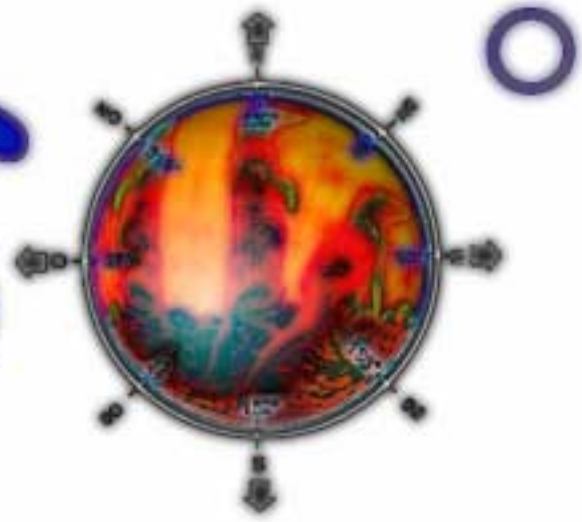


*The expense
management
seen from
every angle*

360°



Season 1 - Number 1/5 - February 1st, 2005

SYNOPSIS

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the purchases(1)** page 2

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Edito

number 1 of your magazine devoted to the expense management (a generic word with a larger sense than Purchases) seen from every angle is there. It should make you discover the key functions of the performance in company with a new highlight.



Indeed, the characteristic of this publication is to offer to all the functions of the company the advisability of being expressed, contributing thus to the transversality, the sharing of experiment and the improvement of the performance of the company. Accordingly, the team of drafting of 360° wants to be multi-field, with always the research of the relevance, pragmatism and the useful.

Concerned to facilitate the access to information to you, you will be able to find 360° on line on the Web site, format pdf for the remote loading and the printing, as well as bonds towards tools or models supplementing the articles.

You will be able, if you wish it, to leave a comment or a further information, on each involved article. It is two-monthly, but taking into account the vacation of summer, it will appear only 5 times per annum. A series of 5 numbers will constitute one season.

This number is known as "of launching" and comprises only 8 pages, and is intended for the whole of the community of the registered voters. The others will be exclusively reserved to the members of the Mangouste network.

Emilio Geminetti

PASSPORT TO THE PURCHASES PERFORMANCE



François Champeyrol proposes to speak to us about performance to the purchases, through four articles which will light us throughout this first season, by his vision of the subject and its rich and varied experiment.

1 – PERFORMANCE/INTERNAL SAVINGS

- 2 – PERFORMANCE/EXTERNAL SAVINGS
- 3 – INTEGRATED MANAGEMENT : PURCHASE DASHBOARD
- 4 – PERFORMANCE and REMUNERATION BUYERS TEAM

Two great types of "performances" can be the subject of measurements: the internal savings on the one hand, the external savings on the other hand; in this first chapter we focus ourselves on the first category.

1- PERFORMANCE/INTERNAL SAVINGS

We speak about internal performances / savings because they are to be mobilized inside even company by motivating all the persons in charge for the functions implied in the step "PURCHASES - LOGISTICS". These savings can gather in their turn in two families according to whether they will have a direct incidence on the tertiary tasks and the administrative productivity - one can speak then about true economies -; or according to whether they will appear thanks to the instruments of management - and there they can be only 'relative' savings "-.

I.1 I.1 INTERNAL SAVINGS AND TERTIARY PRODUCTIVITY

1.1.1 NUMBER REDUCTION OF THE PURCHASED REFERENCES

It is an extremely substantial economy because one measured that diversity involved a very strong growth of the administrative tasks, those increasing like the square of the number of added additional references each year.

The costs follow the same progression. The difficulty to mobilize them is due to the fact that the functions of design play a decisive role in this work and that their persons in charge could feel with wrong - that it is of ' ' critical a " their competences or about an overpassing on their ' ' territory ' '.

But the stakes are often considerable and it is easy to anticipate the benefit which will draw: - Purchases: less articles with managing, lengthening of the series bought with implementation probable.

1.1.2: THE REDUCTION OF THE NUMBER OF SUPPLIERS

This reduction is essential taking into account, on the one hand, of the modern methods of production control; and in addition, of the systematic step of research of administrative productivity. One observes in many companies and about groups of all sizes, pertaining to all the wallet plethora suppliers, branches of industry with half or more them which still represents a sales turnover annual lower than 1500 Euros! (we speak only about the active suppliers).

The cost of management of an account supplier is high: the more there are suppliers, the more one places from orders of purchases or calls in deliveries when the open orders are used.

It is not desirable that a person in charge of PURCHASES devotes more than a third of his working time to negotiate, to receive and visit the suppliers, which leads to a potential of management of a few tens of suppliers per individual. Moreover, the homologation of suppliers with weak sales turnovers is excluded it also because it is too expensive in comparison repercussions which it makes it possible to obtain (one uses here a tool rather simple to implement: The COST OF TRANSFER which measures the sums to be implemented to change supplier).

Lastly, the dispersion of the sales turnovers between a multitude of suppliers does not make it possible to use the levers "globalisation" and "planning" during negotiations when one buys on markets with elastic offers (i.e. markets where the offer is able to adapt quickly to the request)

This said, to bring an element of appreciation, one estimates that the average annual cost of management of an account supplier lies between 250 and 300 Euros, sometimes more. It is interesting for all the companies to measure it because that makes it possible to define objectives and to appreciate the results of the committed correct actions by means of the DASHBOARD of which we will cover in Chapter 4.

1.1.3. The REDUCTION OF The NUMBER OF ORDERS AND CALLS IN DELIVERIES

Let us specify immediately that the calls in deliveries lie within the scope of the open orders to supply the progressively bought products needs. They should well be distinguished because they are emitted normally by the suppliers and must be affected for them to follow, in the dashboard, the specific workloads to each function (also let us note that in certain companies one indicates by "contracts" the open orders).

The reduction of the number of orders of purchases and calls in deliveries is a need because, when one has less of documents (receptions, goods to be paid, payments...) to treat, one can devote more time to the mobilization of savings.

For that purpose, various means can be used like the fixing of a value minimum by order, the delegation of small budgets together with counterfoil books, the carryforward on notes of expenses of certain expenditure of weak amounts, the selection of suppliers "pilots" charged to proceed to the provisioning of first level before assembly... etc.

As for the measurement of the costs related to the administration of the purchases, we want "to twist the neck" with an old stupidity which claims that the average cost of treatment of an order is representative of the performances of the PURCHASES team.

This amalgam is fallacious because the costs of the orders of purchases vary enormously according to whether one buys standard articles, intellectual services, components and subsets of high technology with possibly of intermediate controls....

Moreover, it is a dangerous ratio: if one reduces the number of orders, the average cost of treatment will increase because one will not in particular reduce simultaneously the means implemented, human (and we will not speak either about the number of orders placed by purchaser!).

It is preferable to bring back all the sums spent to buy with the amount of the budget or the sales turnover "PURCHASES" (it is the well-known COST OF ACQUISITION of the professionals of the purchases).

Our many observations show that this ratio is located in a fork which goes from 0,6 % to more than 7 % according to whether the company is more or less well organized and computerized for its FUNCTION PURCHASES and according to the branches of industry which buy small series step by step or on the contrary great series (as in the car or the concentrated distribution for example).

Each company must calculate its cost of acquisition.

If it is located, for industry, around 3% of the sales turnover purchases, there is certainly progress to realize but the situation is probably not too bad.

Also let us note that the cost of acquisition is appreciably weaker in the companies which belong to the sector of the concentrated distribution.

Let us underline finally that starting from the knowledge of the cost of acquisition, it will be possible to define MATCHED OBJECTIVES OF REDUCTION OF the MEANS TO REACH that point (we will also reconsider this subject when we treat the DASHBOARD OF the FUNCTION PURCHASES).

1.2 RELATIVE SAVINGS

We speak about relative economies savings because they are measured by reference to internal management tools to each company. These tools are essential to control, manage, decide according to the events which occur; but they are completely unsuited to the measurement of the true performances in PURCHASES which only corroborate and/or improve the competitive positions of the company.

They are appreciated compared to the standard cost prices and budget drawn up at the beginning of each exercise (let us recognize however that they correspond to the first attempts at performance evaluation ' ' ' ' ' purchases and that they contributed to clarify the problems of this measurement).

1.2.1. SAVINGS MEASUREMENT LINKED TO STANDARD PRICES

The quality and the reliability of this type of economies depend on competence and the objectivity with which the standard costs are given.

It is indeed easy to take a little safety margin to be sure that there will be performance well; but in addition to that can call into question the positions of the products on their markets, it is a very detrimental behavior for the team ' ' ' ' ' PURCHASES and its credibility, especially when the performance is too beautiful.

Measurement is simple to carry out by comparing the prices actually paid with those which had been anticipated; and the performances PURCHASES can be made profitable very well to underlie commercial aggressiveness by reflecting in real time the savings mobilized by the purchasers in the tariffs of sale.

This repercussion is frequently carried out when they are finished products intended for consumption.

It is also often practised in other industries within the framework of the plans of progress suppliers.

To conclude this paragraph, let us stress that the persons in charge purchases play an essential role to develop the standard prices, since ON AVERAGE IN INDUSTRY PURCHASES REPRESENTENT 71,4% OF the SALES TURNOVER - SALES (source: Annual investigation of Companies of the SESSI).

1.2.2. SAVINGS MEASUREMENT LINKED TO THE FORECASTED BUDGET

It is one of the first steps which was committed under the name of cost - saving the Anglo-Saxon companies appreciate a lot.

The same reserves here are found that previously because all depends on the authenticity with which the budget was developed. We thus do not return there and we formulate simply two note:

- the laws of the market are essential on everyone and the best purchaser will not be able to obtain lower prices if the prices increase on the market..... except if it has (très)mal bought before!

- It is often very difficult to make accept with the Directorate-Generals of the forecasts of purchases in fall when the budgets are drawn up; perhaps this is due to the fact that they project on their companies these evolutions or perhaps also are definitively conditioned by the long inflationary periods which we knew.

Let us note finally that this measurement can be relevant in the case of the purchases of investments or engineering; it is besides in this way that certain companies evaluate the performances purchases starting from least low answers to the invitations to tender.

1.2.3. SAVINGS MEASUREMENT LINKED TO THE PREVIOUS YEAR

It is the most spontaneous step, it is very easy to concretize because it is enough to bring closer some invoices.

Also, this comparison is practically always carried out, in particular when it is a question of preparing a negotiation and of dialoguing with the suppliers.

It has however the defect to remain "egocentric person" and even if one buys less expensive than last year, that does not show that one is at the market especially when the markets are with the fall, the suppliers always claim rises but very seldom - even never - falls!

The collections of information near competitors to the purchase which buy the same products or services are not free from uncertainties (it is the benchmarking which made fury and can satisfy the most indolent persons in charge the purchases).

Indeed, nothing proves that the competitors with the purchase are at market prices, that it indicate the really paid prices and as it buy

better, more badly, or as well with conditions quantitative and qualitative equivalent.

THEN, HOW TO IDENTIFY, CHARACTERISER, TO MEASURE THE TRUE PERFORMANCES PURCHASES?

All that bring us to take as the only referee that is to say **THE MARKET**.

It is the subject which will be covered in the following chapter. ●

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BENCHMARKING AT PURCHASE



Emilio Cominotti

Leader founder of inotti.com, it exerts in the council and the training in purchases. He is the creator of the service Benchmark Administrator which is given the responsibility to organize for the professional purchasers, according to their needs, of the meetings of benchmarking.

The method of the benchmark is especially adapted to meet the need for the purchasers within the framework of their day before or for the renewal of a contract. Taking into account the liberalization of the market, the offers of service and the tariffs evolve/move quickly. The approaches are sometimes awkward. This method brings a response to this dynamics since it makes it possible to compare the indicators of performances.

Why make a benchmark with the purchases?

The benchmarking consists in carrying out an evaluation of a company compared to other companies for same typologies of purchases of goods or services. The principal basic objectives of a benchmark are as follows:

- To bring back all the costs of one service to the realization of the profits, to observe the adopted technical-commercial solutions, and to confront them between those of the other studied companies.
- To compare the average prices of the families of purchases and to position the company compared to the others.

In practice, these two objectives fall under two types of benchmark:

- Ø the "qualitative" benchmark whose principal objective consists, starting from ratios of productivity, with auditer the organization and average techniques and human implemented for the operation and the management of the purchases.
- The "contractual" benchmark which has as a finality to compare the services of the suppliers and the prices associated within the framework with a contractual engagement.

Stakes of the step of "contractual" benchmarking

Confronted with the volatility and the opacity of the prices of the purchases carried out and the complexity of follow-up of the total costs, that they are internal or of externalisation, the systematic step of benchmarking makes it possible to compare the prices authorized by the suppliers with those practised on the market for other companies on the same perimeter of purchases.

The installation of the benchmarking must be pragmatic and equitable for the participating parts, pilot firm and companies whose services, processes or costs are benchmarked.

The methods of application of the most current benchmarks are as follows: Situational Benchmark: carried out first once, it makes it possible to locate the stakes and opportunities, by measuring the relevant variations.

Annual Benchmark: for "traditional" contracts of services, it makes it possible to set up day before and improvements, Benchmark with semi-course for follow-ups of price and practices for the families of purchases "agitated", new or externalized.

The stake of the benchmark is to make it possible to validate the performance of the purchaser without returning in a longer process of competition. For each typology purchases defined, the relative difference between the price paid by the company and the average price of the panel made up for the benchmark make it possible to measure the relevance of the prices charged compared to the market.

To choose an independent benchmarker

The company and its service purchases must agree on the choice of a cabinet independent, which could be effective while complying with the rules of confidentiality in the exploitation of the data, at the time of the realization of the benchmark.

This choice depends on several factors:

- the knowledge of contexts similar to that of the company to study,
- control of the knowledge of the needs expressed or not by the purchasers on the market,
- control of the technical or organisational solutions implementations for the supply of the services in order to validate that the data of price and costs recorded are well compared on the same perimeter of unit of services.

It is thus seen clearly, the benchmarking with the purchases, comes to reinforce the decomposition of the prices and the analysis of the offers in the reduction of the margin of uncertainty. ●

GENERAL CONDITIONS IN THE CONTRACTS

(French law)



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The general conditions are a whole of contractual clauses that a supplier, or a purchaser intends to regulate his contractual relationship with his trade partners.

They can be general conditions of sale or purchase, but also in other fields of the general conditions of carriage (for a haulage company) or general conditions of services of council (for example for a Lawyer)...

These general conditions are established in advance by the company and are usually reproduced on its trade paper.

Written by this company, these clauses are often completely favorable for him.

More still, certain clauses can prove really dangerous for the contracting one:

- clause of limitation even of exemption of responsibility,
- clause instituting of the times of complaint,
- penalty clause,
- etc...

For the purchaser, it is thus of a pressing need for analyzing the contents of the general conditions of sales of its supplier.

It can as be very useful, if necessary, to make sure as its own general conditions of purchase are opposable to its supplier.

In practice, and in the event of conflict, frequently the question arises of knowing if these clauses entered the contractual field and are opposable with the contracting one.

Jurisprudence gave in French right an answer which distinguishes two cases:

- I. I The simplest case is that in which it is referred express to the general conditions in the contract, or in any case in a contractual document former to the sale (for general conditions of sale: a purchase order for example).

On this assumption, the purchaser signs a purchase order which expressly refers to the general conditions of the salesman, which is appended or is reproduced on the purchase order.

However, generally, the purchase order is dumb on the application of the general conditions.

- II. Jurisprudence admits whereas in the silence of the parts on this question, the general conditions can be opposable in two conditions:

1. They must have been known at the time of the contract signature by the partner to which one opposes them. That implies that they were communicated in a form or another.

2. They must have been known at the time of the contract signature by the partner to which one opposes them. That implies that they were communicated in a form or another.

Jurisprudence also tends to refuse the application of these general conditions when they are presented in way too not very apparent or too not very readable .

Two particular cases of figure can also arise:

- The general conditions of sale of the supplier are in contradiction with the general conditions of purchases, when they exist, of the purchaser. In this case, the Supreme court of appeal retains that the contrary clauses are cancelled... except so that the parts are appropriate to make prevail the ones on the others.
- In their relation, the parts can also be appropriate for their contract of particular conditions which replace the general conditions of the one and/or other. Often, general conditions and particular conditions are superimposed for the same contract (it is almost systematic in the BTP).

The study of the contents of the general conditions and the clauses which they contain, in particular the most dangerous or useful clauses (according to the case...), is thus very often essential.

Some of these clauses could be the subject of a forthcoming article... ●

Conception and distribution :



8

The general conditions of purchases always do not exist and when they appear in the back of the purchase orders, they well too often unsuited (inspired by the general conditions of sale) or are unbalanced (supporting too openly the purchaser).

Inotti.com places at the disposal of its subscribers, of the general conditions of purchases "type", which can help you to write yours.

Do not hesitate however to consult us to obtain a council personalized over the question and the construction of your architecture of the contracts..



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