



Brian Farrington Limited Procurement and Supply Chain Specialists

June 2005 Newsletter

Due Diligence.

We are currently working on a high value contract, requiring the application of due diligence on all aspects of the potential contractors' abilities. Included in this is the evaluation of financial data, provided in the annual reports requested at the PQQ stage. It is a fact that often the receipt of financial data is a tick in a box. The data is received but very little is done with it other than, perhaps the finance function being asked if the supplier looks OK. Whatever that means? Our client has conducted a risk analysis and linked it to the Standard and Poor's bond ratings. There are nine of these, known as long-term issue credit ratings. We select one to illustrate the point. CCC denotes an obligor who is currently vulnerable and is dependent upon favourable business, financial, and economic conditions to meet its financial commitments. Within the context of our work the ratings attributed to each of the contractors responding to PQQs will inform the short listing for tenders. Of equal importance will be the financial sureties that will be required in the event that a contractor is likely to be awarded a contract. In some cases a Parent Company Guarantee will be insufficient to meet the defined risk. This could mean a Performance Bond, which will, of course, require funding.

Risk registers.

Whilst we are on the subject of risk management we draw our readers' attention to the need for risk registers. These are more likely to be found in regard to high value projects but they are relevant to many types of purchase. We are convinced that procurement should be the custodian and manager of some risks. These need to be incorporated in the overall risk management process. Potential risks should be exposed without fear, better to predict and develop a risk management strategy than simply hope they disappear. There are, for example, many risks around the retail sector and any supplier with most of their eggs in this basket are finding life very tough at the moment. Where their other customers account for a small part of their turnover the supplier's focus may not be in the right place. Other risks are in relation to the availability of key personnel, adequate working capital, failure to develop suppliers to meet specific, specialised needs, lack of capital investment, exposure to inadequate pension funds and over reliance on the automotive sector.

Investing in E-procurement.

We have helped a client undertake a survey with a

view to investing in e-procurement. Suppliers were asked what was the single greatest influence on their decision to invest. One answer was 'The more you rely on such systems the harder we are to remove from your supply chain and the easier price increases are to get through.' No comment necessary!

Early warning of Boardroom briefing in Amsterdam.

Regular readers will be aware that we regularly hold our boardroom briefings in first class locations in the UK. In the Autumn of 2005 we will be holding an event in Amsterdam, with our strategic partners in e-procurement and total e-solutions. It would be very helpful for us to gauge the demand for this event. It will cost circa £200 for the event. Clients will make their own arrangements for travel and hotel accommodation. We are travelling for £40 return with one of the budget airlines, so costs can be managed very effectively. Readers holding senior management positions and who are interested in the event should contact Steve Ashcroft who is our co-ordinator. Our A la Carte clients will receive preference.

Contact: Stephen Ashcroft
T: +44 (0)1744 20698
s.ashcroft@brianfarrington.com