



Global
Digest

Capital Equipment

Background

CASME held Capital Equipment RoundTable meetings in Asia, Australasia, EMEA and North America. The following main topics were discussed:

- Stakeholder engagement
- Company requirements
- Industry and financial analysis
- Strategy development and execution
- Contract negotiation and implementation
- Performance management
- Trends and technology.

This Digest provides the key points, good practices and insights into future trends identified by CASME members at the RoundTable meetings held around the world.

Stakeholder Engagement

- The stakeholders who are responsible for making capital equipment purchasing decisions are typically the budget holders within Engineering, Operations, Facilities, Research and Development (R&D) and Supply Chain, with input from other key stakeholders such as Finance, Legal and the project managers.
- Procurement is engaging with the stakeholders and establishing credibility by:
 - Developing relationships and trust with the stakeholders through transparent and timely communications
 - Meeting with the stakeholders on a regular basis to understand their project pipelines and expected delivery timelines
 - Demonstrating a thorough understanding of the stakeholders' business operations and requirements
 - Contacting all the relevant stakeholders when a project is initiated, in order to become involved early and understand the scope of requirements
 - Analysing the stakeholders' annual budgets and identifying projects that would most benefit from Procurement's involvement
 - Explaining to the stakeholders the benefits and risks associated with different strategies
 - Obtaining the stakeholders' input and involving them in developing requests for proposals (RFPs) before approaching the market
 - Supporting the stakeholders throughout the supplier sourcing, evaluation, selection, contract negotiation and implementation processes, as well as assisting them with resolving operational issues
 - Developing strategies that deliver cost savings and improve process efficiency
 - Applying a long-term perspective and performing total cost of ownership (TCO) analysis to identify potential cost reductions across the life cycle of the equipment that is being purchased.

Company Requirements

- The company's requirements, business objectives, sourcing strategies and project schedules for purchasing capital equipment are determined by:
 - A cross-functional team comprised of the key stakeholders and representatives from Procurement, Finance and IT
 - Procurement developing detailed technical and non-technical specifications with the stakeholders
 - Aligning the management and reporting of capital and operational expenditure (CapEx and OpEx) activities with Finance and senior management.
- In some companies, high-value capital equipment purchases are managed by a centralised global engineering function, with input from technical experts, Procurement and members of the project services and project management teams.
- Standardising the specifications for capital equipment is a common objective for reducing costs; which involves reviewing equipment at the global, regional and site-specific levels to identify potential opportunities.

Industry and Financial Analysis

- Procurement gathers market intelligence and benchmarking data from providers such as [Gartner](#), [ProcurementIQ](#) and [The Smart Cube](#), as well as information from other market and industry sources, in order to qualify capital equipment suppliers regarding their:
 - Technical capabilities and availability of resources
 - Industry-specific expertise
 - Experience with major projects
 - Reputation in the market
 - Financial status
 - Legal status, to ensure that they are not in litigation with other organisations
 - Safety and quality standards, such as ISO certification
 - Environmental conservation and sustainability policies and practices
 - Compliance with anti-slavery laws
 - References from previous clients during the previous five to ten years.
- Consolidation in the capital equipment industry through mergers and acquisitions has a negative impact when the organisation loses buying power due to small incumbent suppliers being taken over by large companies. Consolidation can result in the large supplier companies gaining market monopolies, but it also provides the client companies with opportunities for improving consistency.

Strategy Development and Execution

- Procurement obtains visibility of the organisation's long-term plans for purchasing capital equipment in order to develop effective strategies and allocate the necessary time and resources to projects by:
 - Meeting with Engineering, Finance and the project management office (PMO) on a regular basis
 - Discussing upcoming projects with the engineering management and design teams
 - Understanding the company's business forecast and identifying potential purchasing requirements
 - Obtaining annual or long-term CapEx and OpEx plans from the stakeholders and Finance
 - Approaching the stakeholders to understand their purchasing requirements for the next five years
 - Establishing a project management platform for recording information regarding the scope and timescales for current and future projects, and referring to the information in discussions with the stakeholders and suppliers
 - Organising annual global conferences with the relevant business units and stakeholders, to discuss the plans for major projects, and identify opportunities for consolidating requirements and joint purchasing.
- Procurement provides value when developing and executing strategies by:
 - Taking a long-term perspective of the organisation's operational requirements and the TCO of equipment
 - Reviewing the project scopes that are defined by the stakeholders, and creating a checklist of requirements that are essential and optional; then conducting initial supplier assessments based on the essential requirements before progressing to the next stages of the sourcing process
 - Ensuring that all the requirements for projects are itemised to avoid unexpected future costs, and providing the estimated timelines for the associated procurement processes
 - Including the cost of training and spare parts in requests for proposals (RFPs), in order to increase the accuracy of TCO calculations for the equipment
 - Conducting regular business reviews with the stakeholders and suppliers to ensure that the suppliers have the resources and capabilities to deliver the equipment within the required lead times
 - Engaging external technical consultants to assist with managing the design, construction and installation of new equipment when the organisation lacks the internal expertise required to develop and execute particular projects.
- Technical consultants deliver value by:
 - Contributing market insights and sourcing considerations during the design and budgeting phases
 - Supporting in-house teams in process design, engineering and project implementation
 - Managing entire capital equipment projects to deliver results on time and within the budget
 - Ensuring compliance with local laws, regulations and industry standards, and managing cultural and language barriers, in order to fulfil local requirements.

Contract Negotiation and Implementation

- Negotiations for capital equipment contracts can be broken down into three main sections: commercial factors, technical requirements, and warranties. Important points of negotiation for inclusion in contracts with capital equipment suppliers include:
 - Price
 - Delivery times
 - Payment terms
 - Liabilities
 - Technical specifications and requirements
 - The provision of training and spare parts by the supplier
 - Support services during the warranty period for all the relevant locations
 - The key performance indicators (KPIs) for managing supplier performance
 - Incentives and penalties.
- Milestone payments may be agreed with suppliers for the completion of specific deliverables, including the delivery and installation of the equipment, documented operational validation, and final acceptance of the equipment after testing and commissioning.
- Penalty clauses are included in contracts relating to the suppliers failing to achieve the specified service level agreement (SLA) and KPI requirements or the on-time completion of the agreed milestones. The penalties include withholding payment, or claiming against a performance bond, or requiring the supplier to pay the company the compensation addressed in a liquidated damages clause in the contract.
- If the suppliers' performance failure has not made a significant impact on the company's business, the preference may be to maintain a good relationship with the supplier rather than enforce a penalty or claim compensation.
- A robust and clearly-defined change request and approval procedure should be included in the contractual agreement, so that delays in the project schedule and whether the client or supplier are responsible are documented; and if the supplier is at fault the client can claim for liquidated damages caused by the delays.

Performance Management

- The performance and value of the capital equipment suppliers is being measured in terms of their:
 - On-time delivery within the budget
 - Compliance with the specifications and SLA requirements
 - Service performance across different regions and sites
 - Technological capabilities
 - Development of next-generation technological solutions
 - Effective account management, project management and communications
 - Commitment to the partnership.
- Procurement obtains feedback and performance scorecards from the key stakeholders, and conducts regular meetings and quarterly business reviews (QBRs) with the suppliers and stakeholders, to discuss the supplier's performance against the pre-defined KPIs, as well as topics such as the supplier's supply chain and manufacturing processes, standardisation, innovation and new technology.
- In organisations where many projects are being planned or in progress, Procurement passes the ongoing management of supplier performance to the operational teams once the sourcing process is completed.
- Supplier relationship management (SRM) is being applied with the suppliers of business-critical equipment and single-source suppliers, as well as those that service multiple facilities and/or are used for repetitive purchases. The benefits of applying SRM with capital equipment suppliers are achieved by:
 - Conducting periodic business reviews with the suppliers covering end-to-end performance from tender to project completion, to recognise their achievements, and to identify issues and areas for improvement, as well as to discuss topics such as the supplier's supply chain and manufacturing processes, standardisation, innovation and new technology
 - Procurement assisting the suppliers to address challenges, improve their processes and reduce the lead times for the delivery of equipment, and collaboratively generating value and reducing costs
 - Committing future volume to the suppliers without conducting RFPs, to strengthen partnerships.

Trends and Technology

- The technological developments that will have the greatest impact on the capital equipment category include:
 - The increased digitalisation of procurement activities, using digital platforms for conducting e-Sourcing, procure-to-pay (P2P) and contract management processes, as well as bots to assist users with sourcing processes
 - Artificial intelligence (AI) and machine learning solutions being applied across the business, and by Procurement for performing data analytics and identifying beneficial opportunities
 - Smart technology embedded within capital equipment being used to remotely monitor equipment and report the need for support and maintenance services, to reduce downtime and increase the lifespan of capital equipment
 - Virtual and augmented reality tools being used to supervise the installation, testing and commissioning of equipment, reducing the need for personnel to travel and be physically present on-site
 - Digital twinning being used for creating virtual 3D images, to enable analysis and planning regarding facilities and equipment.

Resource Centre Links

The following are links to the full meeting reports for each region:

- [Asia](#)
- [Australasia](#)
- [EMEA](#)
- [North America](#)

Important

This report is a summary of the facilitated discussions held between the CASME members who attended the meetings. CASME is not a consultancy and does not provide advice. The accuracy or validity of any recommendations or references, particularly to legislation and regulations, contained in the report should be verified by the reader prior to being acted upon. Any third-party organisations named in this report are not recommendations but are examples of companies mentioned during the meeting that may be considered when sourcing the relevant products or services. These are not intended to form an exhaustive list and it is likely that other organisations not listed also provide similar products or services.

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