

Slowing down your reverse auction

Those of you who are experts in conducting reverse auctions, would agree that when following the correct sourcing strategy, reverse auction tools can be very powerful in the hands of sourcing professionals. Some of the benefits you may have experienced with reverse auctions are reduced baseline prices, fair and open competition amongst your supply base, greater transparency in your procurement process and speedier ways to source.

It is no secret that there are a few well known leading practice criteria that would make the perfect reverse auctions viable. Read our article "Reverse auctions in South Africa" for an exhaustive list of these criteria.

Although reverse auctions have been utilised in organisations for many years in the above fashion, we believe them to be underutilised in most organisations. There are many non standard ways that auctions can be utilised in order to drive bottom-line savings.

We have recently experimented with different ways of running reverse auctions. Running reverse auctions for short periods is considered leading practice but we believe there to be some cases where extending the bidding open time to days and even weeks can increase your participation and savings and improve your supplier relationships.

One of our recent customers had the following procurement constraints:

- Organisation policy enforcedⁱ a low spend threshold for three quote tenders, which implied **more than 50 tenders per month** with only five staff members available to support
- The tender process was manual and **not standardised**
- Tenders were difficult to audit and audit reports were messy, lengthy and manual
- The organisation had many **challenges in dealing with suppliers** due to lack of visibility and lack of resources to manage supplier relationships
- The source to pay process was **not an integrated process**ⁱⁱ and various functions reporting into different executive sponsors
- The organisation was uncomfortable using an electronic platform in a country with **unreliable Internet connectivity** and questioned suppliers' ability to participate effectively due to **computer illiteracy levels**

ⁱ Lack of procurement transparency and spend visibility

ⁱⁱ Lack of visibility, transparency and inefficiencies in the processes

The organisation prioritised roll-out of a sourcing platform that provided highly configurable reverse auction functionality. The organisation mandated that this complex sourcing tool should be configured in the absence of a transactional

procurement bidding tools. It must accommodate all transactional tenders via the reverse auctions process to create visibility and enforce compliance.

This created some process issues for an already understaffed organisation:

- How do we equip a large number of suppliers rapidly when not resourced to do so?
- How do we support these 50+ events per month? There could be up to 90 open events at a time
- Most tenders had less than 3 line items, but some tenders had over 100. The technical nature of the scope of some of the more complicated tenders had lots that were hard to structure effectively
- Suppliers needed sufficient time, usually more than a couple of hours to participate
- Failing audits required immediate adoption of a tool providing SOX compliance

The solution we introduced was to slow down the pace of the reverse auctions and keep them open for much longer than we had ever done before. Having run reverse auctions for over ten years, it certainly went against our grain as a professional service provider to run them for two to three weeks.

The Mechanics of this new non-typical slow reverse auction

Our APPROACH was to create a **simple template for defining a reverse auction**. The aim was to make it as simple as posting an email to three or more suppliers. This allowed the over-utilised resources to define an auction in the least amount of time possible. Although it was impossible to make the setup time as quick as sending an email, the semi-automation of the award process more than sufficiently made up for lost time in the initial phase of the tender. The software also allowed us to define and template additional questions over and above the line item information.

CONFIGURATION of the events was in line with organisational expectations of a **sealed tender bidding process**. The only difference was that suppliers could view their rank and resubmit to improve their competitiveness. The buyer wasn't able to see supplier rankings but could see if suppliers intended to participate. This removed the risk of buyer interference and price leakage.

No upfront SUPPLIER TRAINING was required. A complete set of help guides was created taking the supplier step-by-step through each part of the process. The tender rating system was transparent, detailing the weight of price, delivery period and other factors. Suppliers with questions were provided with telephonic support and invited to come to premises for one-on-one training should they still struggle. We could afford providing this one-on-one support given that there was no upfront training.

Event DURATION started at two weeks. This allowed enough time to assist suppliers as well as procurement resources that were unfamiliar with the process and software. As supplier confidence increased in various categories with the same suppliers, the opening times were decreased. On average events now run for between three and five days and in urgent cases can be successfully completed within 24 hours.

We were delighted and surprised at the success of these events.



The major benefits were

- Internal auditors now had **visibility of and real time access** to tenders
- **Business benefited from savings on average of 35%**. First three quarters worth of savings equated the cost of the entire 5 year Source-to-Pay project. The organisation can now enjoy visibility of a single platform, with the ability to generate event reports at the click of button, rather than spending hours aggregating supplier responses for adjudication
- **Suppliers welcomed the fairness and transparency** of the process and had visibility of their rank at any given time. Automated award notifications meant that suppliers proactively knew within a week if they were not awarded the business instead of trying to get hold of someone in the organisation. Given the long bid durations, suppliers could overcome the intimidation and their apprehension with this new technology. This gave suppliers sufficient time and made it much easier to participate as opposed to quick high pressure events where many suppliers abandoned their participation
- **A basic process template was quickly configured and utilised**. Thereafter rigorous use enabled continual improvement and the template stabilised within three months. This enabled staff to easily adopt more complex sourcing templates as much of the learnings had been made on the many low risk events. Adoption of more complex templates

So, conventional or unconventional: make your tools work for you. It would be interesting to learn if there are any other organisations out there that bent the world class rules to bring about similar innovations with their existing reverse auction toolset.

About Supply Chain Partner

Supply Chain Partner is a specialist supply chain service provider that enables companies to realise sustainable and value-generating procurement solutions. We work alongside our clients and partners to create fit-for-purpose solutions while enhancing employee efficiency and effectiveness.

Interested in finding out more?

Call us now on 0861-1-SUPPLY (787759)

Send an email to info@supplychainpartner.com | www.supplychainpartner.com