

When to use a Reverse Auction or other eRFx sourcing tactic

Evaluating commodity characteristics to determine project strategy

by Iasta

Overview

Each eRFx has a unique and primary goal. Typically, the primary goal of an eRFI/survey is to maximize potential decision points while keeping supplier evaluation costs low. The end goal of an eRFP is to determine a set of potential suppliers that are the most capable of meeting the organization's needs and to identify those suppliers that can actually submit bids. And the final goal of an eRFQ/auction is to make the final award decision.

The numerous benefits of eRFx include:

- Efficiency through sourcing cycle time reductions
- Accuracy and consistency through standardization collaboration
- Knowledge transfer

eRFx Project Strategy Selection

A spend analysis initiative identifies commodities, components and categories that are potential opportunities for cost savings / avoidance. Sourcing teams can use these two key factors to help prioritize projects and select the most appropriate sourcing strategy.

1. **Contract Status** – review spend status based on whether:
 - a. *Currently under contract* (unavailable for bid) – Should a commodity be under contract, sourcing can still positively impact the organization through various initiatives and tactics.
 - Spend compliance tracking:
 - User adoption and education campaign
 - Supplier performance improvement
 - Contract termination
 - Supplier collaboration:
 - Contract renegotiation
 - Joint initiatives

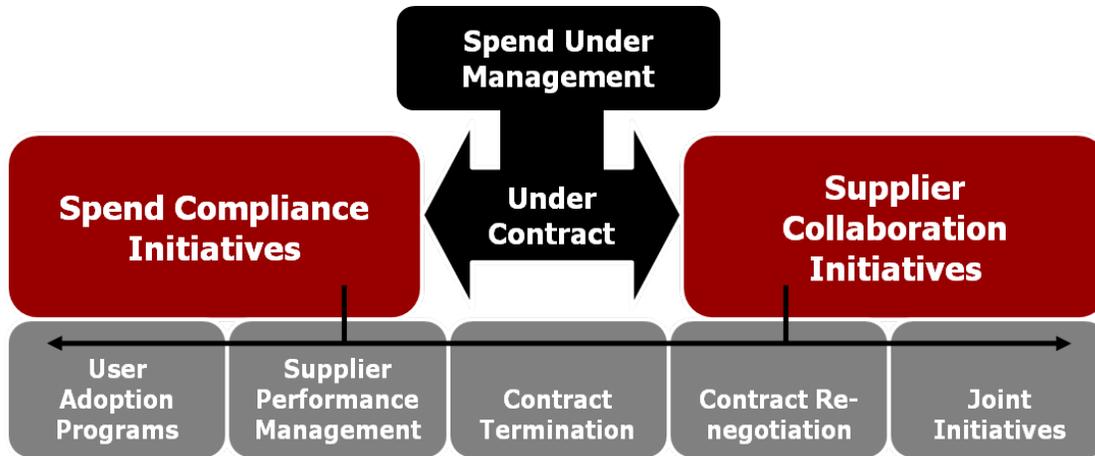


Figure 1: Initiatives for spend under contract

b. *No current contract in place* (available for bidding) – If available for bid, review the commodity characteristics to determine the best eRFx strategy.

2. **Commodity Characteristics** – score available spend based on:

a. *Commercial attractiveness* (to potential suppliers) – Is there market capacity? Is the buying company a marquee customer?

Range: attractive for suppliers (+) to unattractive for suppliers (-)

b. *Definable requirements* – Can the requirements be precisely described?

Range: well-defined and available specifications (+) to unknown (-)

c. *Competitive supply base* – How many potential suppliers are there?

Range: numerous, high quality suppliers (+) to one supplier (-)

d. *Savings opportunities* – Has it been bid before? Is there compressible margin?

Range: compressible pricing (+) to rising market (-)

e. *Inherent risk* – If something goes wrong, how bad will the problem be?

Range: low (+) to high (-)

Only for the *inherent risk* metric, a low score is considered positive as it means there is minimal impact to the company if something goes wrong.

An experienced sourcing professional can quickly evaluate the commodity and score each of the five characteristics as either positive (+), neutral (1) or negative (-).

The collection of scores will indicate whether the project should use a reverse auction, sealed bid, eRFI/survey or an eRFP. An online sealed bid is managed just like a manual sealed bid. Suppliers invited to participate in an online sealed bid submit “best and final” offers through the eRFx technology.

An eRFQ with a reverse auction is not always the tactic of choice. *Figure 2* lists possible scores relevant to the characteristics and which bidding tactic or negotiation strategy might work best – depending on how the scores align themselves. Commodities with mostly positive scores are good fits for auctions while those with mostly negative scores are better off using an eRFP. An experienced sourcing professional can easily determine those that fall in between.

| Category Characteristics | Reverse Auction | Sealed Bid | RFI | RFP |
|---------------------------|-----------------|------------|-----|-----|
| Commercially attractive | + | + | ● | - |
| Definable requirements | + | + | ● | - |
| Competitive supplier base | + | ● | ● | - |
| Savings opportunities | + | ● | ● | - |
| Inherent risk | + | ● | ● | - |

Positive score
+

Neutral score
●

Negative score
-

Figure 2: Scoring categories to select eRFx type

For example, a sourcing professional might score a potential pallet project in the following manner.

Potential project: Pallets

- Commercially attractive
 - It is a high dollar amount to suppliers
 - Score = +
- Definable requirements
 - Current specifications are available
 - Score = +
- Competitive supply base
 - There are over 20 quality suppliers
 - Score = +
- Savings opportunities
 - Pallets have never been competitively sourced
 - Score = +
- Inherent risk
 - There is very little risk to the manufacturer or customer
 - Score = +

Based on the collected set of scores, this commodity would be a good fit for an online reverse auction.

eRFx Technical Requirements

▪ Centralized Repository

One of the most significant benefits of an eRFx solution is the centralized data repository. A centralized repository allows the organization's supplier and sourcing-related information to be stored in one common location that can be accessed by all relevant stakeholders. This not only helps to streamline the sourcing process, but also assists in the determination of whether all required information has been collected and whether the sourcing team has followed all appropriate processes to meet corporate compliance requirements.

▪ Templates

World-class eRFx tools allow for the creation, editing and storage of project templates. Reusable templates allow for continual process improvements and cycle time reductions for sourcing projects. Templates can be customized and / or localized across the global organization. When the use of templates is combined with a centralized repository, category managers are free to be more strategic and focus on global category sourcing strategies. Additionally, less experienced sourcing professionals can be more effective through use of templates.

- **Formatting**

It is very important that a chosen eRFx platform is highly customizable and allows users to make format changes easily. Functionality such as text changes by font, color, style, size, hyperlinks, bullets, embedded images, fields and spell checking should exist in rich format without the added burden of scripting language skills.

- **Response and Evaluator Scoring**

Other critical functionality for effective design and usage of eRFx include the ability to use custom weight and score criteria for responses and evaluators. Administrators should be able to weigh sections, questions and internal stakeholders and use an appropriate point system for a particular project and supplier review.

- **Workflow Capability**

Modern eRFx tools usually come with integrated task tracking and workflow management tools. At any given point in time, any member of the sourcing team can determine precisely the current stage of the selected eRFx process and which suppliers have responded. An eRFx can be created for later, or even partially created, saved, and finished at a later time. Additionally, an eRFx tool should support integrated email management which streamlines the communication process with suppliers after the approved document is ready to be published. Once published, administrators should have the capability of alerts and triggers that notify both the buyers and respondents of changes to the eRFx and any communication from suppliers.

- **Data Import/Exportation**

Existing supplier data is often contained in a SRM (Supplier Relationship Management) system. Commodity data is usually found in an ERP (Enterprise Resource Planning) system. Thus, it is important that the eRFx tool make it easy to import or export data and reports from other applications. A simple action such as, exporting the resulting final scores from an evaluation team can be used as supporting documentation for a PO entry.

- **Security, Access Control and Collaboration**

An eRFx engine should support secure log in, encryption for passwords and other sensitive data. It should also provide access control across groups and individuals to ensure that the various stakeholders can only access data they are allowed to see. Additionally, it should ensure that master data and master templates are only changed by authorized personnel.

More importantly, the eRFx technology should support collaboration between users – whether they are internal stakeholders, suppliers or the Sourcing team.

For more information, please visit www.iasta.com or our online white paper library, the eSourcing wiki, www.esourcingwiki.com.