

The effect of e-auctions on supplier relationship management

With the development of electronic procurement on the increase procurement professionals are faced with both implementation and supplier relationship challenges to ensure supplier buy in.

Purchasing & Supply Management (P&SM) professionals are faced with many challenges regarding supplier relationship management (SRM). Advances in procurement technology aimed at simplifying purchase to pay systems and processes for both buyer and supplier can be somewhat of a paradox and need to be carefully communicated in order to effectively manage supplier relationships.

Electronic Auctions (e-auctions) are just one of the e-sourcing tools available and are used to negotiate prices and complete the buying cycle. Suppliers log on to a website and place bids throughout the duration of the event. The identities of bidders are masked; however everyone has full visibility of competitors' prices and their ranking.

Suppliers are often sceptical of e-auctions as the perception is that price is the only driver for success. There are many benefits of e-auctions to both supplier and buyer, the key is that it is not used as a substitute for the sourcing process, but as a component built upon tightly controlled procurement processes. The table below summaries some supplier concerns and ways in which procurement can provide assurance.

Supplier perceptions	Advice to buyers
Quality is compromised in the name of price	Quality considerations are dealt with as part of the pre-selection process, as well as being detailed in the auction. The nature of e-auctions encourages buyers to produce accurate specifications in the pre-selection process, for more clarity between buyer and seller.
eAuctions prevent less technology enabled supplier from bidding	Internet access is all that is required in order to bid on an e-auction. Full guidance notes and training should be provided by the buyer where appropriate. Supplier benefits include cost savings with print, courier, postage etc associated with traditional methods, and opens up opportunities for suppliers from a wider geographical area.
Suppliers are sceptical of motives and prefer more traditional tendering processes	e-auctions take the guess work out of producing bids and allows the supplier to make more than once bid. With sealed bidding a high quote could potentially disqualify a supplier in the first instance.
Pricing is revealed to competitors	Suppliers obtain more information on market pricing, and increased knowledge of a global buying community.
e-auctions are detrimental to supplier relationships	A level playing field is provided for suppliers by standardising processes and communication. E-auctions produce an electronic audit trail for any dispute management issues, supplier relationships are enhanced through greater transparency and therefore higher integrity between supplier and buyer.

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Research undertaken by CIPS in conjunction with Oracle and the University of West England, IADAPT (Independent Assessment of Development of Auctions as a Purchasing Tool), estimated that e-auctions in the UK have grown at least ten fold each year since their arrival.

Research was carried out by telephone interviews from both buyers and suppliers using e-auctions. The perception of the auctions having a detrimental effect on supplier relationships and therefore performance was in fact not the case and that it was a key factor of their success. Buyers were asked to rate on a scale of 1-100 (50 being 'no change') how suppliers' performance had changed post auction. The research discovered that users rated suppliers +22 on flexibility, +20 on quality of product or service, +12 on delivery/ reliability and +8 on support. The report concludes "that online buyers' auctions can help organisations lower their purchasing costs, yet avoid any significant downside in quality or service. By improving transparency and forcing buyers to be more up-front about their requirements from the start, competitive online procurement seems to be strengthening buyer-supplier relationships, enhancing quality - and making life more efficient for both parties."

Before embarking on an e-auction the buying organisation should carefully consider the following points in order to ensure success and equity amongst all suppliers. Users and suppliers need to be involved at an early stage to judge if all parties have the expertise to conduct the auction; pilot schemes are recommended before the live event is held. These are fundamental process steps the buying organisation should apply to both their sourcing and SRM strategies in order to maintain strong and ethical supplier relationships.

Running the Process

1. Initially

- Appoint an internal auction lead
- Select a commodity where you have sufficiently high demand and which has at least 3 suppliers capable of bidding
- It is sensible to consider an auction where price would be at least 25% of the decision criteria and where the award value is substantial ie, Over £50K
- Communicate planned process for auction
- Research prospective suppliers
- Ensure specification for product/service being auctioned is as clear as possible
- Decide on selection criteria and go through Request for Information (RFI) process prior to auction
- Eliminate suppliers who you would not select for technical or other commercial reasons prior to auction and shortlist suppliers. If there are less than 3 suppliers on the shortlist, there is probably not enough competition to make it worthwhile e-auctioning this product or service

2. Planning and Design

- Develop tender (specification and requirements for e-auction)
- Decide and communicate on format of e-auction event, ie, will there be RFI followed by e-auction, will suppliers be required to respond to a traditional/e tender and then be invited to an e-auction event
- Decide award criteria ie, lowest bidder wins, make it clear if the lowest price may not win
- Plan and agree timescales for live auction
- Design auction and develop bid strategy

- Agree e-auction rules ie, extensions, award criteria etc
- Agree training and supplier communication so suppliers are all operating from a level playing field
- Select a time to run the auction that is to your advantage - but which allows all suppliers to participate.

3. Supplier Communication and Training

- Supplier briefing - Brief supplier on process
- Spend a lot of time training suppliers so that they are commercially prepared
- Run dummy auction

4. The Live Event

- Make live auction available to bidders
- Ensure bidders are logged on prior to auction
- Make sure you have a technical helpline open to your bidders throughout the live auction and that bids may be entered on their behalf if problems with technology arise
- Send out any agreed messages

5. Following the Event

- Assess responses against criteria
- Select winner
- Post auction negotiation (if required and specified in the rules of the eAuction)
- Inform participant of results
- Conduct feedback and see what lessons can be learnt

As with any sourcing process, value is only added if the negotiated conditions are really implemented and if internal users comply with them.

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Things to Avoid

- Do not allow suppliers to increase their bids
- Do not allow suppliers to participate who have not been through a rigorous evaluation process
- Avoid a commodity or service that has constant price volatility, suppliers will probably be unable to commit to holding the prices for any length of time
- Do not allow suppliers who are technically or commercially inept to progress to the auction stage
- Do not bid yourself or enter a false supplier to bid to encourage a lower price, and be aware if you enter suppliers who you have no intention of awarding the contract to should they win, this will demotivate suppliers and have a detrimental impact on trust if they find out.
- Do not hold an auction in a non-competitive environment
- If you state that the lowest price or the highest score in a multi variable auction will win, do not then pick a different supplier to win the auction who hasn't achieved this
- In a multi variable auction, display the position of suppliers taking into account all the criteria, and don't display price positions only
- Do not do post auction negotiation on a price only auction

CIPS have produced a paper called *Introduction to e-auctions* which you can find on the CIPS website, www.cips.org

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