

MARKET DOJO

STUDY INTO THE BARRIERS OF ADOPTING REVERSE AUCTIONS

Introduction to the study

This study features results from a range of different procurement professionals including Buyers, Category Managers, Procurement Consultants, eSourcing Specialists and Heads of Procurement.

Do you currently run reverse auctions?



■ Yes (60%) ■ No (40%)

What sector do you work in?



■ Private (71.43%) ■ Public (22.08%)
■ Third Sector (6.49%)

INITIAL FINDINGS



Nearly everyone knew of Reverse Auctions (96%)



1/3 of organisations don't run reverse auctions

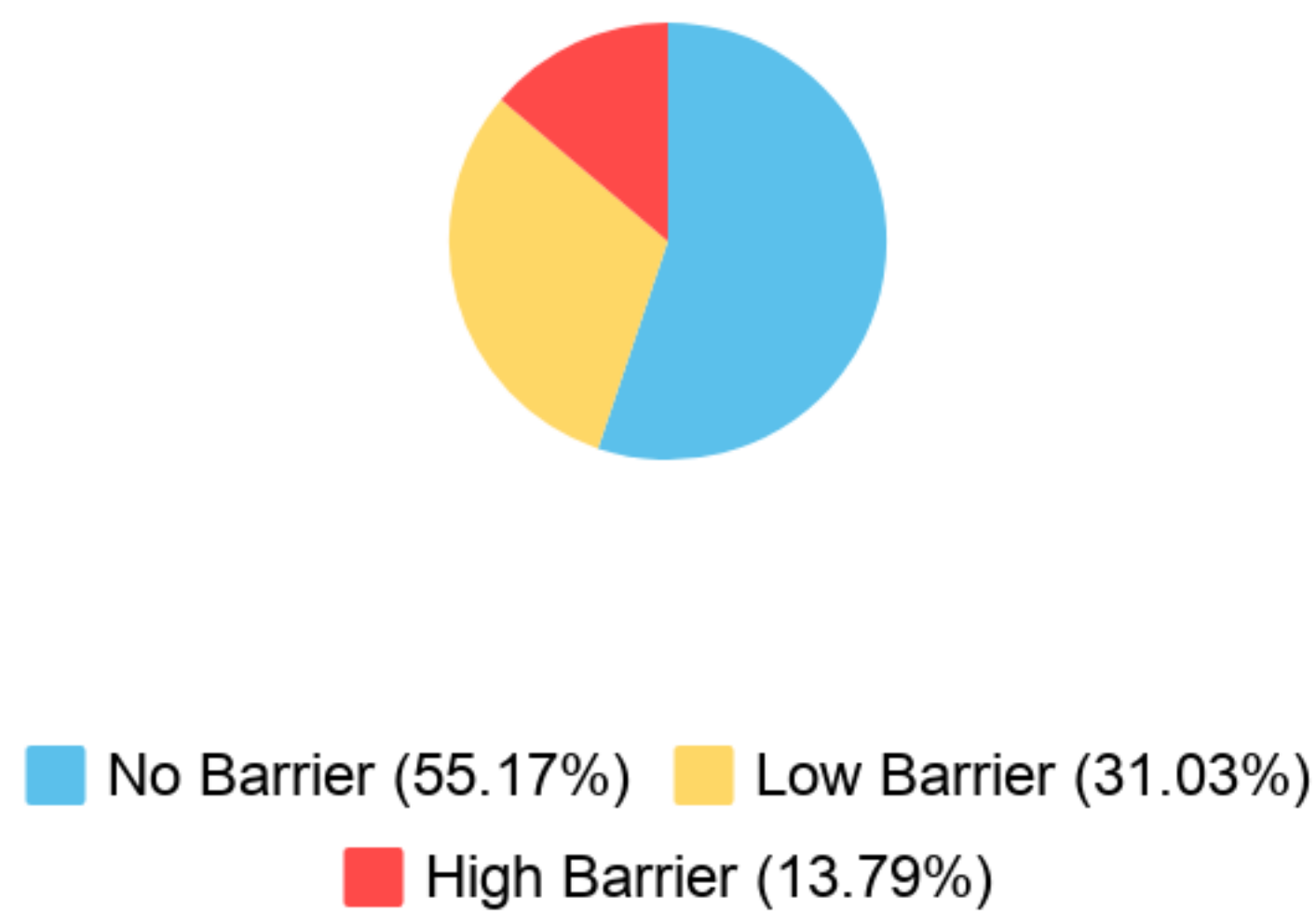


Very few organisations use consultancies to run auctions (4%)

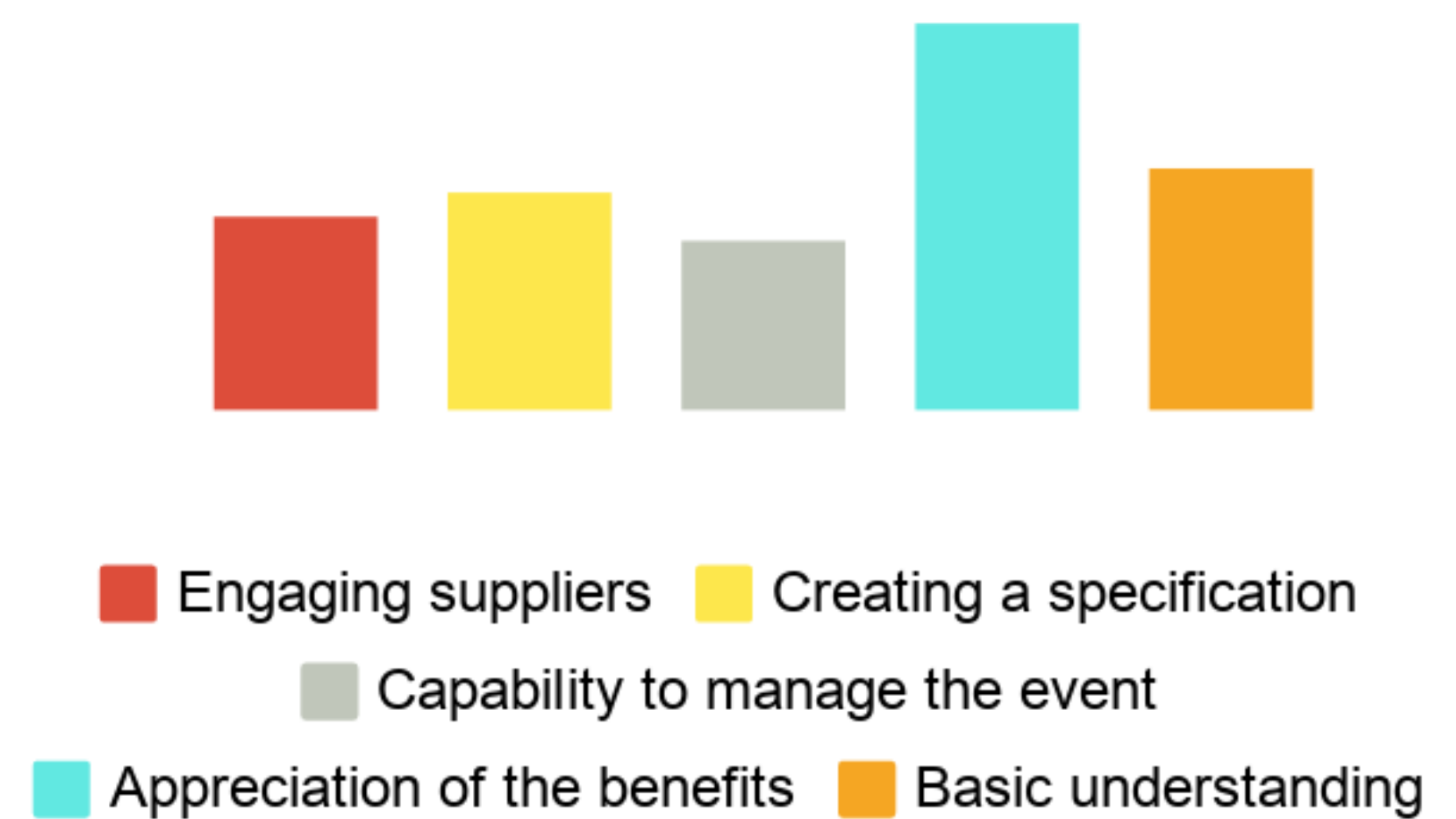
The majority of respondents came from companies with a £500m+ turnover and consultancies. Given Market Dojo's success in the private sector, it is no surprise that they formed a large part of the audience and also a higher percentage than the norm of people who have previously run eAuctions. This gave a greater insight into the barriers that people have overcome as well as the general perception from those who have not yet run an eAuction. The fact that most had heard of eAuctions and more had run them than not, combined with the low percentage of consultancies would suggest that eAuctions as a tool are becoming a commodity rather than a luxury.

WORKING KNOWLEDGE AS A BARRIER TO REVERSE AUCTIONS

Is "Working Knowledge" a barrier to running reverse auctions?



What aspects of "Working Knowledge" present barriers?



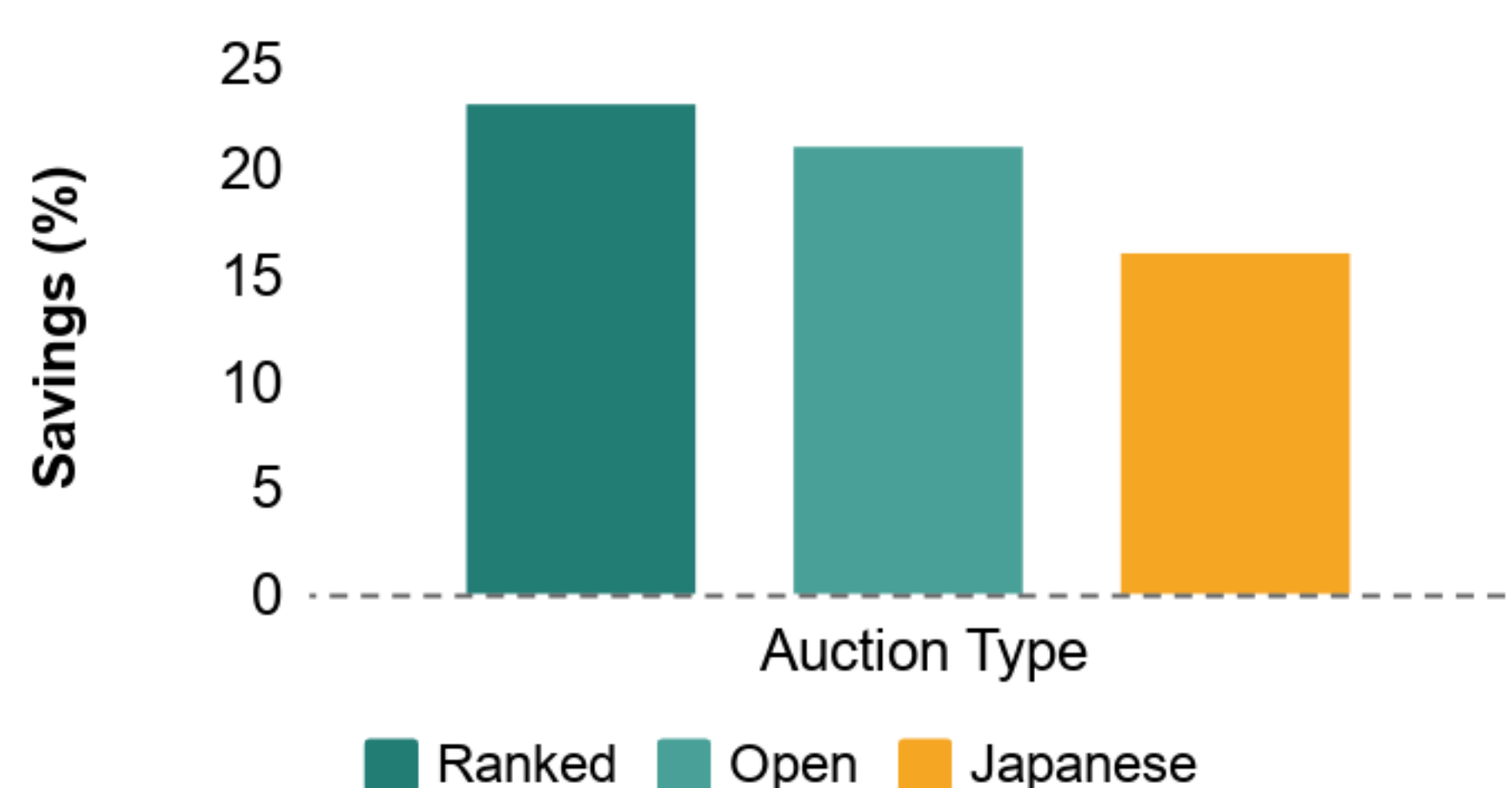
Working knowledge of auctions was widespread however the appreciation of their benefits was an issue

OVERCOMING WORKING KNOWLEDGE

It seems that the majority of the procurement community, as would be expected, have a good grasp and understand the methodology and benefits of reverse auctions.

Of the highest barriers, it seems people struggled to appreciate the real benefits. Our own analysis of auctions ran on the Market Dojo platform demonstrated the average savings as listed in this diagram.

On the whole, the ability of reverse auctions to increase potential savings seems to be well understood but there are many other benefits that can be derived from an eAuction. These include reducing the negotiation time, engaging stakeholders & transparency. Let's not forget that you can still chat with the suppliers after, around other softer issues especially if you run an eAuction on a buyers choice basis.



CATEGORY SUITABILITY AS A BARRIER TO REVERSE AUCTIONS

Is "Category Suitability" a barrier?



■ No barrier (32.20%) ■ Low barrier (37.29%)
■ High barrier (30.51%)

Which aspects of "Category Suitability" present barriers?



■ Too strategic ■ Unsuitable lead times
■ Difficult supplier market ■ Low value demand
■ Challenging specification



Category suitability posed some of the highest barriers however it is liable to the greatest subjectivity

OVERCOMING CATEGORY SUITABILITY

Over 66% of people found this to be some kind of challenge. At Market Dojo, we often find that picking the category for an eAuction is difficult. Every buyer's categories present their own challenges. We often hear that eAuctions are suitable for stationery but nothing more complicated. It is an understandable concern, although we frequently see auctions run on direct categories from management consultancy through to Boeing 747 landing gears. How do these companies manage to overcome some of their category barriers? Let's look at a few of the highest results.

"My category is too strategic" - Remember, an eAuction is just a negotiation method. If it is run on a buyer's choice basis then you don't have to go with the lowest bid, and you can also run a weighted event taking the non-price criteria into account.

"My category has a difficult supplier market" - It is crucial on a ranked eAuction to bring the suppliers on-board for the interaction. Even though this is new to them, it presents an opportunity for most and a transparent way to obtain feedback. If you lack a plethora of suppliers, then you can also run a Japanese eAuction for example where suppliers have no visibility of the others and just have to accept or reject the price levels which decrease over time.

"My category specification is too challenging" - Start with an RFI. You need to tie down the specification for success and don't forget you can run a weighted eAuction and also use buyer's choice as a clause in the documentation.

SOFTWARE AND INTERNAL RESOURCES AS BARRIERS TO REVERSE AUCTIONS

Is "Software" a barrier?



■ No Barrier (77.59%) ■ Low Barrier (15.52%)
■ High Barrier (6.90%)

Which aspects of "Software" present barriers?



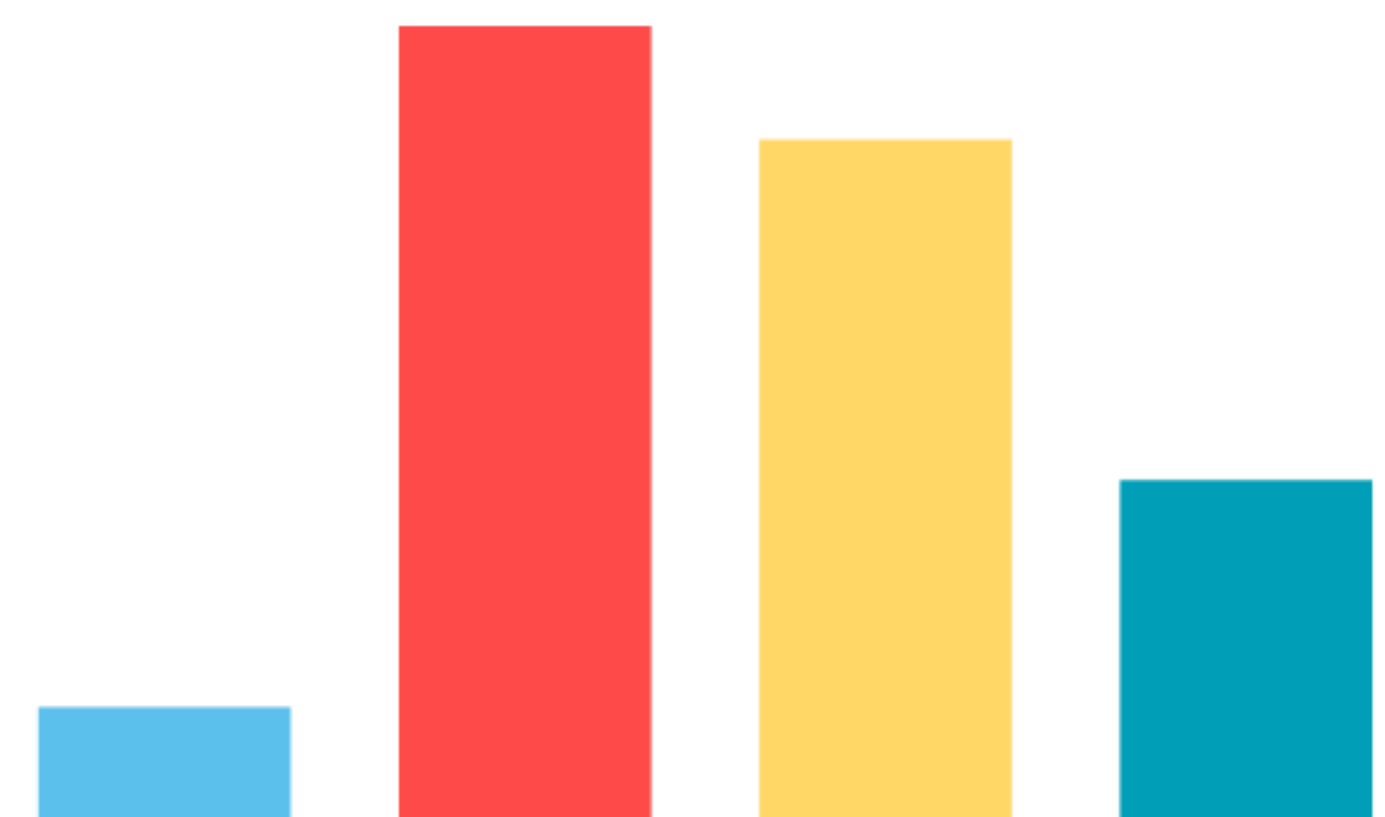
■ Software Capability ■ Software Integration
■ Too Impersonal ■ Low Supplier Adoption
■ Difficult to Use ■ Too Costly

Are "Internal Resources" a barrier?



■ No Barrier (50.85%) ■ Low Barrier (33.90%)
■ High Barrier (15.25%)

Of those that picked high barrier to "Internal Resources"



■ Can't justify ROI ■ Lack of skilled personnel
■ No time to run auctions ■ No budget for software

SOFTWARE & RESOURCES FINDINGS



Neither software nor internal resources were considered a major barrier



Interestingly software costs were a source of contention



Lack of skills did present barriers, explaining why some companies recruit specialists

OVERCOMING SOFTWARE AND RESOURCES

The survey found that technology was rarely the problem. This isn't so great for us as a software provider, as feedback is critical for us to improve the user experience. Of those that did face challenges with the software, surprisingly cost and supplier uptake were the main reasons.

Only three of the respondents were Market Dojo users and none felt there was a cost hurdle with our on-demand model. Even with the more expensive solutions, the ROI on reverse auctions can be tremendous, so it is surprising that not all business cases get off the ground.

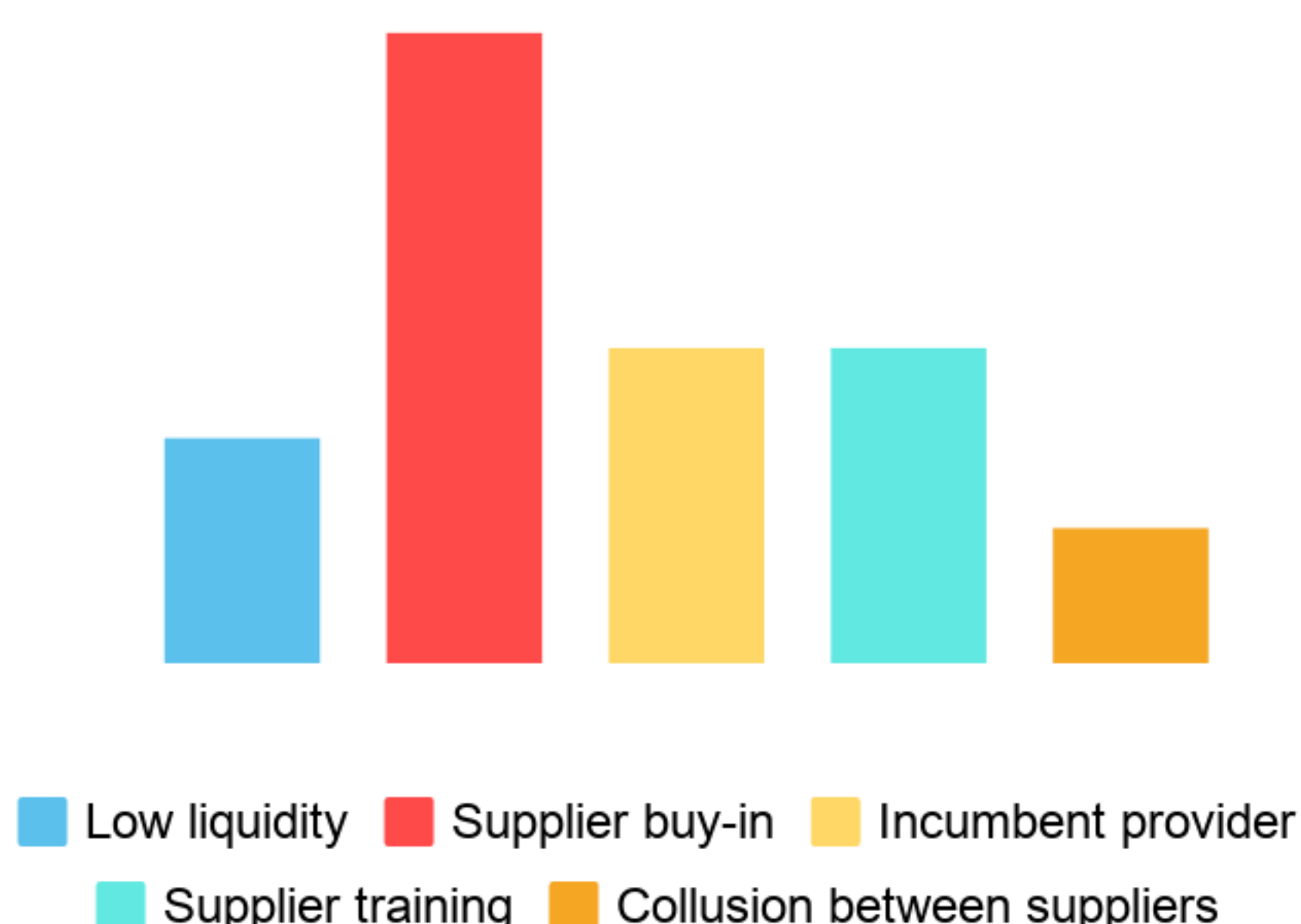
So, costs can be negotiated & recouped, which leaves supplier adoption as the concerning factor. Training materials, conference call introductions and practice events can really mitigate this.

With modern online, pay as you go software designed with the user in mind, this mitigates many of the issues of software adoption. However, procurement skills are very much still required in specification documentation, strategies and engaging suppliers. This is why some companies still prefer to bring in specialists.

Time was also highlighted although we have found this is a misnomer. Yes, the specifications need to be more carefully prepared as the eAuction is real time but it saves much more time downstream in the negotiation and implementation.

SUPPLIER MARKET & PERCEPTION

Which aspects of "Supplier Market" present barriers?



Key aspects of "Perception" that present barriers?



1 in 5 believe that there is collusion between suppliers

OVERCOMING MARKET AND PERCEPTION

For many companies, the market was the real hurdle to overcome, with three-quarters of respondents highlighting this as a barrier. Their main challenge was soliciting supplier buy-in. Interestingly, 1 in 5 people thought that suppliers colluded together.

It's quite simple to explain. Supplier markets are generally out of the hands of the buyer and will present challenges from one market to the next, quite often even without doing a reverse auction. Asking suppliers to take part in an exercise that will result in them reducing their margins will obviously present challenges.

It comes down to procurement teams giving suppliers a compelling sales pitch to invest their time & effort in the process, something that isn't generally in a procurement person's psyche.

Next, we asked about the perception of reverse auctions and their impact.

Two-thirds felt this did represent a barrier. Of those, three-quarters felt this was due to the opinion that reverse auctions are too price-focused, closely followed by the risk to supplier relationships.

These are the classic objections that we have faced for over a decade now. This was due to bad practice in the late nineties when all big businesses wanted to exploit eAuctions and they moved from the hands of consultants to the general buyer. Their reputation suffered, with examples being covered on mainstream news like Panorama, covering the impact of reverse auctions on social care. The trouble is the line can blur between the negotiation outcome and contract management.

These days reverse auctions have become somewhat of a staple part of the procurement toolkit and have evolved to look at total costs, expressive bidding, transformational bids, and weighted auctions. They really have come a long way from the sledgehammer approach of the past but work is needed in PR.



See supplier market as a barrier to adopting reverse auctions



Thought how others perceived auctions was a high barrier

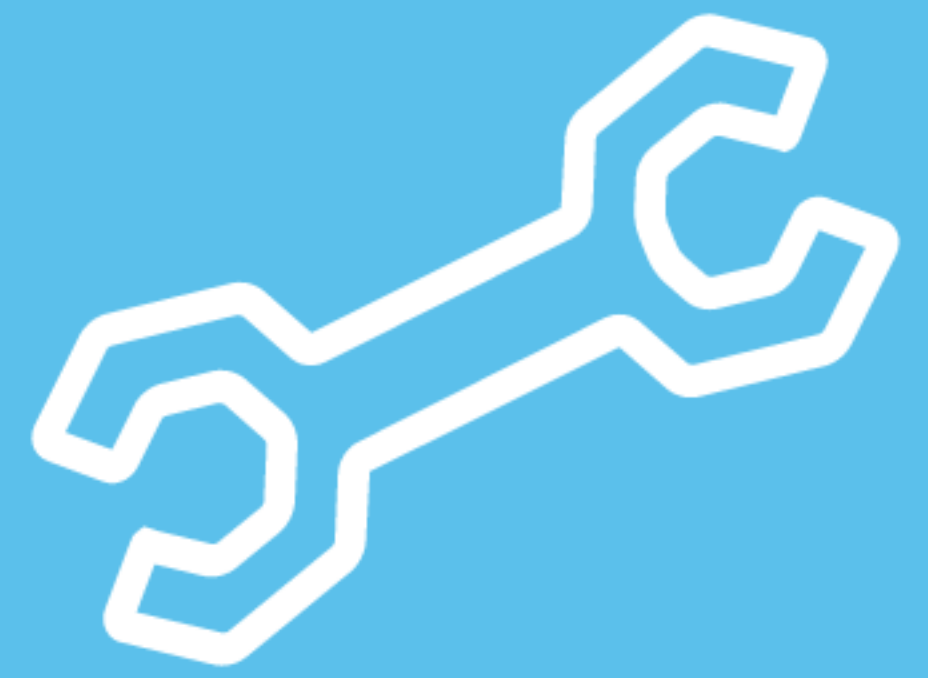
69% declared internal challenges as a barrier

- 9 in 10 believed that stakeholder buy-in was the major barrier
- 4 in 10 think that lack of incentive and internal approval was a barrier
- 8 in 10 thought that their team were capable of running reverse auctions

OVERCOMING INTERNAL CHALLENGES

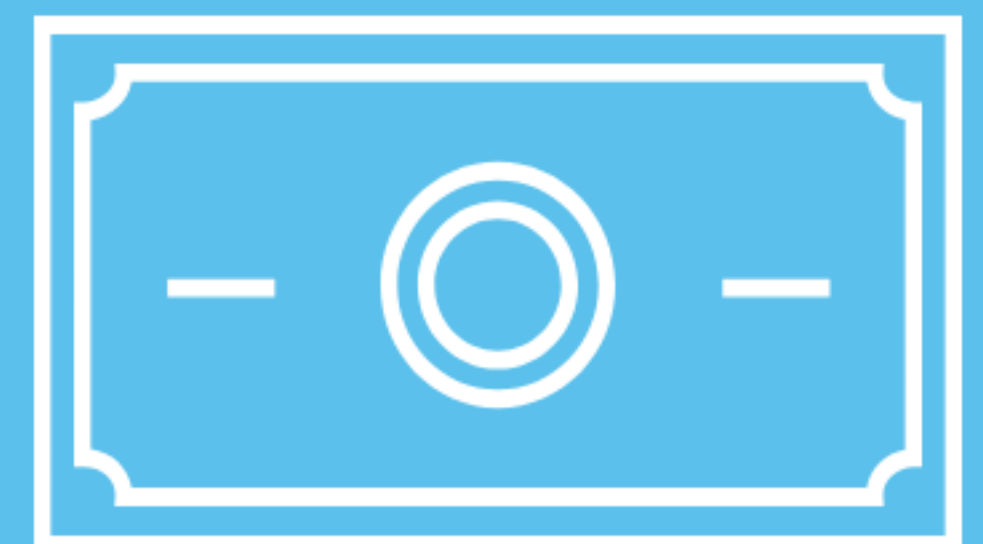
This can be primarily classed as 'internal diplomacy'. Gaining stakeholder buy-in and internal approvals are challenges that present a new dimension of running an eAuction.

Not only does the buyer have to work with the stakeholder to collate specifications and Service Level Agreements, cleanse the data but also broach new methods of negotiation. Even though the buyer has taken the plunge to run an eAuction, the doubts and fears that they have overcome, have now to be resolved with the key stakeholders.



We find that by involving the stakeholder from the beginning of the process, many of these issues can be dispersed. Taking a step by step approach can help to gain buy-in, without deciding on an eAuction at the beginning of the process but letting the facts decide the strategy for you, as they unfold. It is key that senior procurement stakeholders also support this process.

Incentives are also a rather interesting debate. Commission for salespeople is easy to define but for a procurement person, who is most likely also responsible for managing the KPI's in the contract, a more thought-provoking incentive scheme is needed, taking account not just of savings but the total cost of ownership.



Policies and Regulations



33%

See policies & regulations as a barrier to adopting reverse auctions



2/3

Of those, 2/3 thought internal policies was a barrier

Policies and regulations were generally not seen as a barrier. Only 7% thought they were a high barrier. Of those that thought they were a barrier, very few thought the suppliers' internal policies or market policies could create challenges. This really shows the appetite from suppliers to now partake in eAuctions. If anything, client internal policies were seen as the biggest challenges here.

LARGEST BARRIERS TO ADOPTING eAUCTIONS

Largest barriers to adopting eAuctions

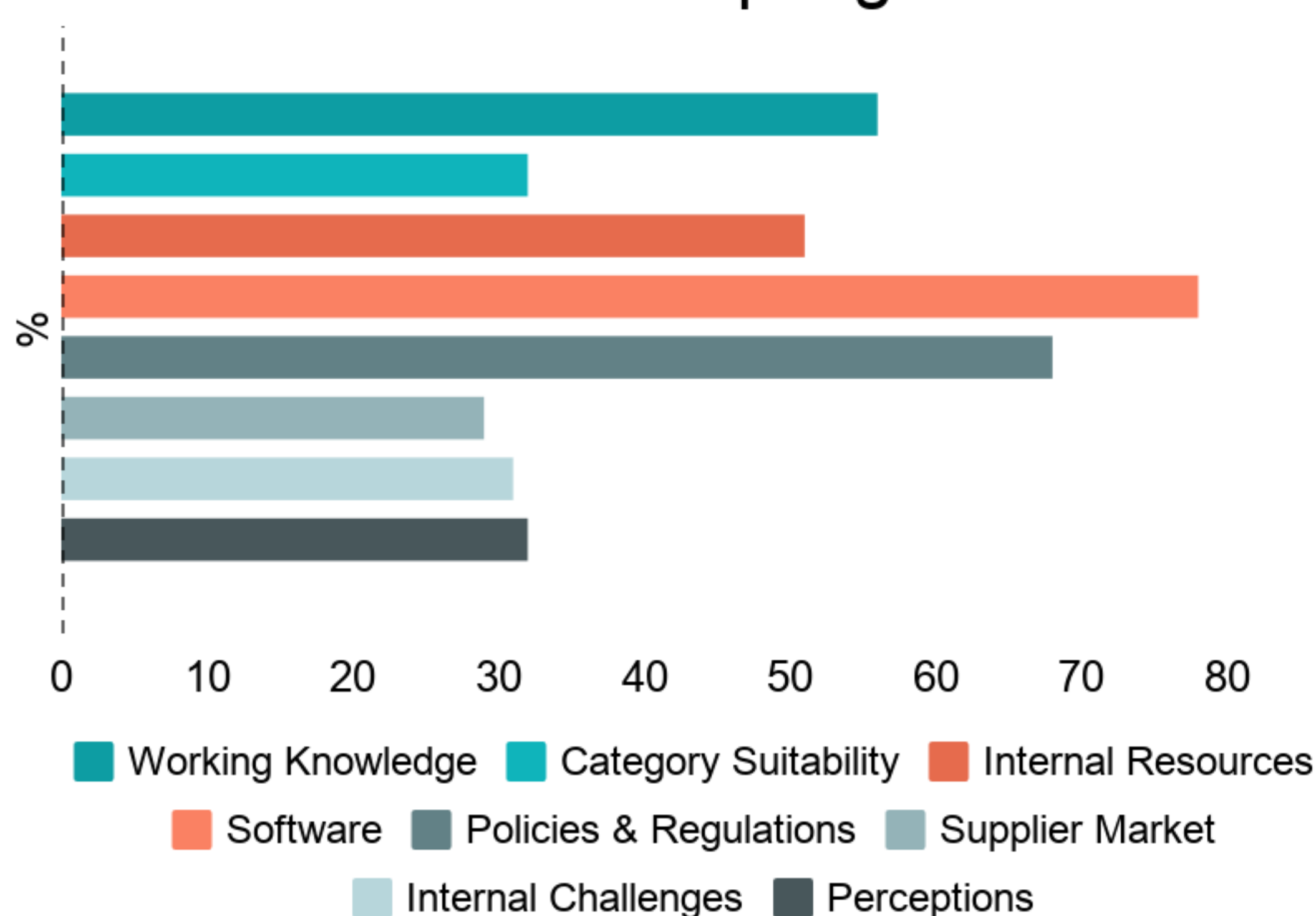


Internal Challenges (36%) was deemed to be the largest barrier to adopting eAuctions. This was closely followed by Category Suitability and Perceptions which were also proven to be great barriers when adopting reverse auctions.

Software (7%) and Policies and Regulations (7%) were both uncovered to contain the fewest high barriers to adopting reverse auctions.

NO BARRIERS TO ADOPTING eAUCTIONS

No barriers to adopting eAuctions



Software (78%) scored the highest, displaying to us that technology has become commoditised to the extent that it no longer presents the barriers that it used to. However, making best use of it is another matter.

Supplier Market gained a score of 29%. Very few respondents were able to overcome the objections faced from the supplier market, implying that really the tail is wagging the dog when it comes to reverse auctions.



Website: www.marketdojo.com

Email: info@marketdojo.com

Tel: +44 (0) 117 230 9200