publication By  
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## Executive Summary

### **Are Your Organization's Current Policies and Practices a Threat to Your Supply Base?**

Do your suppliers perceive your current e-procurement strategy as a threat or a benefit to their organization? While it is a simple question, the answer is one that will ultimately determine the success or failure of your e-procurement initiative, and in these challenging financial times even your business itself.

In 2005, I addressed an audience of 200 senior executives from the supply-side of the automotive industry. The general consensus by the audience as a whole was that e-procurement initiatives, and in particular technological solutions, represented a "significant threat" to both collective and individual business profitability. The result of this perceived threat was the consensus that as suppliers, they would do everything in their power to "resist participating" in any program in which an e-procurement solution was being introduced by a customer.

In 2009, little has changed. In fact given the current economic climate coupled with past predatory buying practices and misdirected vendor rationalization strategies, the appetite on the part of suppliers for technology-centric initiatives is even less today than it was in 2005.

This might make the recent introduction of such breakthroughs as e-LYNXX's solution for the procurement of specification-defined goods or services somewhat questionable. However, what makes e-LYNXX's situation unique is the fact that their solution enables the buyer to monitor and take advantage of favorable market conditions to consistently achieve best value results *without* taking advantage of the supply base.

This article will examine how the e-LYNXX methodology accomplishes this seemingly paradoxical, and some would suggest contradictory outcome from the perspective of both the buyers and sellers of specification-defined goods and services. In the end, the information within this article will enable you to ultimately be the judge as to how effective the solution is in achieving the elusive win-win result outcome.

## **Interchangeable Strategies and the Attempt to Find the Right Combination for Success**

“e-LYNXX provides a solution that increases supplier profitability while delivering sustainable “best value” pricing for the buying organization.”

Jon Hansen  
Procurement Insights, Research Notes  
February 3, 2009

## **The Uneasy Alliance between Buyer and Seller**

When I initially began my research on the e-LYNXX offering, I was at first caught by the innovative impact behind what I considered to be a breakthrough technology. After all, a good portion of my professional career has involved the research, development, and ultimately the registration of two separate patents centered on the utilization of advanced algorithms in the procurement process under an agent-based model.

Funded by the Government of Canada's Scientific Research and Experimental Development (SR&ED) Program, I was both passionate and relentless in my effort to identify the next evolution in supply chain practice and technology.

Throughout this journey I learned a great deal in terms of understanding the diverse and at times contradictory elements of the market as it related to the emerging global supply chain practice. The most important lesson being that technological innovation, or even technological superiority (re i.e., the best solution) does not necessarily lead to industry acceptance.

In fact, the continuing challenges faced by organizations in all industry sectors relative to the high rate of e-procurement/supply chain initiative failures gives testimony to the veracity of this assessment. (Note: Approximately 85 percent of all initiatives fail to achieve the expected results, sometimes costing companies tens of millions of dollars in the process.)

Armed with this insight, I sought to avoid the pitfalls of falling in love with the technology and instead tried to view the e-LYNXX solution through the more discerning lens of its effectiveness from a practical, real-world perspective.

## **The Two Biggest Questions**

Based upon the premise of "contribution pricing," whereby the supplier's pricing strategy is aimed at leveraging idle production capacity by generating revenue during slow or low-demand periods, the buyer may be inclined to view the e-LYNXX offering as a seller's (nee supplier's) solution. After all, if the supplier is going to realize revenue shouldn't the supplier be the one to invest in the technology?

On the other hand, a supplier's reaction to a technology that would help the buyer identify low-demand periods in an effort to procure goods and services at a "reduced" price, might very well create the kind of resistance that was demonstrated by the 200 automotive executives I had referenced in the "Executive Summary." In short, the concerns surrounding the introduction of this type of technology into the request for quotation or information (RFx) process might lead to the establishment of an "artificial" floor to ceiling price range that would force the supplier to maintain the low-demand pricing schedule during peak production periods.

These of course are all too common scenarios that emphasize the disconnect between seemingly disparate stakeholder interests. And while initiatives involving tools such as reverse auctions have been villainized by the supplier community, it has become increasingly clear that the overall low rate of success across all industry sectors affecting both public and private enterprises has little to do with the technological elements of the application, and more to do with the misalignment of its use and a misunderstanding of its impact on stakeholders both within and external to the buying organization.

## **Candy and Supply Base Synchronization**

As indicated in the previous section, the technologies that form the backbone of the majority of e-procurement platforms operate as intended. And even though the emergence of Software-as-a-Service (SaaS) or on-demand models, in which the architecture is built around an adaptive framework that better reflects the way in which the real-world operates, are dramatically reshaping the supplier landscape, the original challenges with misalignment still exist.

One example that immediately comes to mind is Colgate-Palmolive's efforts to introduce an Ariba-based RFx process to their existing supply base. As one senior executive told me, "We spent a considerable amount of time and money to set-up an event in the hopes of creating a competitive bid situation that would lead to increased savings. Unfortunately, we did not receive even a single bid from suppliers within our existing supply base." The program was ultimately scrapped.

Even a disconnect between stakeholders within the enterprise itself can lead to challenges with supplier buy-in.

As the maker of a number of leading brands, a large, U.S.-based candy manufacturer grew dramatically in a very short period of time through a series of acquisitions. Unfortunately, an extemporal or improvised supply base was a byproduct of these transactions, leaving the acquiring company with a highly suspicious, deeply segmented group of suppliers.

The biggest challenge as expressed by a senior procurement manager for the parent company was convincing the former suppliers of the acquired companies that becoming part of the larger pool would open opportunities for increased sales. The suppliers didn't buy the "increased opportunity" mantra and as a result, the transition process was challenging to say the least.

An interesting by-line to the suppliers' resistance is that the level of collaboration between the newly merged purchasing organizations was also problematic. This only served to fuel rather than douse the internal divisional fires resulting in both a practical and operational lack of cohesiveness and coordination. The end result was a territorial struggle that manifested itself in a divided supply base. This was hardly the ideal environment for a successful consolidation. Nor is it the best scenario for the introduction of a new solution no matter how technologically advanced or operationally innovative.

## **Transcending the Technological Confines of Automation**

An early e-LYNXX case study highlighted the challenges a buyer faces when attempting to compile the necessary supplier attributes for a specification-defined good or service acquisition.

This is in large part due to the fact that identifying and then qualifying suppliers is inherently an onerous task that normally limits the buyer's selection to a core group of "known" suppliers. In the numerous studies I have conducted on the impact of a buyer's unwillingness to extend their engagement of suppliers beyond the comfort of familiar relationships, increased cycle time was clearly identified as a major obstacle to the adoption of a new process or acceptance of a new technological platform.

The impact of limited supplier engagement based on either a buyer's unwillingness to develop new supplier relationships or as a result of misaligned policies or a lack of resources, leads to a significant erosion of the organization's supply base. This in turn leads to a phenomenon known

as creeping margins where a decreased level of supplier participation produces a steady increase in the costs of goods and services over time, as well as an overall decline in quality performance.

What this means is that both buyers and suppliers, who usually have a shared and vested interest in maintaining the status quo rather than introduce variables (such as new technology) into the equation, are unintentionally creating a false market that leads to a diminished relational value.

And as illustrated by the "Two Biggest Questions" in Section 2 of this article, buyers are driven by the need to reduce cycle time or work load, while suppliers are driven by a preservation of margin imperative.

### **The Simple Outcome of Complex Technological Innovation**

What makes the e-LYNXX solution unique is the fact that it transcends the technological confines associated with an automation-centric approach to process efficiency by positively impacting the operational aspects of an enterprise's supply chain practice on an adaptive, real-world basis.

Specifically, the buyer can automatically match the buying specifications with the corresponding supplier attributes to streamline the engagement and response process, while simultaneously maximizing overall supply base participation.

The complex nature of the e-LYNXX evolutionary technology, which incorporates the company's 2008 patent that continues to reverberate within the supplier community, belies the simplistic operational elements of the application that effectively address both buyer and supplier concerns and needs.

How does e-LYNXX accomplish this?

I already touched on the fact that the solution streamlines the buyer-side functional requirements, thereby removing the barriers to internal adoption through a true decrease in cycle time.

Supplier-side considerations, however, are somewhat more involved in that there are factors that extend beyond a single transaction.

Certainly from the 10,000 foot level, the issue of play or stay is the main concern for a supplier. In essence, a supplier would have to quantify the benefits of sitting idle during a low-production period in an effort to “protect” or “preserve” a high-production period pricing metrics versus offering a period-driven reduced price in an effort to win business, and in the process creating a false or artificial floor to ceiling price range that would potentially (at least in the mind of the supplier) set the mark for all future transactions.

However, as the supplier does not operate within the narrowly defined scope of a single product-single transaction environment, there are several other factors that can ultimately influence the decision to bid. These include but are not limited to, the following:

- Impact on sales of other products of the firm such as complementary sales, cannibalization, impact on brand image, impact on distribution or trade push of the firm’s other products, and competitor reaction. (Note: While each of the above referenced areas of impact are important, the concerns surrounding the risk of opening the door to a competitor by not bidding is often times one of the most important considerations.)
- The strategic role of the product and others in the product portfolio with a particular emphasis on price points and positioning of the other products, as well as the corresponding impact on cash flow.
- Economies of scale and scope, and experience curve effects on costs.
- Long term strategy for the product. (Note: The accompanying “How Long Term Strategy Influences Supplier Bid Response” case reference illustrates how long-term considerations can influence supplier participation in the RFx process.)

In the end, and to varying degrees, the supplier must be able to weigh all of the above factors relative to making a decision as to if and how they should respond to an RFx.

Ultimately the course of action they choose will have a significant and direct impact on the buyer’s company, extending far beyond a single transactional event. For this reason, the tools that buyers utilize to engage their organizations’ supply base must recognize and effectively address the interests of the supplier, while still delivering “best value” results for the purchasing company.

## **The Supplier's Perspective**

The evolutionary solution from e-LYNXX accomplishes this critical objective by providing each supplier with a high degree of response flexibility.

Specifically, a supplier can choose to bid high, low, or not at all on a particular opportunity. They can do so without trying to match the buyer's pricing expectations, or risk setting a precedent relative to future bid opportunities. And regardless of their chosen response to a particular bid request, they can make an intelligent decision to pass altogether without fear of being excluded from future opportunities for which they are qualified to respond.

In short, and regardless of previous bidding history, each request represents a new opportunity to win business. This benefits the supplier in that utilizing open production capacity or downtime is important as it fills periodic revenue gaps, which pays for overhead and other expenses.

## **The Buyer's Perspective**

From a buyer's perspective, the response flexibility afforded the supplier can produce significant savings. In the case of buyers of direct mail, marketing materials, commercial print, labels and product packaging, using the e-LYNXX methodology has historically achieved an average cost savings of 40 per cent. This is due to the fact that the supplier is encouraged to bid lower for the same work that would normally cost considerably more during peak production periods.

This means that the buyer is better positioned to "locate" open production capacity within its supply base wherever it exists and at the time a specific requirement is ready to bid and order.

In the end, the win-win attributes of the e-LYNXX solution stimulate supply base growth and participation, creating a sustainable savings model that, according to the company, produces the fastest ROI in the industry today.

## How Long Term Strategy Influences Supplier Bid Response

One of the more interesting case studies that illustrated the impact that long term product strategies have on supplier bid response involved the RFP for MRO service parts to support a government IT infrastructure.

In an attempt to standardize the pricing for spare parts thereby making it easier to evaluate all submissions on a level playing field, the government provided a comprehensive list of the products they required. All suppliers were then instructed to bid “best price” on each line item.

As the RFP was for a five year contract, one of the first questions submitted by the suppliers centered on the life cycle of the listed products. Specifically, would they be held to the quoted prices when specific products became obsolete and had to be replaced? The response from the government was “no”.

Recognizing that the vast majority of products listed were likely going to be obsolete within three to six months, all suppliers with the exception of one bid zero dollars for the listed parts.

The one exception was a supplier who actually offered to pay the government a nominal fee each time a part from the list was utilized.

The logic on the part of the suppliers, who understood the “long term strategy” associated with the listed parts was that they could absorb the costs of the original or listed items for the first six months of the “five year” contract, and then charge the government a “healthy” mark-up on the newer product versions as they were introduced into the contract.

## About e-LYNXX Corporation

e-LYNXX Corporation ([www.e-LYNXX.com](http://www.e-LYNXX.com)) (888-876-5432) licenses its U.S. Business Method Patent No. 7,451,106 – The Gindlesperger Method - to buyers and third-party procurement and system providers through its Patented Procurement Method division ([www.PatentedProcurementMethod.com](http://www.PatentedProcurementMethod.com)). e-LYNXX also works with print buyers to reduce their print costs through its American Print Management division ([www.americanprintmanagement.com](http://www.americanprintmanagement.com)) and with print suppliers seeking to improve their revenues by winning government work through its Government Print Management division ([www.governmentprintmanagement.com](http://www.governmentprintmanagement.com)). Founded in 1975 as ABC Advisors, e-LYNXX Corporation is based in Chambersburg, PA 17201.

## About the Author

Jon Hansen has studied and written extensively about e-Procurement and the changing face of procurement around the globe. In addition to being a highly acclaimed international speaker, his Procurement Insights Blog reaches 300,000 syndicated subscribers each month worldwide, and is currently available in several languages. He has written more than 200 articles and papers on subjects ranging from supply chain optimization and the utilization of agent-based modeling in the software development process to the evolution of sustainable purchasing practices and the impact of traditional ERP-centric implementation methodologies on the high rate of supply chain initiative failures. Funded by the Government of Canada's Scientific Research and Experimental Development (SR&ED) program Mr. Hansen's work in both identifying the existence of Commodity Characteristics as well as defining and recording their impact on "best value" purchasing practices represented a seminal breakthrough that led to the establishment of new theories surrounding the practical utilization of synchronized platforms in achieving sustainable coordinated savings and overall process efficiencies.

Other white papers by Jon Hansen:

*The Greening of Procurement: How Social Consciousness is Re-Shaping Procurement Practices*

*Talent Attraction and Retention in a Global Economy*

*SAP Procurement for the Public Sector*

*Strategic Sourcing Practices in Higher Education*

*Yes Virginia! A Profile in Excellence*

*The Key Principles behind the Integrated Enterprise Excellence Methodology*

To obtain copies of the above referenced white papers, or to inquire about Jon's availability to speak at your next conference or seminar contact Jennifer Cameron at [jenncameron@sympatico.ca](mailto:jenncameron@sympatico.ca), or 819-986-8953.

# **Preserving Supply Base Integrity During an Economic Downturn**

## **Appendices**

## APPENDIX A

### Reference Links

Pg. 4, (Agent-based model Reference);  
([http://en.wikipedia.org/wiki/Agent\\_based\\_model](http://en.wikipedia.org/wiki/Agent_based_model)), Wikipedia, the free encyclopedia, (February 22, 2009)

Pg. 4, (SR&ED Reference); Scientific Research and Experimental Development Tax Incentive Program, (<http://www.cra-arc.gc.ca/txcrdt/sred-rsde/menu-eng.html>), Government of Canada

Pg. 4, (85 percent Reference); numerous studies including, Cordella, A. (2007). E-government: towards the e-bureaucratic form? *Journal of Information Technology* 22, 265-274

Pg. 4, 8 (Contribution Pricing Reference);  
([http://en.wikipedia.org/wiki/Contribution\\_margin-based\\_pricing](http://en.wikipedia.org/wiki/Contribution_margin-based_pricing)), Wikipedia, the free encyclopedia, (February 22, 2009)

## APPENDIX B

### The Gindlesperger Method

The U.S. Patent Office awarded Business Method Patent No. 7,451,106 to e-LYNXX Corporation on November 11, 2008. Called The Gindlesperger Method in honor of its inventor, e-LYNXX Chairman William Gindlesperger, the business method patent applies to all organizations that buy specification-defined goods and services and to their third party procurement and system providers.

The business method patent covers any computer-operated system for procuring specification-defined goods or services that matches supplier attributes with project specifications to identify qualified suppliers, disseminates a solicitation to at least two identified suppliers and receives a bid response. The Gindlesperger Method can be utilized to sharply reduce procured costs in any industry or area of spend management that involves specification-defined goods and services.

e-LYNXX Corporation has successfully used The Gindlesperger Method in the commercial print industry and reduced the procured print spend of its clients by an average of 42%. Through its Procurement Patent Licensing division, e-LYNXX now offers all buyers, suppliers and service providers the ability to license and apply this revolutionary purchasing method.

e-Procurement systems have streamlined purchasing processes and allowed organizations to reduce associated soft costs. By licensing and applying The Gindlesperger Method, these same organizations now have the opportunity to advance their e-procurement to a new level and dramatically reduce measurable hard costs of goods and services.

The method can be utilized in any industry or area of spend management that involves goods and services which are ordered to precise and unique specifications and produced following the point of purchase. Examples include commercial print, construction services, direct mail, labels, machined parts, marketing materials, product packaging, temporary staffing, textiles, transportation, trucking and more.