

Reverse Auction (eAuction) Overview

Reverse Auction Overview

1.0 Introduction

Reverse Auctions or eAuctions have been now in the UK for several years when the early software providers, such as Freemarkets (now part of Ariba), pioneered the early tentative steps.

Since then many new players have entered the market place offering similar functionality, although perhaps not as well developed as the current market leaders. The market is now awash with at least 50 software providers who each provide different scopes to their functionality and commercial offerings.

The scope of the basic Reverse Auction tool has now extended well beyond its initial focus as many providers have now integrated other applications, such as e-RFx (tendering capability) and contract management and often much more into what are frequently termed eSourcing platforms. A separate document - eSourcing Overview - provides further information on the eSourcing process, getting started and the range of tools.

Reverse Auctions are very powerful tools for reducing purchasing costs. Research from The Chartered Institute of Purchasing and Supply has indicated that the average cost saving from a Reverse Auction event is in the region of 18%. Our experience to date also validates this finding.

There are, however, many other benefits from applying a Reverse Auction event such as:

- **Time saved.** A Reverse Auction event can save at least 80-90% of the time spent conducting personal negotiations. This time saved benefits in cost savings being achieved quicker and also it saves manpower time and effort.
- **Improved Supplier Performance.** The Chartered Institute of Purchasing & Supply have also indicated from their research that supplier performance improves significantly after a Reverse Auction event.
- **A Transparent Process.** All of the data requests, responses and the bidding in the Auction event can be made accessible to all internal stakeholders thus ensuring greater transparency to the Purchasing process.

2.0 Appropriate Categories

Many purchasing and non purchasing personnel believe that Reverse Auctions are not appropriate for their business or for a particular category for a whole host of reasons. The fact is that a Reverse Auction can be applied to almost any spend category where three basic criterias are met which are:

- **Competition exists.** There are at least two competing suppliers. An event tends to run much better with five or six suppliers, but many events have been run with just two competing suppliers.
- **Of relative value to the Suppliers.** The business must be of value to the suppliers. A £200k annual contract to a major conglomerate may be viewed as of minimal value but to a company with a turnover of £20m it may represent a huge opportunity.

- **The product or service can be defined.** Defining a material or a service is a key component of the Auction strategy. For most purchase items this should be achievable but for some marketing services, such as Advertising, this may prove to be more problematic.

Almost any product or service can be Auctioned provided that the above three criterias are met. eSourcing Solutions has had over three years experience and has successfully Auctioned a whole range of goods and services. Some of the most common categories are highlighted below:

- Stationary
- Travel services
- Numerous direct materials
- Recruitment services
- Consultancy support
- Uniforms
- Printing material
- PCs & laptops
- Telecoms
- Car Hire

3.0 Types of Providers/ Services available

There is a plethora of providers each offering different functionality and service/commercial propositions. When we last reviewed the market there was in excess of fifty different providers.

At the top end of the market there are fully integrated eSourcing providers who can provide a high degree of sophistication which includes rich functionality such as transformation bidding, which allows other factors to be built into the Auction price such as the costs of change. These types of applications tend to be geared for large corporates as they require quite extensive manpower/ consultative support.

At the other end of the market are relatively simple solutions that are generally easy to use and are often quite affordable. For companies that are new to eSourcing and just want to trial the process before they make any form of commitment these are often a good starting point.

From a commercial perspective different payment options are available including:

- Payment of a single perpetual license fee with annual maintenance and service charges for the software development and some limited technical support.
- A flat fee for an annual license
- Pay as you go for each event
- Payment based on the savings made
- A combination of the above

A key part of acquiring any software solution is the support costs and users should be aware that low cost software may involve expensive consultancy support.

4.0 Supplier Benefits

Contrary to popular belief many suppliers do gain benefits and will welcome the opportunity that a Reverse Auction presents. Supplier Benefits include:

- **Pricing intelligence.** Depending on what functionality the Buyer has selected the supplier is usually able to gauge what other suppliers are willing to pay and potentially, the number of competing suppliers who have been selected to participate.
- **The ability to react to competitor pricing.** Once suppliers become aware of their competitors pricing they are able to respond instantly which is not always possible in more traditional negotiations.
- **Less time spent negotiating.** A Reverse Auction events usually last for approximately 90 minutes and thus a lot less time is engaged in the process in comparison to the traditional approaches.
- **Provides the impetus to improve competitiveness.** Suppliers who may have lost a single or several events are provided with some further impetus to respond more competitively to future events by perhaps reducing their own purchasing costs.

5.0 Summary

Reverse Auctions have been around for several years and will continue for many years. The Chartered Institute of Purchasing & Supply claimed in 2004 that their usage will increase by four-fold over the next three years. This is particularly so as almost every large corporate organisation is now using Reverse Auctions as a means of reducing their purchasing costs and their suppliers are responding by applying the same techniques to their own suppliers.

They can be applied to almost any event providing that competition exists, the business is of relative value and the product or service can be defined.

There are in excess of fifty different providers in the marketplace each with different functionality and commercial offerings. Various payment options exist ranging from an initial license fee followed by service and maintenance charges to pay as you go.

Suppliers do gain benefits from participating in Reverse Auction events, particularly from increased pricing transparency and the opportunity to win new business.

The biggest benefits accrue to the Buying organisation. Average savings are in the region of 18% as well as significant time savings.

For further information on getting started, suitable software, payment options then please contact Adrian Finn on 0207-100-5365 or via email adrian.finn@esourcingsolutions.co.uk.