E-Sourcing Auction Best Practices
Program strategy, business process, and rules of engagement
Overview

Objectives

- Overview of auctions and value proposition
- Rules of engagement for a successful program
- Typical business process and methodology for an auction
- Spend categories that fit an auction

Outcome

- Provide SAP® Ariba® customers with guidance to establish an auction program, business process, and rules of engagement
Auctions defined:
An efficient and cost effective tool for buying goods and services designed to drive down the total cost of ownership, increase competition, and deliver savings to the buying organization. Commonly referred to as “reverse” auctions, they are an e-sourcing tool that primarily focuses on price negotiations following a pre-qualification of supplier capability and creating a like-for-like comparison of supplier proposals that drive price down in an online and real-time event where suppliers can see their position against competition. Other auction types can be used as well, such as Dutch auction and forward auction. This document will broadly refer to these events as auctions.

Value of auctions:
- Increases competition with qualified suppliers
- Improves competition through real-time bidding; suppliers know their position with competition
- Enables quick and easy price negotiations without complex analysis
- Ensures true market price and transparency in competition
- Provides clear decision support and award justification
- Challenges incumbents

8% to 15% Incremental cost savings beyond traditional RFP and negotiations
40% reduction in sourcing cycle time realized through expedited price negotiations

* Data based on SAP Ariba Strategic Sourcing solutions
## Rules of engagement

### Standard methodology
- Document the methodology – establish clear practices covering pre-event, actual-event, and post-event standard procedures
- Use an auction as a tool to improve price negotiations; auctions do not replace the sourcing process
- Publish standard practices internal and external to suppliers; create integrity and transparency that provides supplier confidence in event participation; hold pre-event supplier meetings to provide transparency into process, rules of engagement, and standards

### Qualification criteria
- Create clear pre-event qualification standards to ensure only qualified suppliers participate in auctions
- Quantify supplier points of differentiation in monetary terms ($); supplier bids must account for total cost (for example, conversion cost)
- Provide a clear and "simple" pricing strategy (lot or line item) to ensure supplier entry can be performed quickly and easily
- Confirm the auction price winner(s) who win the event; avoid post-event negotiations and accepting proposals

### Center of excellence
- Ensure the strategic sourcing organization has internal expertise on best practices (business and solution) to effectively set up, monitor, and manage an auction event (third-party partners can provide expertise as well)
- Provide auction training to suppliers in advance of the event and help desk support to suppliers during the event
- Establish roles and responsibilities for the sourcing team and stakeholders to ensure alignment on methodology

### Internal governance
- Hold the organization accountable to clear standards and methodology; the misuse of auctions will compromise the integrity of the sourcing organization and company in the supplier community
Typical strategic sourcing methodology
Auctions are part of the sourcing process; they do not replace the sourcing process

1. Define opportunity
   - Develop sourcing playbook and work with the business to identify sourcing opportunities (identify as an auction candidate in this process)
   - Identify key stakeholders; established project team
   - Perform project kick-off – Establish initial scope, goals, high-level baseline, and timeline

2. Analyze and build sourcing strategy
   - Perform market analysis and identify bidders; do contract assessment of incumbents
   - Analyze spend – establish commodity profile, historical spend, and incumbent suppliers
   - Develop scope of work – specifications, service levels, process, and other business requirements
   - Develop pricing strategy for how category will be priced in a sourcing event
   - Define sourcing strategy – RFI, RFP, auction, or combination of all

3. Execute sourcing strategy
   - Set up request for proposal (RFP). Note – for tactical sourcing, RFP is optional
   - Hold supplier meetings for pre-bidders conference
   - Execute RFP, score proposals, qualify suppliers. Develop award scenarios based on capability, cost, quality, and risk
   - Develop a negotiation strategy (an auction is part of the negotiation process)
   - Define auction strategy and execute (see auction process for more details)

4. Negotiate and award contract
   - Create contract and issue to preferred supplier (MSA, statement of work, exhibits)
   - Execute final negotiation, define business and legal terms
   - Finalize supplier selection and make contract award. Do not run auctions unless there is commitment to award
   - Develop implementation plan with the business owner
   - Develop supplier transition strategy and schedule
   - Finalize change management plan and identify process changes
   - Enable supplier in procure-to-pay (P2P) solution
   - All POs, releases, contracts, and invoices transact in P2P solution through life of the contract
   - Complete a contract executive summary and route contract for approval

5. Deliver project
   - Monitor and measure supplier performance
   - Perform on-going supplier performance review
   - Monitor expiring contracts to determine sourcing strategy in advance of execution (renewal, renegotiate, or competitive bid)

6. Report project results

Sourcing strategy:
- Identify auction as part of the sourcing strategy early in the process; share with suppliers
- Establish a clear pricing strategy and requirements for the RFP that is used in the auction to ensure supplier pricing strategy is the same

Auction event:
- Best practice – quality suppliers through an RFP; standardize pricing strategy in advance of auction
- RFP pricing is the entry bid for an auction event
- Train and educate suppliers in advance of event (consider test event); auction should lead to award
Auction business process
80% of auction value is realized from a structured methodology
# Identifying categories for auctions

## Key success factors

### When to use auctions

<table>
<thead>
<tr>
<th>Competition</th>
<th>Willingness to change</th>
<th>Clarity</th>
<th>Alignment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competitive market place</td>
<td>Business willing to change</td>
<td>Clear requirements of specifications, service</td>
<td>Internal stakeholder alignment</td>
</tr>
<tr>
<td>Qualified suppliers, at least 3 participants recommended</td>
<td></td>
<td>levels, account mgmt. requirements, and so on</td>
<td>Commitment to auction as pricing negotiation</td>
</tr>
<tr>
<td>Buyer has negotiation power in the market place</td>
<td></td>
<td>Clear pricing model with ability for like-for-like comparison</td>
<td>tool and internal rules of engagement</td>
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<td></td>
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<td>Clearly defined award strategy</td>
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### When not to use auctions

- Few qualified suppliers (less than 3; however, 2 is possible with highly competitive event)
- Significant price leader from the RFP that meets all qualifications; consider targeted negotiation
- Significant barriers to supplier transition
- Contractual limitations that limit changing from incumbents
- Unclear requirements or difficulty quantifying non-price selection criteria (for example, highly customized solutions)
- Inability to standardize pricing in a like-for-like model
- Lack of internal alignment on auction strategy and program standards
- Unwillingness to award to price leader supplier shortly following the event

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**Auctions drive 7% to 10% incremental savings beyond standard RFP strategies**
What categories of spend are a good fit for auctions?

Key questions

**Product or service:**
- Are specifications clear and easily understood? If there is no industry standard, can the buyer establish a clear scope of work to create a like-for-like comparison?
- Is the size of spend large enough to drive competition?

**Supplier or marketplace:**
- Are supplier products and services comparable?
- Are there a sufficient number of qualified suppliers?
- Is there a clear pricing strategy that all suppliers are aligned with?

**Logistics:**
- Do suppliers have reliable access to e-mail and the Internet?

### Strong auction fit

**Auction only + potential RFP**
- Packaging
- Office equipment
- Office supplies and paper
- Raw materials and commodities
- IT hardware and peripherals
- Direct materials
- Chemicals
- Industrial supply and MRO
- Contingent, project, and temp labor
- Furniture and fixtures

### Potential auction

**Auction + RFP**
- Promotional products
- Custom engineered parts and equipment
- Processing services
- Printed materials
- BPO and ITO services
- Equipment maintenance
- Construction and renovation
- Facility services

### Traditional sourcing process

**RFP or targeted negotiation**
- Advertising and media
- Consulting
- Transportation
- HR training
- Employee benefits
- Legal services
- Recruiting services
- Telecommunications
- Software