

SAP Sourcing Running Auctions

April 2012

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SAP Sourcing / CLM 2012 Webcast Series



Goal

- Spread the knowledge about SAP Sourcing
- Educate users and consultants on Best Practices
- Build and leverage the SAP Sourcing community



Audience

- SAP Consulting and Field Services
- Partner Consulting
- SAP Sourcing Customers



Upcoming Topics

- April – Running Auctions
- May – Tips for Configuring an Easier User Experience
- June – Using Projects

Topics

- **What is an Auction?**
- **Auction Steps and Guidelines**
- **Evaluating Categories**
- **Auction Setup Considerations**
- **Approaches to Auctions**



What is an Auction?

What is an Auction?

- A sourcing technique where suppliers submit bids for goods or services in real-time in competition with each other
- Suppliers receive feedback about their position in real time and can submit additional bids
- The goal of an auction is to achieve market-based pricing in a short period of time by fostering real-time competition between bidders

Some Key Differences Between an Auction and RFX Process

Dimension	Auction	RFX
Period of Time	Minutes or Hours	Days or Weeks
Feedback to Suppliers in Real Time	Rank or Leading Bid	Usually None
Focus	Price	Other Criteria and Price
Suppliers	Generally Only Qualified Suppliers Are Invited	RFX Process Used To Qualify Suppliers
Bidding Process	Multiple Bids in Real-Time in Response to Feedback	Generally a Single Quote is Submitted

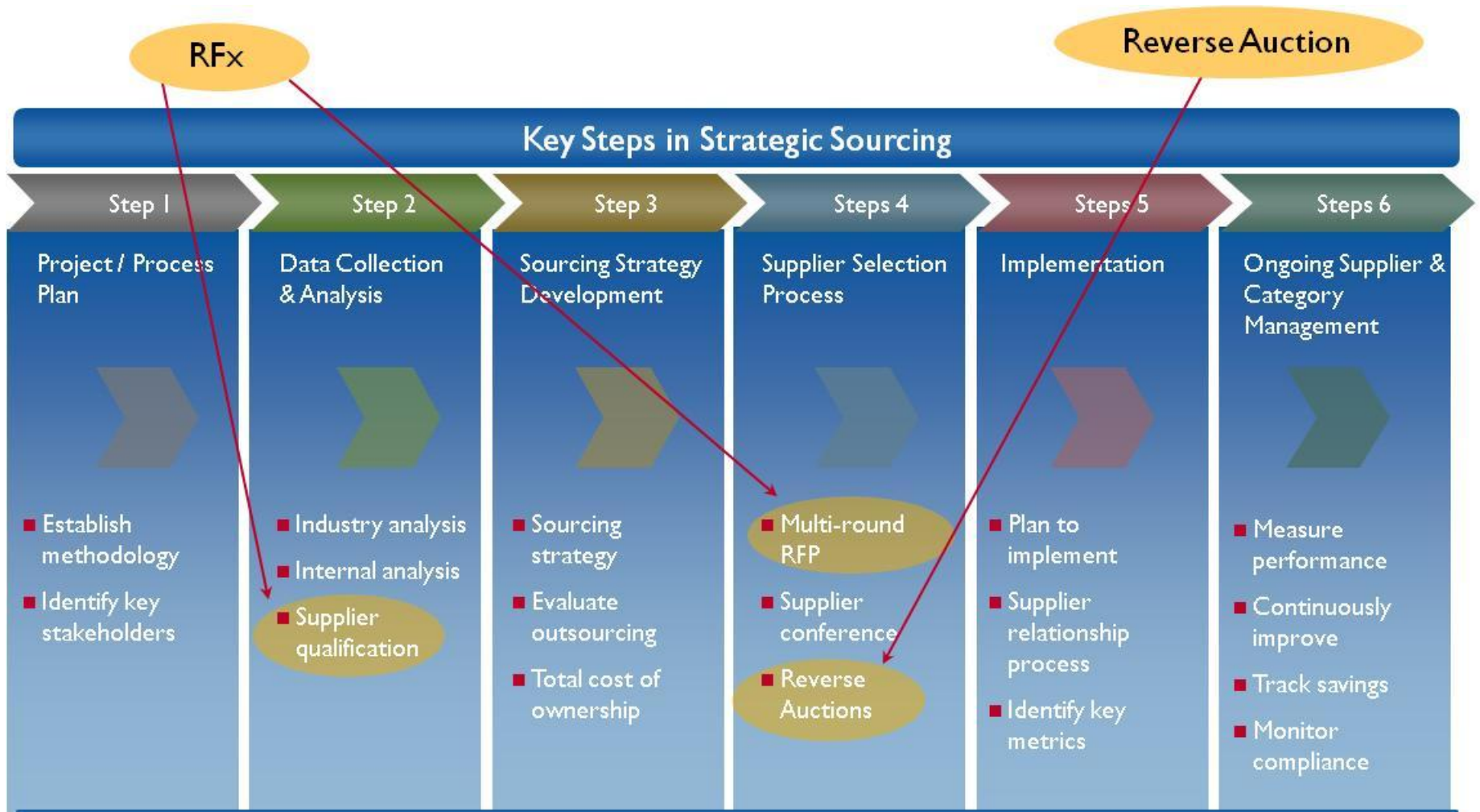
- An Auction differs from an RFX process in that an RFX is generally conducted over a period of time measured in days or weeks and there is typically no real-time feedback provided to suppliers
- An RFX process is often a precursor to an Auction and is used to pre-qualify suppliers and establish baseline pricing

Source to Contract Process



- The SAP Sourcing solution supports the “Source to Contract” process
- An Auction is often one step in the overall Strategic Sourcing process

Reverse Auctions and Strategic Sourcing



Auction Steps and Guidelines

Auction Process Steps

Gather Commodity Information

- Annual spend and usage, number of items, current cost
- Pricing and market trends

Identify Suppliers

- Current suppliers of commodity
- New suppliers that need to be pre-qualified and trained

Set Auction Strategy and Rules

- Line item pricing strategy
- Auction duration
- Establish bid decrement
- Determine information to disclose to suppliers (leading bid or rank)
- Time extensions in case of last minute bids

Build Auction and Train Suppliers

- Invite and train suppliers
- Issue scope of work or auction materials to suppliers
- Conduct pre-auction meetings
- Allow suppliers enough time to prepare for the auction
- Explain rules
- Obtain confirmation to participate

Conduct Live Auction

- Monitor bidding activity
- Determine if auction extension will be needed prior to closing

Analyze Bids & Award Business

- Analyze bids and final proposal
- Decide and execute contract or PO

Guidelines For Auctions

- Prepare, plan and anticipate before the auction
- A reverse auction should take place in a competitive (buyer's) market
- Suppliers who will be invited to an auction should be pre-qualified
- Have a well defined, accurate, clear and complete specification
- Agree to terms and conditions prior to auction
- Agree to lead times and schedule prior to auction
- Price should be the most important award criteria once suppliers are pre-qualified



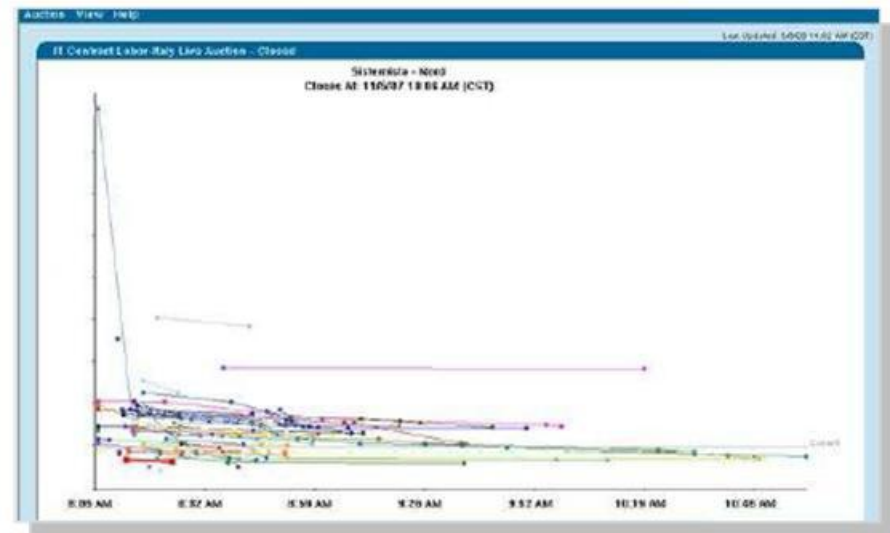
Evaluating Categories

Ideal Categories For Reverse Auctions

- Is not highly specialized or engineered
- Has not been sourced recently
- Is not covered by a current contract
- Has no or low transition costs
- Is well understood in terms of cost drivers and the market
- Is clearly specified
- Has at least three qualified suppliers – preferably more
- Is a one-time purchase with sufficient value

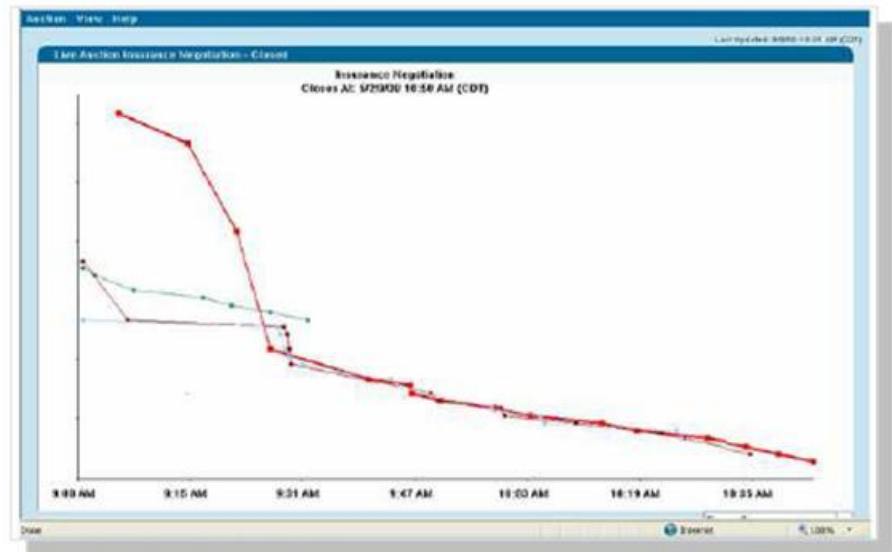
Category: Contract Labor

- **Business Issue**
 - Requirement to organize and reduce IT contract labor supply base while driving cost reduction for 42 job positions in 3 different geographies with varying cost structures.
- **Approach**
 - Multi-round RfX process to qualify suppliers with 96 suppliers invited; 65 suppliers were down selected and invited to participate in the final auction.
- **Results:**
 - Savings in excess of 20%
 - Reduction of supply base of over 50%



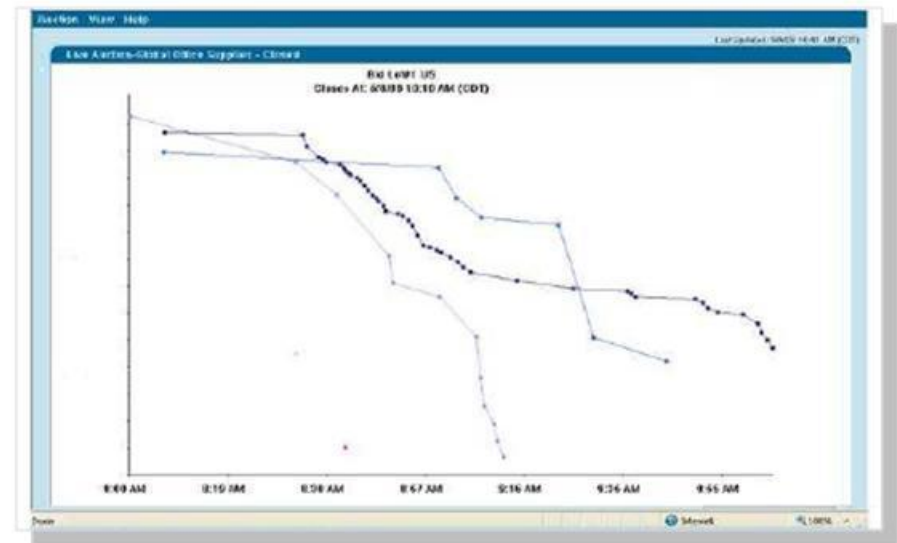
Category: Insurance Premiums

- **Business Issue**
 - Out-of-network health insurance claims-handling costs were rising dramatically.
- **Approach**
 - Multi-round RFP process to qualify suppliers and obtain baseline pricing. Because the pricing and qualifications of the suppliers who participated in the RFP process were comparable, a reverse auction was held to finalize pricing.
- **Results:**
 - Savings in excess of 20%



Category: Global Office Supplies

- **Business Issue**
 - Uncontrolled costs across 65 countries with no leverage, no standardization, and no strategy to manage on a global basis.
- **Approach**
 - Create standard market basket of acceptable supplies. Choose generic and recycled products where possible.
- **Results:**
 - Savings in excess of 20%
 - Standardized products



Examples of Categories Taken to Auctions

Category	% Savings Achieved
Photo Copier Leases	30%
Mobile Phones Contract	34%
Teleconferencing	65%
Web Software	10%
Head Office Security Audit	48%
Group Security Contract	3%
Pest Control	14%
Manufacturing Components	19%
Off-Site Storage	18%
Cleaning / Janitorial Contract	12%
Catering Contract	10%
Recruitment Consultancies	22%
Cleaning Supplies	14%
Road Freight Contract	11%
Car Leasing Contract	9%
Capital (Manufacturing Equipment)	13%

Auction Setup Considerations

Auction Types

- Are the foundation in the system for setting up Auctions
- Include the various parameters and controls that can be set for the types of Auctions that you may need to run
- You can set up as many Auction Types as you need to support the various Auction configurations required

Auction Type: Direction

- **Reverse Auctions:** Prices are generally decreasing; suppliers are competing for the buyer's business by decreasing their prices during the Auction; most commonly used for sourcing events
- **Forward Auctions:** Prices are generally increasing; suppliers are increasing their prices during the Auction; generally used for selling excess inventory or obsolete equipment

Auction Types: Bidding Formats

Bidding Format	Definition
Open Bidding	Suppliers must place a bid that is lower than their own previous bid by the bid improvement amount; most commonly used bid format.
Standard Bidding	Suppliers must place a bid that is lower than the leading bid by the bid improvement amount; rarely used.
Any Price Bidding	Suppliers can place a bid that is higher or lower than their last bid; rarely used.
Dutch Bidding	Buyer sets a start price, a price increment and a time increment; the first supplier to place a bid wins the Auction.
Proxy Bidding	Each bidder places one best-offer bid. The system evaluates all bids and places incremental bids on behalf of each supplier. Each bid is reduced by minimum bid improvement. The winning bid must meet the reserve price, if it is set. This Bidding Format is rarely used.

Auction Types: Phase Configuration

- The Phase Configuration is used to set the phases that you want to allow for a particular Auction Type:
 - **Preview** – is an optional phase that enables suppliers to “preview” the Auction before the bidding actually starts which gives the suppliers an opportunity to get familiar with the Auction in their own time
 - **Pre-bid** – is an optional phase enables suppliers to place a bid before the competitive bidding starts which gives the suppliers an opportunity to place a bid at their own pace
 - **Open** – is a required phase and is the phase during which competitive bidding takes place
 - **Close Pending** – is an optional, but strongly recommended, phase during which the buyer can re-open the Auction for any reason

Best Practice is to include either the “Preview” or “Pre-bid” as well as the “Close Pending” phase.

Auction Types: Disclosure Rules

- Disclosure rules are set to determine what feedback the suppliers will receive during the Auction:
 - **Display Rank** – Suppliers will see their rank in the Auction – whether they are in first place or ranked in some other order; for example, Rank = 2
 - **Display Rank and Number of Participants** – Suppliers will see their rank as well as the number of other suppliers participating in the Auction; for example, Rank = 2 out of 4 participants (the number of participants is rarely disclosed)
 - **Leading Bid** – Suppliers will see the Leading Bid and will be able to compare it to their own current bid
- It is rare that both Rank and Leading Bid are disclosed in a single Auction
- Bid History can be set to:
 - **Sealed** – Suppliers can only see their own bids
 - **Public** – Suppliers can see their bids and other suppliers' bids; rarely used

Auction Types: Other Important Controls

- **Enable Automatic Early Close**
 - This flag should be selected to enable time extensions to be added at the end of the auction
- **Anonymous Bidders**
 - This flag should be selected to ensure that suppliers' names are not visible to the other suppliers that are participating in the Auction
- **Disallow Tying Bids For Open Bidding**
 - This flag should be selected if you want to ensure that suppliers cannot place a tying bid during an Auction that is using the Open Bidding format

Approaches to Auctions

Approach and Results Achieved: Professional Services Organization

- One professional services organization sourced over \$4.5B annualized spend across more than 290 RFx and Auctions
- Approach: No category of spend is off-limits – everything from online job postings to contract labor to software – has been competitively bid in an Auction
- Have established a set of criteria as a baseline and each opportunity is reviewed in light of this criteria
- Average savings in an Auction has been greater than 14%

Approach and Results Achieved: Utilities Organization

- Penetrating approximately 7% of spend annually with approximately 55 Auctions executed last year
- Approach: Established an Auction “Factory”
- The Auction pipeline for the following year is established at the end of each year
- Savings achieved has been 10% on average



Thank You!

Question / Answer

Q - Can you provide examples of product categories that have worked using a Dutch Auction?

Being rather new functionality, we haven't worked with any customers who have used Dutch Auctions.

Some sample cases for forward auctions –scrap (e.g. old PC's, valuable by-products,...), bad debts (suppliers = factoring companies), discount (e.g. for commodities with prices fixed by the government; you negotiate the highest possible discount)

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