

E-Auctions

The Little Green Guidebook from AVAM Solutions

*TOP TIPS AND WHAT YOU
REALLY NEED TO KNOW
ABOUT E-AUCTIONS*

June 2020

Challenging times

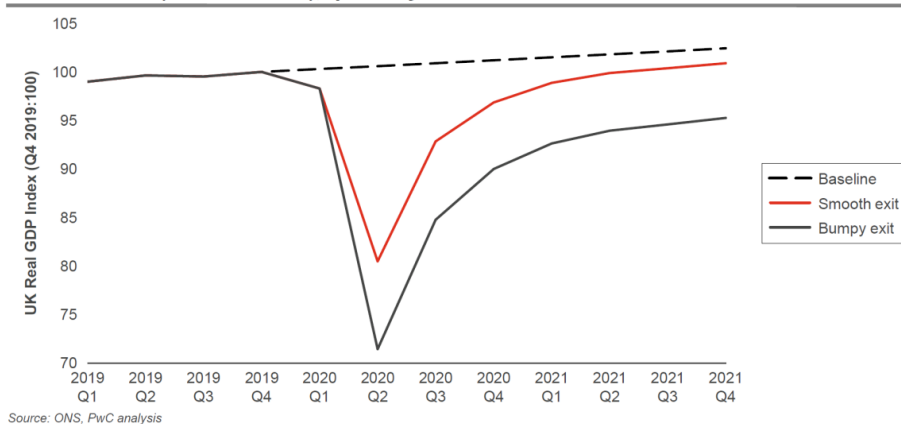
The global economy in 2020 is in disarray

- ▶ Covid-19 has had a devastating impact on the global economy.
- ▶ UK GDP in Jan-Mar 2020 fell 2% compared to the previous quarter.
- ▶ The GDP forecast for Apr-June is expected to be 25% lower again.

	UK	Fran	Ger	Spa	Ita	EU	USA	China
Q1 2020 GDP vs. Q4 2019 GDP	-2%	-6%	-2%	-5%	-5%	-4%	-1%	-10%

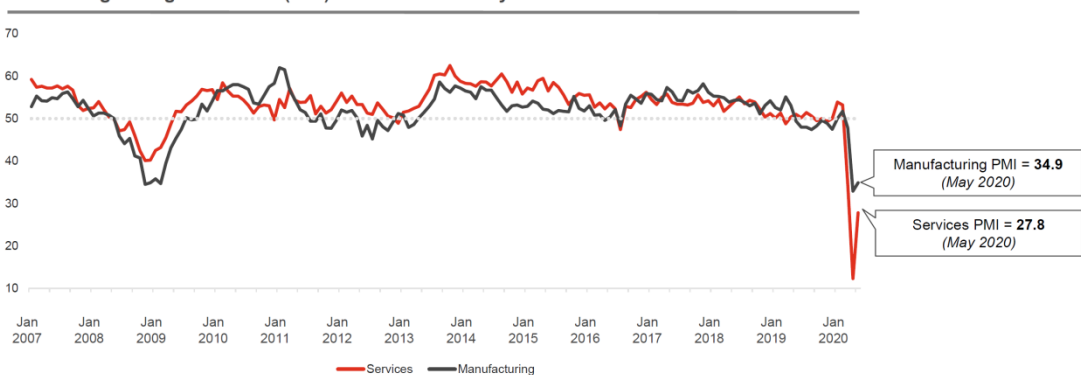
- ▶ For 2020 as a whole, UK GDP is forecast to fall between 7% and 13% compared to 2019.

UK GDP index (Q4 2019 = 100), quarterly levels in each scenario



- ▶ The UK Purchasing Managers Index (PMI) – acting as a measure of business activity where >50 shows growth and <50 shows decline – is suffering from the biggest decline in recent years.
- ▶ The PMI for the UK since 2006 is shown here, and the dramatic fall in April-2020 is evident even at a quick glance.

Purchasing Managers' Indices (PMI) of business activity



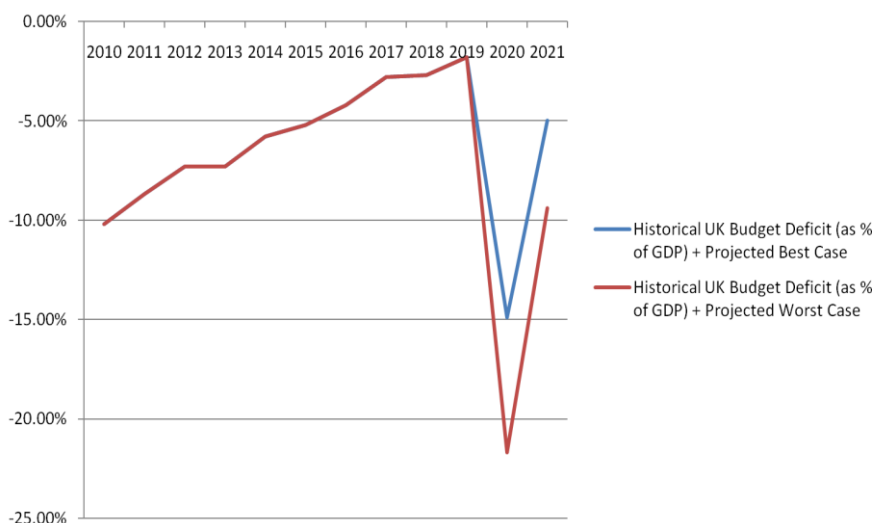
Sources: ONS, PWC, US Bureau of Economic Analysis, Eurostat, CIPS, IHS Markit



Deficits, debt and demand

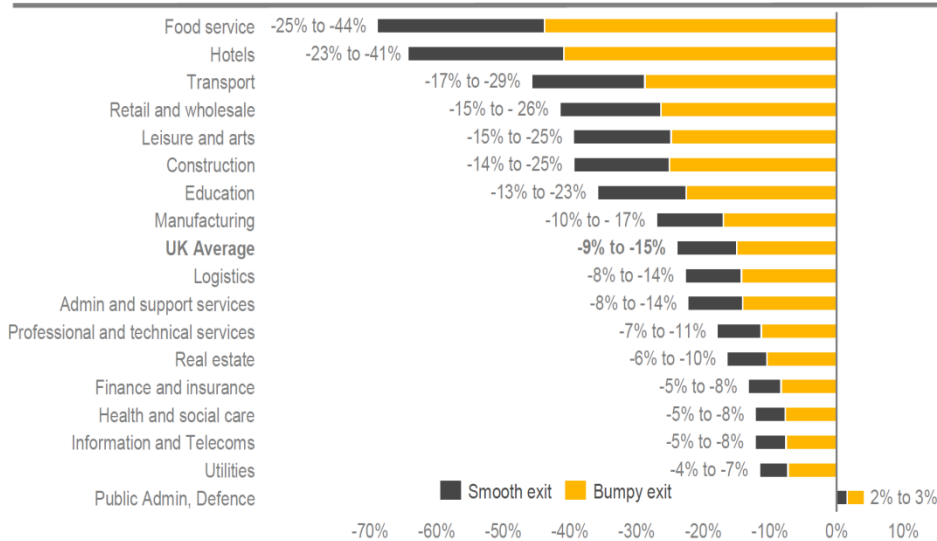
Deficits increasing whilst demand nosedives

- ▶ The UK Government financial support to business during the Covid-19 pandemic has been funded by enormous levels of public borrowing and thus had a significant impact on national debt.
- ▶ The UK Budget Deficit as a % of GDP is shown below.



- ▶ The UK GVA (Gross Value Added) which shows productivity by industry sector shows that the effects are being felt across the board.

Range of estimated GVA impact by sector – 'Smooth exit' vs 'Bumpy exit', % impact on 2020 GVA relative to baseline without COVID-19



Source: PwC Economics analysis, ONS



Procurement's moment to shine

Supply Chains

- ▶ According to the UK Office for National Statistics, 44% of businesses who were still trading in April 2020 have less than 6 months cash reserves, and just over 25% of businesses simply do not know how long their cash will last. We make that 69% of businesses in the UK who cannot say with confidence that they have sufficient cash to last more than 6 months.
- ▶ In the UK, 80% of businesses have applied for some form of government support scheme (Coronavirus Job Retention Scheme – i.e. Furloughing employees – and VAT deferral being the main applications) .
- ▶ As well as the risk of firms going out of business, there are also risks about supply disruption caused by tier 2 and tier 3 supplier issues, logistics disruption and the inability to produce due to illness and social distancing restrictions. Of course, the impact of furloughing staff has also meant that the capacity of many firms has also been severely impacted.

THE OPPORTUNITY

- ❖ Against all this, let's face it, fairly depressing backdrop, those businesses that are continuing to operate are now turning their attention into ways to reduce cost and conserve cash.
- ❖ The demand on procurement and supply chain professionals in the next 24-36 months are likely to be unprecedented.
- ❖ This provides procurement as a function the biggest opportunity in recent times to showcase ourselves as adding huge value in reducing costs from our suppliers, improving cash flow, managing risk, encouraging innovation, driving improved supplier performance and many other things.
- ❖ This is an opportunity but also a risk for procurement. We will need to adapt many of our working practices to ensure that we can support the businesses in a flexible and responsive way.
- ❖ We will need to be able to deliver huge value and do it quickly.

It is against all of this context that E-Auctions can become your new best friends.



E-Auctions – types to avoid

What is an E-Auction?

- ▶ E-Auctions are simply electronic auctions held over the internet.
- ▶ Traditional auctions – think of eBay – are hosted by the seller.
- ▶ Participants in the auction are potential buyers who compete to win the auction by bidding the highest price before the event ends.
- ▶ Procurement teams focus on **Reverse e-Auctions**. This is because it is literally the opposite of what has just been described:
 - ▶ It is hosted by the buyer;
 - ▶ Participants in the auction are potential sellers;
 - ▶ The sellers compete to win the auction by bidding the lowest price before the event ends.

Types of Reverse E-Auction to **AVOID**

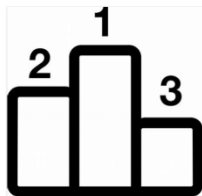
- ▶ There are many different types of e-Auctions available.
- ▶ E-Auctions are, on the whole brilliant tools.
- ▶ Some variants of e-Auctions, however, should be avoided. They are simply not as effective as the others.
- ▶ Our view is simple. DON'T USE THESE TYPES OF E-AUCTIONS 😊
- ▶ For completeness, the ones to avoid are:
 - ▶ **“Open”** – where all the suppliers can see everyone else's prices. This is not great for confidentiality, encourages the wrong behaviours from suppliers and allows many to take part purely as a way of gaining competitor information.
 - ▶ **“Dutch”** – Dutch reverse auctions start at a low price, which is then increased until one of the sellers is first to accept the price. The first person to bid wins the auction, which makes them good for quick decisions. However, the buyer gets no visibility of where the other suppliers would have finished and is forced to award to the first bidder.
- ▶ Feel free to Google them yourselves if you want more information.
- ▶ Or save yourself the trouble and trust us – don't use them.



E-Auctions

Types of E-Auctions to use - Ranked

- ▶ So, on now to the first of 2 types of e-Auctions we highly recommend.
- ▶ The most effective and popular type of reverse e-Auction to use is the Ranked e-Auction.
- ▶ Here, suppliers place bids in decreasing amounts.
- ▶ There is normally a minimum bid value which you can control (to avoid miniscule changes).
- ▶ The only "live" feedback the suppliers get is what position, or rank, they are in in relation to their competitors. The suppliers cannot see the prices from other parties.
- ▶ So, a supplier may see that they are in 3rd place out of 12 bidders.



- ▶ These are the most popular, and effective, type of reverse auction.
- ▶ They don't give away commercial sensitivities but do leverage competition very effectively.
- ▶ They tend to run for a fixed period of time (and most activity is normally always near the end) but can trigger extensions if the top 2 or 3 bidders place bids in the last minute. Again this can normally be configured as per your own preference.

70%

- **Proportion of reverse e-Auctions which are Ranked**

23%

- **Average saving against the baseline (historical spend or budget) that a Ranked Auction achieves**

58%

- **One client recently saved £150k which was 58% reduction and 30% more than their best case estimate**

15%

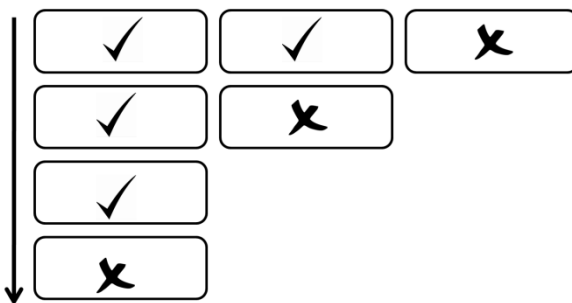
- **Average reduction of end price compared to opening price**



E-Auctions

Types of E-Auctions to use - Japanese

- ▶ The second type of e-Auction we love is the Japanese e-Auction.
- ▶ A Japanese e-Auction is configured slightly differently.
- ▶ **Typically, these work better where there is a lack of competition.**
- ▶ Here the buyer sets a high price which decreases at pre-set amounts at pre-set intervals. If a supplier is happy to provide the goods and services at that price, they confirm they are still “in”.
- ▶ There is normally a time period for them to respond at each stage.
- ▶ The buyer then continues to reduce the price, again, normally in fixed amounts, and the sellers have to continually confirm at each price point that they are still “in” the process.
- ▶ If a seller does not confirm at a particular price point, they are then removed from the auction (and their best price is taken as the last price they confirmed at).



- ▶ The sellers however do not receive any feedback during the event in relation to how many other suppliers are still in play.
- ▶ In a standard reverse auction, once a supplier gets into first position, there is no incentive for them to continue to bid.
- ▶ In a Japanese auction, the supplier in first place can continue to bid even when they are the last supplier remaining.

15%

- Proportion of reverse e-Auctions which are Japanese

16%

- Average saving against the baseline (historical spend or budget) that a Japanese Auction achieves

9%

- Average reduction of end price compared to opening price



Common concerns

And why you don't need to worry about them

My category is too complex

"Our goods and services are so complex. E-Auctions wouldn't work for us."

"They are fine for simple commodities like widgets or pens but not for my category."

No matter how complex a category is, it should always be capable of being described in a specification.

If you have ever tendered the category, you must have been able to provide a specification to the suppliers.

Even if the specification is not prescriptive and is outcome based, suppliers need something to price up against in their response.

It is of course easier to compare so called "apples with apples" but even if the suppliers are pricing different solutions, you can still use this method to compare the cost of the "outcome".

Be HONEST with yourself here, is this just an excuse to avoid doing something new?

If you can tender something you can e-Auction the price element.

E-Auctions just focus on price.

"We make decisions based on lots of things, not just price."

Exactly. And so does virtually everyone else.

It is entirely expected and encouraged that procurement decisions should be based on a number of factors such as quality, safety, service and many others as well as price.

These factors are normally taken in consideration as part of a weighted score.

But price is always there as one of the considerations.

So just use the e-auction to agree the price element of the negotiation quickly.

Let's face it, it is normally the price element that takes the longest to negotiate normally.

You can still award to the lowest overall weighted supplier.

Only suppliers who have met your quality and service standards would be invited anyway.

So if price is worth 20% for example, use the auction just for this element. You can still make a weighted decision.



Common concerns - continued

And why you don't need to worry about them

E-Auctions are unethical

"Our values are critical to our organisation and e-Auctions are not aligned with these values."

It is perfectly understandable and commendable to be concerned about values and ethics - **but there is simply nothing unethical about using an e-auction.**

Of course, you may have heard horror stories about unscrupulous buyers misusing them in the past, but dishonest people can misuse any tool.

Just make sure that only realistic and qualified suppliers are invited to bid.

Think about it - is there really a more transparent way of negotiating price?

Compare this to traditional negotiations - which is the less ethical option?

Inviting suppliers to a highly transparent auction?

Or sitting on opposite sides of a table, playing "chicken" with a supplier claiming you have offers from others which are more competitive when the reality is perhaps very different?

We don't have the time / skills

"Our team are flat out at present, we don't have the time to invest in training and learning new bits of technology right now, let alone cope with the cost."

Ok, we hear you. You are busy and this might sound like the last thing you need right now.

The fact is, e-Auctions will make your life easier and give you more time. And they are EASY to run.

Those negotiations you have scheduled to take place over the coming weeks and months? Incorporating e-Auctions into your negotiation strategy will literally cut the timeline down to hours and days

But even if you are sure that you don't have the capacity, technical ability or budget to carry out e-Auctions yourself, you can call AVAM Solutions.

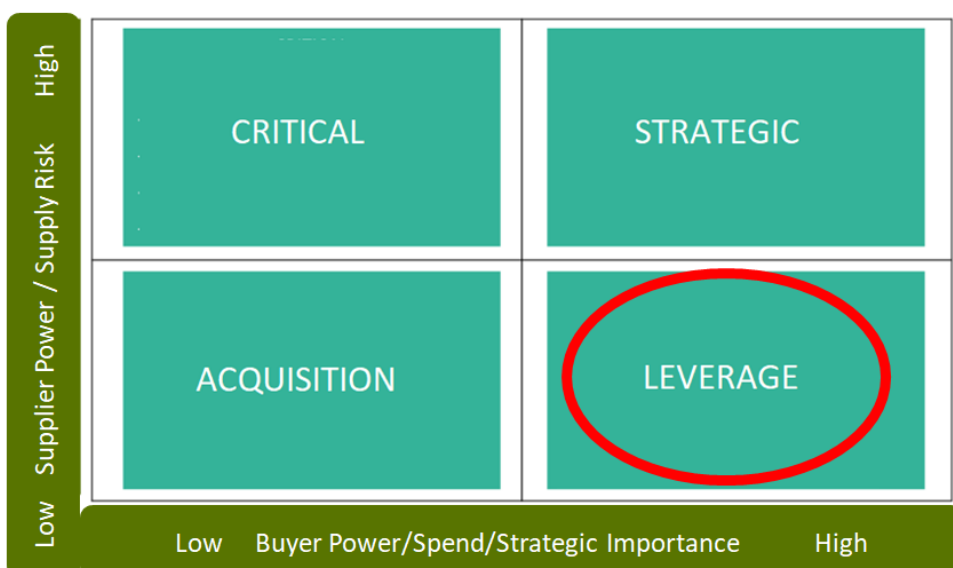
We offer an on demand (aka Pay As You Go) E-Auction service where we will manage the entire process for you. We will provide the on-demand licence, the training, brief your suppliers, build and host the event. The model is built so you only pay if the auction is a success because our fee is based purely on a % of the savings achieved. So you really have nothing to lose and everything to gain.



Choosing your category

Pick leverage categories which will not be emotive to build momentum and support

- ▶ If you are about to introduce e-Auctions into your organisation for the first time, then face facts – you may face some internal resistance at first from internal stakeholders.
- ▶ So, our recommendation here is to pick straightforward examples where you can prove the concept of e-auctions to your business before attempting to tackle more complex areas. This will give the concept (and you) credibility to roll out on a wider basis.
- ▶ Consider those categories where your buyer spend is reasonably high, where you have a decent amount of power and where there is a lot of competition between the suppliers in tandem with there being low costs of changing supplier.
- ▶ So, really the ideal backdrop for an e-Auction is the same that you'd need if you were running a competitive tender exercise.
- ▶ Think back to your portfolio (Kraljic) matrix if you have used this before – you are looking for categories which sit in the bottom right quadrant.



- ▶ Good examples often are:
 - ▶ Office Supplies and Stationery
 - ▶ Uniforms and Workwear
 - ▶ IT Hardware like Laptops or Monitors



Pre Qualification

You only want credible options coming through the “gate”

- ▶ It is really important that only credible suppliers are invited to take part in the auction.
- ▶ For this reason it is always recommended that you start your e-sourcing exercise with a pre qualification stage. It is of course possible to do this via paper and excel if you really want to.....but why not do this electronically too? Most software allows you to do this as well as the auction.
- ▶ A Pre Qualification Questionnaire is normally abbreviated to PQQ because procurement people love acronyms and making things sound confusing and mysterious 😊
- ▶ Any suppliers who do not have a realistic prospect of being awarded the business can therefore be eliminated from the process straight away.



Questionnaire #1 : Pre Qualification

① What do you want to call it?

Pre Qualification

(e.g. RFI, RFP, RFQ, PQQ, Supplier Self certification, Survey)

① Deadline

BST

☒ Do you want it to be Pre-Qualification? ①

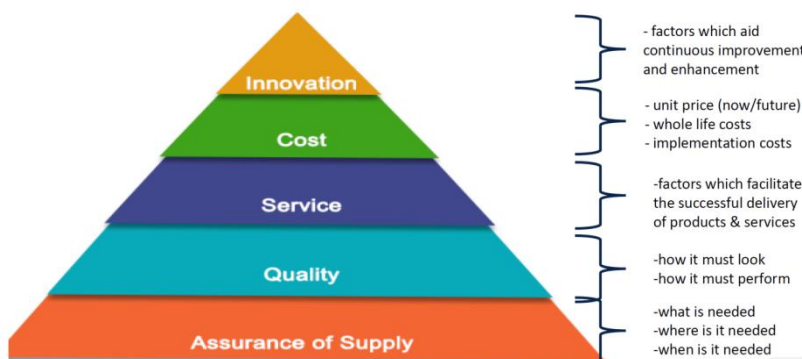
☐ Do you want it to have scoring? ①

- ▶ That way, all the suppliers remaining can invest time and effort in the rest of the process knowing that they have a good chance of success.
- ▶ Remember, the purpose of a PQQ is essentially a **gateway** through which suppliers have to pass to be able to “play” in the main event.
- ▶ For that reason, please don’t waste time trying to evaluate and “score” the responses a supplier provides at this stage.
- ▶ Each question should essentially be structured as a Go/No Go or Pass/Fail question. The responses sought from suppliers should not be paragraphs of text, but simply Yes/No.
- ▶ Answering No to any of the questions in the PQQ normally means the supplier should be excluded from the process.
- ▶ Issuing a copy of your Terms and Conditions as part of the PQQ and then making unconditional acceptance of the T&Cs one of the questions is a good and binding way of avoiding negotiations later.



Requests for Information & Requests for Proposals

- ▶ After the PQQ, you have the Request for Information (RFI) and Request for Proposal (RFP) stages before you get to the e-Auction itself. More acronyms!
- ▶ These are the stages where you collect information and ask the questions you need to determine the quality, experience, service and innovation credentials of your suppliers. These then get evaluated and a “score” is assigned. These will need to be weighted.
- ▶ We tend to refer to these factors, in a type of shorthand, as Quality scores. Quality scores are crucial if you want to make a balanced award decision which does not focus purely on price.
- ▶ The AQSCI pyramid is a good reminder of the kind of things you should be looking for here. Basically you should be searching for answers to questions pertaining to all of the below in this stage – particularly the non cost elements.
- ▶ That said, you can also as part of the RFP process ask your suppliers to provide their initial pricing. These will serve in the auction as their initial bids.



- ▶ One possible way of organising your weightings is below:

- For each evaluation heading assign a maximum %
- Ensure that the sum of the maximum % is 100%
- Give the highest ranking supplier the maximum score and the lowest ranking supplier 1%
- Score everyone else on a pro rata basis in between
- Add up the total of all the scores for a grand total
- Ensures objectivity and allows for meaningful supplier feedback also

Supplier	A (30%)	Q (20%)	S (20%)	C (25%)	I (5%)	TOTAL
A	22%	20%	15%	15%	5%	77%
B	28%	12%	20%	10%	4%	74%
C	30%	5%	1%	1%	3%	40%
D	15%	1%	12%	7%	1%	36%
E	1%	9%	17%	17%	2%	46%
F	7%	18%	9%	25%	4%	63%



Benefits of e-Sourcing over other types of tenders

- ▶ If you have gone to the trouble of carrying out your PQQ online, then please seriously consider carrying out the RFI and RFP online as well.
- ▶ There are some particular reasons that you should consider this:

- ❑ *Firstly, it will create an audit trail for you to look back on in the future. Even when people have left the business. Compare this to doing everything via email and excel. How easy is it to find information years later when people have left the business? Honestly?*
- ❑ *Secondly, it will make it easier for your stakeholders to view responses and contribute meaningfully to the evaluation of supplier responses. No more chasing via email or trying to get face to face evaluation sessions organised.*
- ❑ *Thirdly it means suppliers can respond online and don't have to worry about sending emails which may or may not get lost, or bounce back because your email is full, or because their files are too big. And if you currently use paper based returns (welcome to the year 2020 by the way) you'll be operating in a far more sustainable way if you move to e-Sourcing*
- ❑ *Fourthly (can you say fourthly? What is the cut off for numbers in a list like this? Seventeenthly?) it will force suppliers to response in a uniform way. They will not be able to send their response in PDF which you can't than copy and paste into excel to "score". They won't be able to send lots of supporting information you haven't asked for. And they won't be able to completely ignore your instructions on word count.*
- ❑ *And finally (we've given up counting now) , when you evaluate supplier responses online in this way, you can ensure that the Quality scores are factored in to the overall score being "ranked" in the auction. More on this later.*



Setting up the e-Auction

Lotting Strategies

- ▶ You now are at the stage where you can start setting up the e-Auction itself.
- ▶ One of the key considerations here is to design a “lotting strategy”.
- ▶ In simple terms, a lot is how you decide to group the products/services you are looking to buy. There would normally be one lot per type of specification, although you might also choose to have different lots for different delivery locations.
- ▶ Your lots should really reflect how you intend to award the business.
- ▶ Your baseline spend is taken by the current unit cost of the service.
- ▶ The format of a lot is normally something like this;

Add New Lot

① Lot Name

Widgets

① Quantity of UoM's

1000

① Unit of Measure (UoM)

per pack of 10

① Current Price (Not shown to participants)

£

1.50

① Current Value

£1,500.00

- ▶ The general rule is to try and keep the lotting as simple as possible. 80% of auctions have 4 lots of less (55% have just one lot).
- ▶ There is some evidence to suggest that the fewer lots you have the more effective the auction becomes. This could well be because the more complex an auction is the more likely it is that suppliers can get confused and/or cherry-pick between different lots.
- ▶ The spend size of the lot can affect interest level of suppliers and have a knock on effect on savings.
- ▶ You may also want to consider fewer lots because there will potentially be a different supplier winning each lot in the auction – which can add complexity to your business.



Setting up the e-Auction

Other considerations



Time

- ▶ The length of time an e-Auction can last for is entirely up to you.
- ▶ Here's a tip though – in a Ranked Auction, no matter how long it runs, you do not tend to get any real frenzy of bidding activity until about 5 minutes before the end.
- ▶ So for that reason, we typically set them to run for 30 minutes or so.



Extensions

- ▶ One great function we'd recommend you definitely use is that if anyone bids in the last 60 seconds then an automatic extension of 1-2 minutes is triggered – this is often called a “dynamic close” period.
- ▶ This can be configured to repeat over and over, to ensure that the event doesn't end when it is at the busiest stage.
- ▶ However, you should consider only allowing the extension to take place in the event that one of the leading bidders places a new bid. There is nothing more annoying than an event being extended over and over again because the supplier in 12th place has reduced their bid even though it has not had any bearing on anything.



Joint first

- ▶ One other thing to consider is how you want your e-Auction software to cope in the event that there is a tie for first place (or a tie for any of the places for that matter)
- ▶ There are normally three options for handling tied bids. We only really like one of them;
 - ▶ Equal Highest Rank – where both suppliers show up as 1st place. We don't like this because it doesn't seem to encourage either of these suppliers to keep bidding to become a “clear winner”.
 - ▶ Equal Lowest Rank – where both suppliers show up as 2nd place. We don't like this one because it makes no real sense to us and feels a little dishonest.
 - ▶ **Timestamp. This is the one we use because it seems the fairest way.** The supplier who bid the amount in question first is shown as 1st place. You snooze, you lose!



Preparation & Training

Practise, practise, practise

You

- ▶ You will need to gain training in your chosen e-Sourcing software in order to design and build your PQQ, RFI, RFP and e-Auction.
- ▶ You will need to familiarise yourself sufficiently to be able to help troubleshoot any technical details on the day itself.
- ▶ It is a sensible idea to organise and run a test event for suppliers to test out.

Your Supplier

- ▶ Your supplier will need to be trained in how the software works.
- ▶ Bear in mind that this may be the first time that they have experienced an e-Auction before as well.
- ▶ They will need to have access to someone from your organisation or from your software provider who can help with any training requirements and queries.



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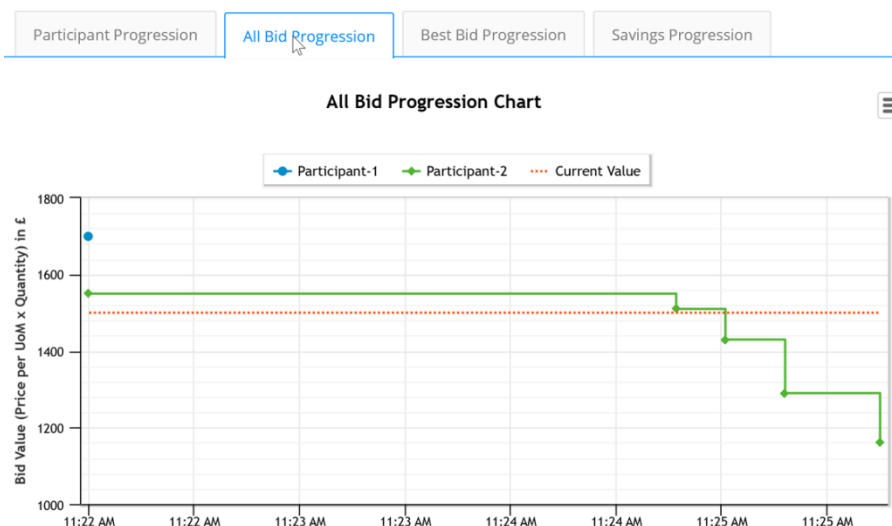
- ▶ The alternative to the above is to leave it all to us.
- ▶ Through our fully managed service, you will not need to invest time in training because we will take care of everything on your behalf.
- ▶ We will build the auction, structure it in the optimal way and host it on the day.
- ▶ We will train your suppliers before the event and be on hand to deal with technical queries on the day itself.



The event itself



- ▶ Remember, you absolutely **DO NOT** have to award to the lowest bidder in the e-Auction.
- ▶ The e-Auction is just negotiating the price element of the weighted criteria - but cost may only account for 20-30% of the total evaluation score. So the lowest cost in the e-Auction may not be lowest overall weighted score.
- ▶ Modern software now can even run what is called a **Weighted Reverse Auction**. This therefore combines the quality score in the tender with the pricing in the reverse auction.
- ▶ The ranks displayed under a Weighted Reverse Auction therefore take account of **ALL** factors, the live rankings being a reflection of a combination of both price AND quality. So the supplier in first place may not bring the greatest level of savings but will represent the overall highest weighted score.
- ▶ The software will produce real time graphs so you will also be able to see at a glance which suppliers are in the lead on different lots and what the total savings would be for each supplier scenario.



- ▶ Remember to provide your suppliers with some feedback after the event. Whilst you will not want to disclose sensitive information from the winning bidders, it will help the unsuccessful suppliers enormously if you could identify which of the quality or price elements they fell short on.



Over to you

- ▶ Thank you for expressing interest in this free PDF handbook and we hope that you have found it interesting and helpful.
- ▶ Clearly it is not possible to go into huge amounts of detail in this format, so if there is anything that you would have liked to see which is missing, please don't hesitate to give us a call and we'll do our best to talk you through it.
- ▶ Equally, if there is anything which is unclear that you would like someone to explain or provide more detail on, give us a call and we'd be happy to expand on it for you.
- ▶ **If you now love the sound of an e-Auction but don't think you have the skills or capacity to handle it yourself, remember that we offer an on demand (Pay as You Go) E-Auction service where we will manage the entire process for you. We will provide the on-demand licence, the training, brief your suppliers, build and host the event. The model is built so you only pay if the auction is a success because our fee is based purely on a % of the savings achieved. So you really have nothing to lose and everything to gain.**
- ▶ Alternatively If you want to go ahead and start delivering e-Auctions yourselves, there are lots of really good software providers out there.



- ▶ Our recommendation and favourite is **Market Dojo** and they have all the functionality referred to in this handbook - although the principles will be the same for most if not all providers.
- ▶ **AVAM Solutions would be delighted to run the auction on your behalf through the use of our own Market Dojo licence, which will provide a more cost effective option for you**
- ▶ Thanks again for reading this and good luck with your e-Auctions!
- ▶ Finally, if you ever need any procurement consultancy or interim resource, please don't hesitate to give us a call.

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