

An Introduction to **Reverse Auctions**

The Hammer Group

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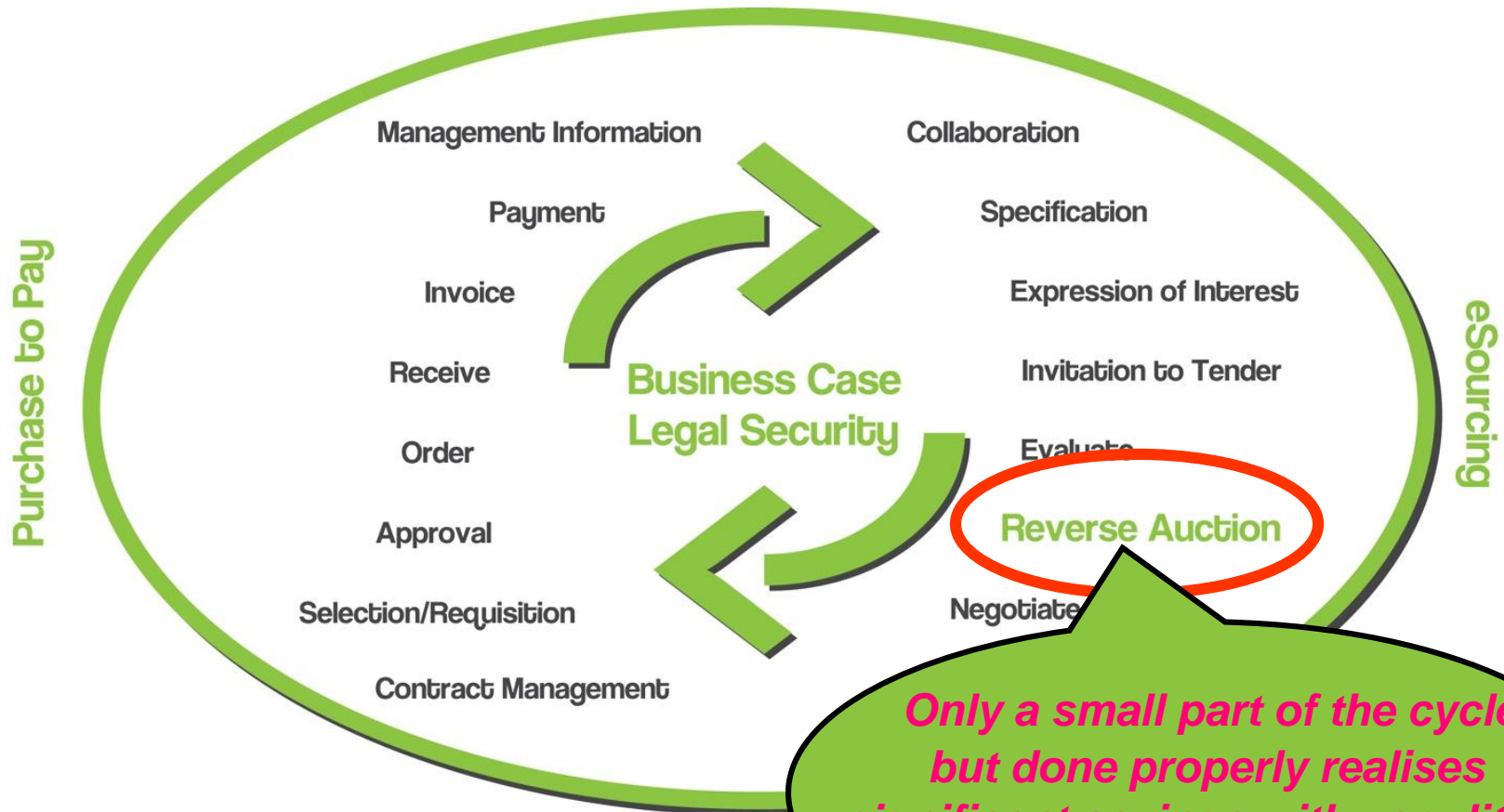
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Background

- ✓ 18 years selling Contract Hire/Leasing
- ✓ Fleet Director 4500 vehicle fleet
- ✓ Head of Procurement for a £100m t/o company (£35m spend)
- ✓ Now work for Purchasing Auctions – Reverse Auction provider

The Reverse Auction & Procurement Lifecycle



Only a small part of the cycle, but done properly realises significant savings with very little hassle!

What is a Reverse Auction?

- ✓ A reverse auction is a mechanism used by buyers to achieve the ***most competitive prices for products and services***
- ✓ It works in the same way as a traditional auction except the suppliers are reducing their prices to win your business, the '***reverse***' of the traditional auction
- ✓ At the designated day and time, several invited suppliers log on to the auction website and ***bid*** against each other to win the business.

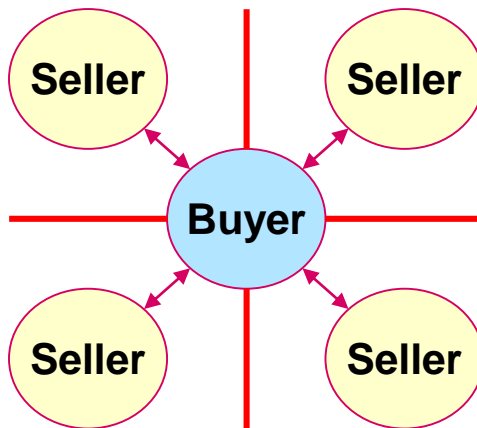
What is a Reverse Auction?

- ✓ Each auction is usually set for **30 minutes** but can go on for longer as prices keep tumbling.
- ✓ Performed in real-time via the Internet and results in **dynamic**, competitive bidding to produce the best prices.
- ✓ Once the lowest price has been achieved this is then evaluated against other supplier **added value** (payment terms/service levels, etc) and a winner chosen.

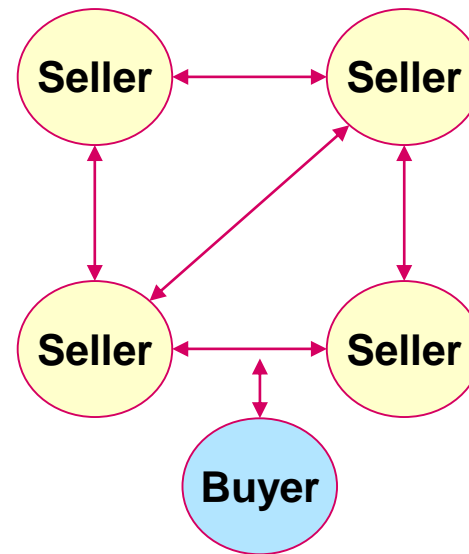
Time Saving

A Reverse Auction is used to obtain real time market pricing by letting the suppliers compete against one another for our business - online.

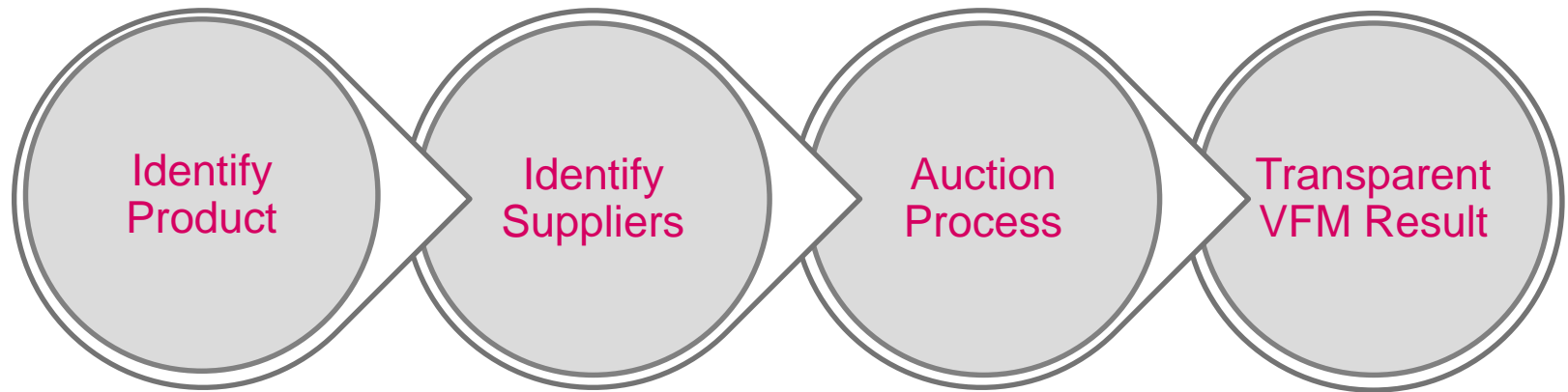
Typical Negotiation



Reverse Auction



Key Steps - Reverse Auctions



- The more unambiguous the better – set up is critical
- Those that you are confident that can supply – qualification
- Many options – single/multiple
- Balanced with other value adds - builds relationships with suppliers

Final winning Bid: £181,512

Total saving: £125,193.14 (41%)

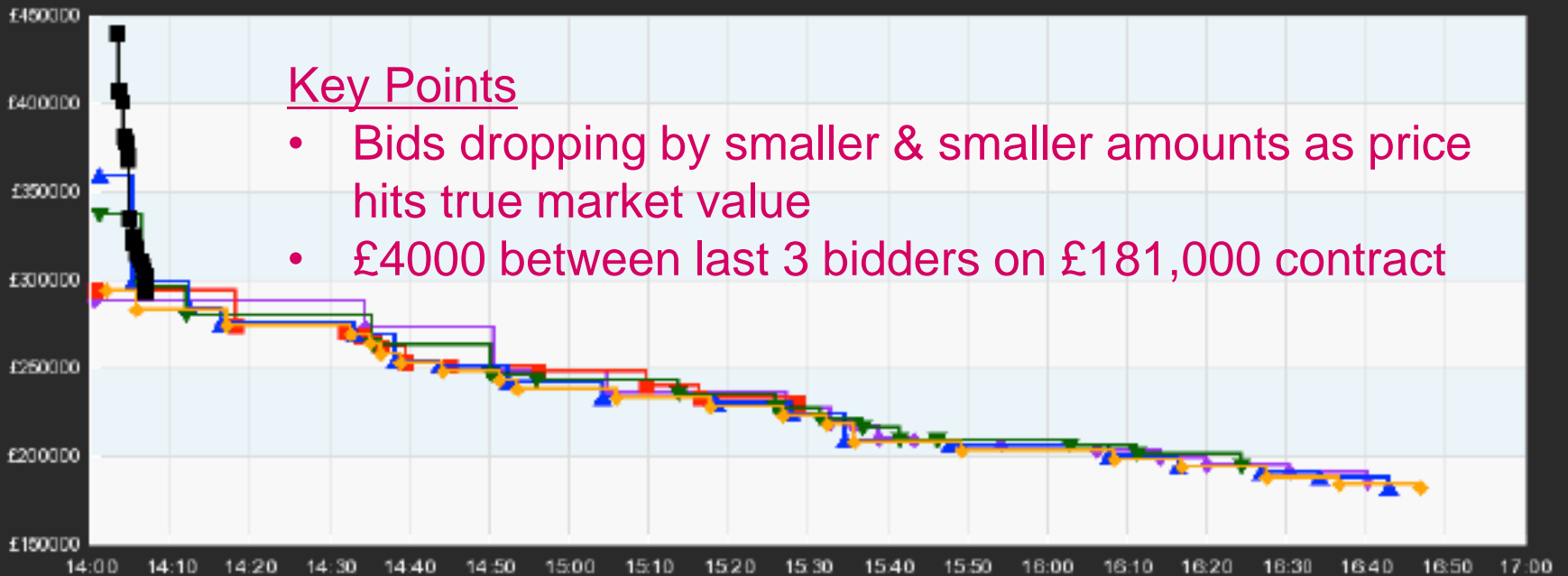
[Audit Trail Page](#)

This auction has now finished, and the owner of the lowest bid has been notified.

SAMPLE 'LIVE' AUCTION GRAPH

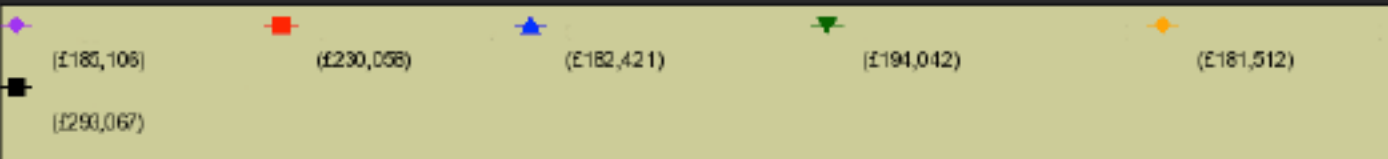
- Names of suppliers have been removed to protect the innocent!

Auction bid sequence



Key Points

- Bids dropping by smaller & smaller amounts as price hits true market value
- £4000 between last 3 bidders on £181,000 contract



What the Academics say

‘Analysts have noted that among Fortune 500 companies, almost all private-sector firms of this size employ reverse auctioning today to some extent (Moorhouse 2008). From a global perspective, the same is true for the worldwide list of Fortune 1000 companies’

‘Looking ahead, it has been projected that as much as half of all corporate procurement could soon be conducted through reverse auctions (Chafkin 2007)’.

Source: Professor Robert Maurin – Director Strategic eSourcing, South Eastern Louisiana University, 2011

What is in it for Suppliers?

- Consequential business
- Reduced cost of doing business
- Transparent result
- Live market information

Reverse Auction - Benefits

- Market Transparency
 - Multiple bidders flush out market price
- Proven to save cost
- Speeds up process for purchasers and suppliers
- Adds a discipline into the preparation process
 - Specification of requirement needs to be tight
- Audit Trail

Myths

‘It is all about cost’

- This is in the gift of the Purchaser – value adds weighted outside of the Auction.

‘It ruins my relationship with suppliers’

- Be inclusive
- Adds transparency which aids supplier relationships.
- Engage with suppliers - feedback

Example of Success

Reverse Auctions can be used to support the procurement of a wide variety of goods and services, some of the most common commodities auctioned and there indicative savings vs. previously benchmarked costs are noted below:

✓ Stationery	70%
✓ Vehicle Rental	19%
✓ PPE	38%
✓ Vehicle Manufacturers	16%
✓ Photocopiers	40%
✓ Raw materials	20%

Companies Currently Using Reverse Auctions



In Summary

- ✓ Reverse Auctions work
- ✓ Culture & Strategy in your hands
- ✓ They are only part of the procurement cycle
- ✓ Process speeds up the tender/quote
- ✓ Robust Audit trail

Thank You
&
Questions