

[Technology]

Dial 'e' for auction

Battering down suppliers on price might mean an e-auction is a winning option in the short-term, but what of the longer term cost? **Paul Snell** reports

There is no reason suppliers should like reverse auctions," a vice-president of supplier management at a technology firm told researcher Huthwaite International. "It is a tool designed to transfer margins from them to me."

While not all buyers will agree with this statement, with attitudes like this out there it is easy to understand why suppliers are attempting to employ strategies to disrupt buyers' operations (News, page 7).

But despite exhortations from government ministers and CPOs to increase the use of auctions, buyers are divided over their effectiveness. According to a recent SM poll, 60 per cent of buyers don't use them. One respondent said they were "a highly limited, one-off way to make savings".

According to Andrew Moorhouse, research director at Huthwaite, authors of a recent report on e-auctions, some suppliers are being hit by their use harder than others. "Indirect services, such as facilities management, are being hammered, because they are struggling to differentiate themselves."

The value of the average contract under auction in the US is around \$2.2 million (£1.1 million), and the chance of winning is often too big for vendors to ignore. Some are refusing to participate, but this is only successful under certain conditions.

One sales manager from a global pipeline manufacturer told the survey: "Auctions in the pipeline industry normally fail. Companies cannot get three or four people together so there's no competition. Procurement cannot go elsewhere."

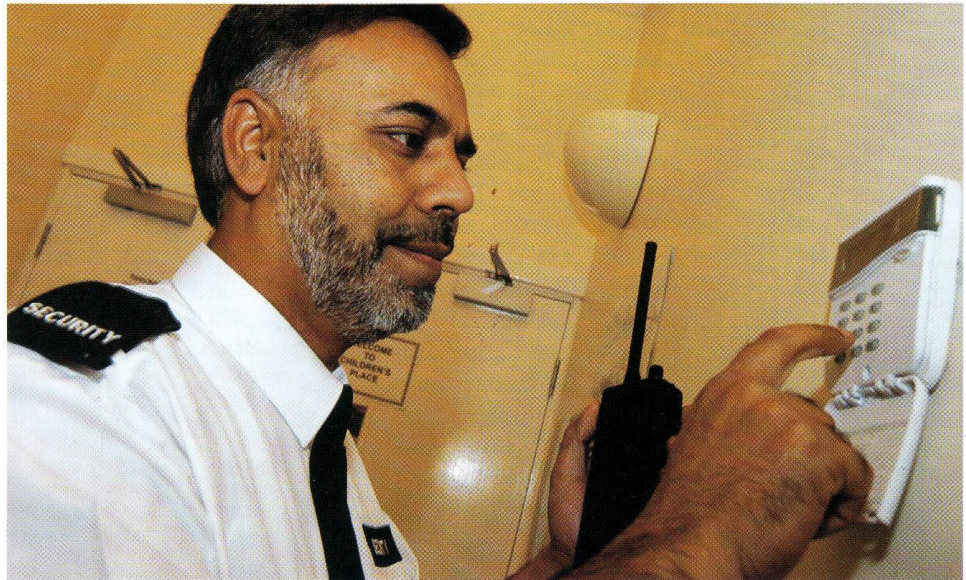


IMAGE: ALAMY

Suppliers of facilities management are being "hammered" by the use of e-auctions

Moorhouse says bad experiences in the past are to blame for the breakdown in relationships. So how can they be repaired so suppliers don't feel they are cheated and buyers still get the result they want?

Matt Miller, president of e-sourcing provider K2 sourcing, argues: "It depends how clearly the buyer outlines their requirements. Suppliers need to do their due diligence and, in my experience they often don't. They don't take time to read the rules. There is misunderstanding on both sides."

Toby Fogg, senior solutions developer at buyingTeam, says auctions are sustainable only if suppliers feel the right categories are involved.

Moorhouse agrees, adding vendors want to discuss the process. "If there is no opportunity for engagement, suppliers will walk away."

And this is also important for communicating your own strategy and awards criteria. "However clear you think you are, suppliers don't necessarily understand," says Alan Buxton, product director at auction services provider TradingPartners. "Talk to your suppliers every day."

Retaining your integrity is also vital. "Buyers need to guard their credibility and reputation in the marketplace," adds Buxton. He advises against attempts to use auctions as price benchmarking exercises. This will damage the relationship, even if there is a short-term saving.

He says weighted auctions, which rank bidders on more than just price, are the way forward as they are fairer. But Fogg warns buyers to ensure they have calculated the weights correctly, to avoid difficulties afterwards.

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