

FEBRUARY 2010

INTRODUCTION

Welcome to the first **By the Buy...** of the year and I am sure most of us are happy 2009 is over. Without doubt, it was the most tempestuous year I have known throughout my 25 year buying career but, without being complacent, things look to be picking up and it seems that the economic climate is improving. Our own revenue performance suffered at the start of the year due to the uncertainty of budgets and the economic situation, but as the year developed buyers turned to us in large numbers to help them secure sustainable market prices for the goods and services they needed. Our end of year figures show we grew by 13% during 2009 but this doesn't tell the whole story, as the growth for the last six months has been 35%. The order book for the first quarter suggests this larger rate will continue and that is all down to you – so thank you all for your support.

NEWS

Thanks also to everyone who provided feedback on the first **By the buy...** it seemed to go down well and hopefully you will find this issue just as interesting. For this issue, as well as the usual news round up, we have invited respected industry commentator and blogger Michael Lamoureux of Sourcing Innovation to provide the **Perspective**. Michael has been covering the procurement sector for a number of years and as we leave the noughties behind us, Michael looks at how far the sector has come in the last decade.

PERSPECTIVE

You will also see that we are speaking at a couple of events over the next few months – **eWorld** on 24, 25 February and **Multimodal** in April and it would be fantastic to see you there.

Enjoy **By the buy...** and enjoy 2010. Thanks again for your support.

**Garry Mansell**  
CEO, Trade Extensions



BRAIN OPTIMISATION

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## **Noughty finish sees Trade Extensions grow by 35%**

Despite the economic uncertainty that defined 2009, Trade Extensions finished the year strongly and ultimately recorded a 13% growth in revenue. Growth in the last six months of 2009 was even more impressive and increased by 35% with early indications showing this level of growth will be maintained in early 2010.

New customers generated over 20% of Trade Extensions' revenue and existing customers increased spend by an average of 20% as they used Trade Extensions in additional areas of their business.

Direct businesses customers and consultants accounted for over 80% of revenue in 2009 and the revenue contributed by consultants rose by 60%. Consultants will be a major focus for Trade Extensions during 2010 as it seeks to compete with other suppliers in terms of functionality, service and price.

During 2010 Trade Extensions will also be seeking to further develop its work in the public sector – an area where historically it has been strong.

## **JOB (title) SWAP**

To ensure Trade Extensions is in the best position to grow and develop it has made small but significant changes to the roles of its senior management.

Garry Mansell becomes Chief Executive Officer with overall responsibility for the business and Arne Andersson becomes President with responsibility for the technical development of the company's products.

Arne Andersson said, "Garry and I have always performed these roles so, to a certain extent, it is just case of swapping job titles. Having said that, now the roles have been formalised it does provide the outside world with a clear structure – it's my responsibility to make sure we have the world's leading products. The fact we grew 35% in the last half of 2009 suggests we are doing something right."

Garry Mansell said, "Arne and the team in Sweden write the best code on the market and our customers are seeing the benefits. Because our software is written in-house, all our procurement services seamlessly integrate with one another and it is very easy to deploy our software across organisations. We saw this last year and 20% of our revenue in 2009 came from existing customers increasing their spend as they used us in several new areas of their business."

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## Squaring the circle – development for 2010

Spend Analysis and Contract Management were introduced during 2009 and to complete the procurement suite we will be introducing a compliance module during 2010. As is the case with Spend Analysis and Contract Management, the new compliance module will seamlessly integrate with our e-sourcing and world leading bid optimisation functionality. The compliance module will allow users to monitor and manage what was agreed with suppliers and what happened in reality.

In addition to adding compliance functionality we will also be introducing a Tender Dashboard to provide users with an even better way of viewing the key data and management tasks in any tender.

### **US Expansion in 2010**

*2009 saw Trade Extensions consolidate itself in the US market and despite only having had a permanent office in the US for 18 months, the US now contributes over one third of Trade Extensions revenue. To support customers in the US further, Trade Extensions will open additional offices in two US cities during 2010. The locations are yet to be finalised but will be selected from New York, Chicago or San Francisco.*

## New Recruits

Trade Extensions has made two key appointments since the last issue of *By the Buy...*

**Shweta Sharma** has joined as Business Solutions Manager, Americas. She is based in our Houston, TX office and will provide support and consultancy to our US-based customers. She is also responsible for training and supporting the implementation and utilisation of the software platform.



Before joining Trade Extensions, Shweta worked with Paradigm Partners as an Engineering Associate and she also worked as an IT consultant with Infosys.

In addition, **Mike Coburn** has joined Trade Extensions as a Strategic Sourcing Consultant.



An experienced programme manager, Mike specialises in applying online solutions to customer procurement projects. He has broad procurement experience gained in the transport, FMCG and telecom sectors and he will work with customers to manage procurement events and optimise supply chain strategies.

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2010 EVENTS

## eWorld Purchasing & Supply

Trade Extensions will be giving two seminars at eWorld Purchasing & Supply – the UK’s primary event focusing on using of leading-edge technologies and techniques for procurement.

Wednesday, 24 February 2009

### Private education from public sector

The private sector can learn from the public sector’s experience of e-sourcing and, with reference to recent Swedish public procurement projects, this seminar will show how sophisticated and powerful bidding processes are being used to provide excellent value for money for government agencies and, at the same time, attractive business for winning suppliers.

Thursday, 25 February 2009

### Supply Chain Sanity

Learn how powerful new techniques are enabling organisations to unravel the complexities of their supply chains and truly optimise them for the first time. Complex procurement projects need not generate unmanageable amounts of data and, with the right tools, it is possible to simultaneously source and optimise any multiple leg supply chain.

**World Purchasing & Supply is taking place at The National Motorcycle Museum in Birmingham, UK on 24, 25 February 2009. It is free to attend and you can register online – [www.eworld-purchasing.com](http://www.eworld-purchasing.com)**

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2010 EVENTS

## Multimodal 2010

Trade Extensions is sponsoring Multimodal 2010 and once again we will be running a programme of industry briefings from our stand.

Continuing our desire to provide high profile and relevant seminars we have confirmed an exceptional programme:

### Decarbonising of Logistics

*Professor Alan McKinnon - Heriot-Watt University*

Alan McKinnon will share the latest thinking on how manufacturers and retailers are minimising the impact their logistics operations have on the environment and will discuss future initiatives and trends.

### An Introduction to Trade Extensions and Optimisation

*Trade Extensions*

In this session we will explain how we help major manufacturers, retailers and the public sector achieve optimised procurement in their major sourcing projects – no matter how large and complex the requirements.

### The European Freight Market

*Joe Critchley, Trade Extensions*

Joe Critchley will share the procurement tactics and techniques being used by major organisations in the market today. He will highlight how European freight rates and their underlying drivers have been evolving over the last twelve months.

*more >>>*

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**2010 EVENTS**

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## **Case Study: Optimising Tender Benefits**

*Philip Witerhalder - Kellogg's*

Philip Winterhalder will describe how sophisticated optimising techniques were used in Kellogg's recent pan-European tender to address a number of key strategic objectives.

## **Supplier selection in today's economic climate**

*Craig Bunker - Key3 Partners*

Craig will share with you some insights to use when examining the operational, financial and technical ability of transport companies, especially if you are seeking those that will be here for the long term

## **Supply Chain Sanity**

*Trade Extensions*

Here you will learn how powerful new techniques are enabling organisations to unravel the complexities of their supply chains and truly optimise them for the first time.

**Multimodal 2010 takes place in the UK on 27 – 29 April 2010 and the precise timings for these briefings will be confirmed closer to the time. Details of the briefings and more information on Multimodal 2010 can be found on the Multimodal website: [www.multimodal.org.uk](http://www.multimodal.org.uk)**

## **OECD / ITF Research Round Table**

*The Joint Transport Research Centre of the OECD and the International Transport Forum has invited Trade Extensions to present a discussion paper at its 'round table' event taking place on 8-9 March in Genoa, Italy.*

*Information and communication technology is critical to effective intermodal traffic management and the session will generate a report on its potential to improve freight transport which policy-makers will consider at the 2010 International Transport Forum taking place in Leipzig, Germany on 26-28 May.*

*Presentation of a paper is by invitation only but there are a limited number of seats available for freight transport specialists who want to attend and contribute to the broader discussion. Programme and registration information will be available shortly on the International Transport Forum website: [www.internationaltransportforum.org](http://www.internationaltransportforum.org)*

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Michael Lamoureux – The doctor of Sourcing Innovation

## Perspective – A Brief History of Optimization



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### In The Beginning...

In the beginning, there was the reverse auction. Industry visionaries applied reverse auctions to their sourcing events for commodity and competitive categories (in the mid nineties) and saved a small fortune (which sometimes exceeded 30%, 50%, and even 70% of previous category costs). They were heroes and the world was good.

Then, a couple of years later when they circled back to the first categories and held another auction, something unexpected (to them) happened. The total savings shrunk considerably. The average savings, expressed in terms of percentages, dropped from the mid double digits to the (low) single digits. The savings often equalled what they would have expected from a traditional RFX / negotiation process. But the market was a seller's market and the total event time, and thus the total event cost, was low, so with the right spin, they still looked quite successful. The world was still good.

Another couple of years passed, and they circled back to the first categories again. But this time, the

market was a buyer's market again and savings were bound to equal those seen in the initial category reverse auctions, right? Wrong! Instead, something really surprising (to them) happened -- instead of saving money, total costs increased -- sometimes in the double digits! The world was a dark and scary place. What happened? Could it have been avoided?

### What happened was arrogance and ignorance.

Before the mass-market acceptance of the internet that began in the mid-nineties, three-bids-and-a-buy was the common practice as you usually only knew of that many suppliers and getting multiple bids was a very time consuming and difficult process. As a result, the local suppliers knew they, more-or-less, had you, and your competition, captive and that if they kept their prices relatively stable and competitive, they got the business, no matter how high their margins were. Then the internet opened up access to a multitude of suppliers, some of whom were very hungry for new business, and the reverse auction allowed those suppliers who were hungriest

to sacrifice margin for new business. As a result, those suppliers who had grown complacent in their belief that they could continue to charge margins of 50%, 100%, or more, found themselves in a quagmire when reverse auctions allowed newer, hungrier, suppliers to drop their margins to 30%, 20%, or less. On the flip side, the visionaries who ran the auctions saw huge price reductions for the first application in each category as they quickly squeezed the fat out of the supplier's margins in an open and transparent market.

However, once the supplier's margins were gone, they were gone. The suppliers couldn't go any lower on a price-per-unit cost with their anticipated cost structure and, as a result, their bids failed to decrease the next time around. Then commodity costs rose and the suppliers had to raise their prices too or risk going out of business. And buyers, blind to the fact that all a reverse auction does is take fat out of supplier's margins until the margins are gone, lost big time.

### **But it could have been avoided.**

Shortly after reverse auctions hit the big time, a few visionary individuals realized that reverse auctions were not the panacea the early auction platform providers were making them out to be. They realized that margins were not the only opportunity for

savings and that a new solution would be needed if cost reductions were going to be identified in a regular and sustainable manner.

### **And they were going to do something about it**

Back in 1999, the visionaries started putting together the companies that were going to change the way strategic sourcing was done. Based on optimization, the new platforms would allow a sourcing professional to select sustainable solutions with the lowest total cost of ownership, and not just with the lowest price per unit. These visionaries understood that the reality is that the lowest total cost also depended on the total transportation cost, the total

**For example, you save 10% on price by accepting product from a lower quality supplier who is in China instead of Mexico, but ...**

import and export costs, the quality and utilization costs (which determined cost of waste and warranty support, for example), and so on. Unless you could simultaneously reduce, or at least hold steady, all of these other costs, a price reduction could actually cost you more money in the long run. (For example, you save 10% on price by accepting product from a lower quality supplier who is in China instead of Mexico,

but then your transportation costs triple and your warranty service costs increase tenfold.)

## Enter Optimization

A year later, in 2000, the first optimization platforms from companies like CombineNet, Emptoris, MindFlow, and Trade Extensions appeared. They were primitive at first, with initial releases from some providers not being able to support multiple items, not being able to support ship-to locations, not being able to support volume bids, or not being able to support multiple cost components (which means you had to specify the total landed cost or total ownership cost for each supplier, item, ship-to, and/or volume break combination, depending on what the solution supported). They were also fairly

**And some platforms, like Trade Extensions, even build optimization into their reverse auctions so you can get the best of both worlds.**

slow and very limited in terms of maximum model size, often not being able to handle more than a handful of suppliers, a few dozen items, and a few score of ship-to locations.

However, the solutions improved rapidly, and within three years a number of solutions not only

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supported multiple items, multiple suppliers, multiple ship to locations, and multiple volume breaks, but these solutions also supported product substitution, discounts on item groups, and qualitative constraints. The solvers behind the models also became significantly more powerful and could support hundreds of suppliers supplying thousands of items to thousands of locations, and solve the models in hours, and sometimes minutes.

## Optimization Turns Ten

This year, strategic sourcing decision optimization, which is still considered the new kid on the sourcing platform block, turns ten and I have to say that it's grown up fast. Today's platforms now also support arbitrary discount groupings by supplier, unlimited cost factors with a total cost of ownership defined as a formula across those cost factors, simultaneous make-vs-buy analysis, constraints defined on user defined attribute groupings (suppliers in the North East, products with aluminum, etc.), and a host of other features. And some platforms, like Trade Extensions, even build optimization into their reverse auctions so you can get the best of both worlds. The maximum model size is enormous compared to what could be solved ten years ago. Consider the recent event run by a financial services company on 65,000

[cont...](#)

items and 60,000 transport destinations which involved over 400,000 bids from over 100 suppliers (and was valued at over 1 Billion Dollars). That's at least 1000 times larger than the largest model I would have attempted to solve ten years ago, and about as large as a real world sourcing model can get.

So please join me in wishing strategic sourcing decision optimization happy birthday. It's come a long way in a brief amount of time. As one of the early adopters, I'm sure you've seen, and continue to see, new benefits. Even though strategic sourcing decision optimization turns ten this year, my estimate is that still less than 10% of potential beneficiaries are using this technology. When you factor in all of the providers and resellers of sourcing platforms

out there today, only 10% (or so) of these sourcing solution providers offer true strategic sourcing decision optimization, and at many of the suite providers who do offer this technology, only 10% to 20% of their customers take advantage of the power this solution has to offer.

**Contributed by Michael Lamoureux,  
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## Easy money?

To a certain extent designing a buying process is limited only by the buyer's creativity but it is important not to get too creative because the wrong design can have serious consequences.

### Imagine the following situation:

You, and a number of other eager participants, have been invited to an auction of a one dollar bill. It looks like a great opportunity to make some easy money and the rules of the auction look simple enough:

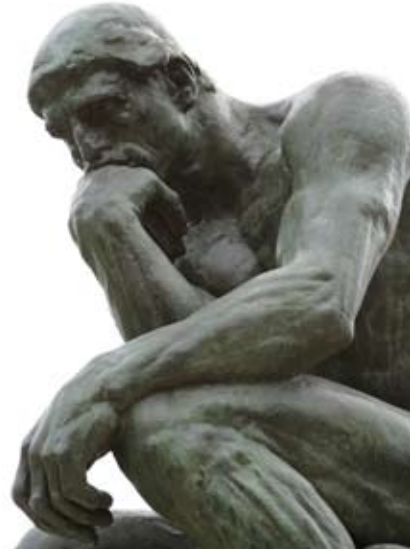
### Rules of the auction

1. The highest bidder wins the dollar and pays the price they bid.
2. The 2nd placed bidder wins nothing BUT has to pay their bid as well.

The auction starts and one of your competitors bids 'one cent'.

### You want to win the dollar, so what do you bid?

Go to the next page or [click here](#) to see how the bidding develops.



## Easy money?

### Rules of the auction

1. The highest bidder wins the dollar and pays the price they bid.
2. The 2nd placed bidder wins nothing BUT has to pay their bid as well.

The auction starts and there is frantic bidding as everybody tries to secure the dollar at a good price. One cent, two cents, five cents...

The price continues to rise and, as the bidding approaches the dollar mark, bidders start to withdraw. Eventually there are only two bidders left and the mood in the room has changed. As the price breaks the one dollar mark, the two remaining bidders realise what they are involved in and are forced to change strategy – they are now trying to minimise losses instead of making an easy buck.

The bidders know that winning the auction (and the dollar) will allow them to offset some of their losses but finishing second means incurring losses and receiving nothing.

This rational analysis is competing with a host of emotions (greed, pride, fear, panic etc.) that are making the participants behave irrationally and bidding continues in a frenzy as both participants try to 'win' the auction.

The auction eventually finishes with both parties feeling very sorry for themselves – the winner has made a loss and the second place bidder has made a bigger loss.

Were you one of the last two bidders; did you withdraw earlier or maybe you didn't even take part?

Theoretically at least, after the first bid of one cent, the best strategy would have been to stay out of the auction and not bid.

An auction where the best strategy is not to bid is ultimately flawed and this theoretical example illustrates that auction design is non-trivial with poor design leading to unforeseen and unwanted consequences. Luckily, Trade Extensions was founded by some of the leading academics in this field so there are no unwanted surprises with our buying processes.

## Contact

**Trade Extensions** sets new standards for on-line procurement and optimisation. Our unique procurement software 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 to help organisations identify and exploit procurement opportunities.

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

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