

# Auctions are NOT Dead

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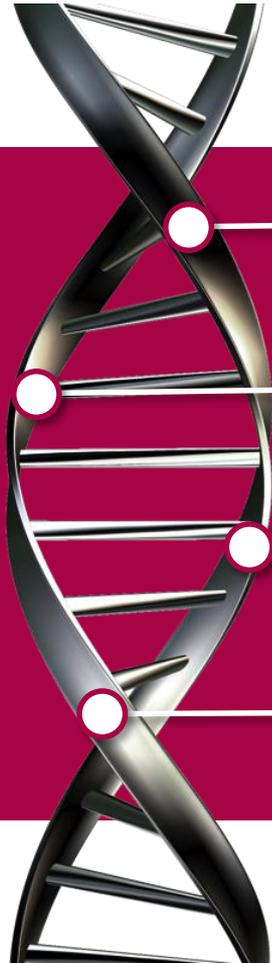
## Auctions Are NOT Dead

This is Why!



# Who is SynerTrade?

# The DNA of our solution



**One single Source Code:** with Accelerate, every new functionality is made available for all our customers. No specific development, but rather a Procurement solution that consolidates the best practices from all our customers!

**Made for Mobility:** because your users and suppliers are more and more mobile, we can bring them all the power of your Procurement solution on the go thanks to dedicated mobile Apps.

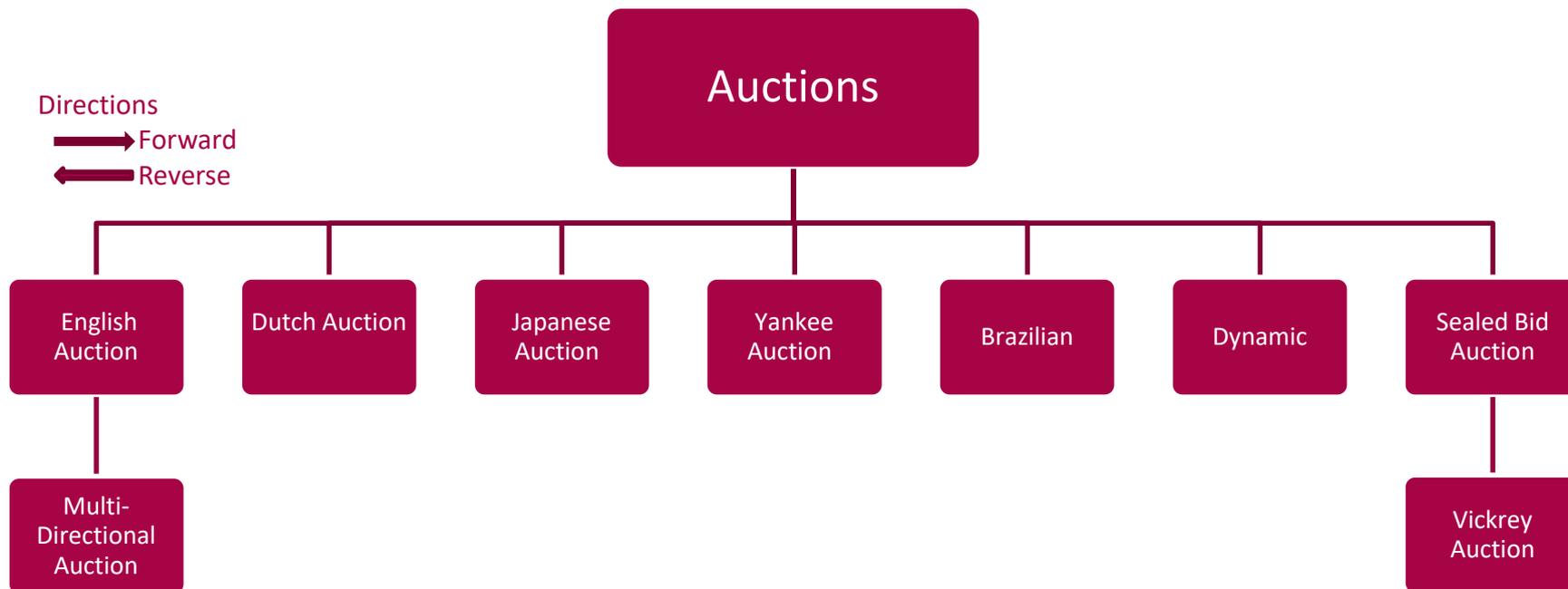
**Focused on User Experience:** Accelerate aims at delivering the best user experience to procurement players and their business partners in order to ensure the maximum adoption for your procurement solution.

**Deep ERP Integration Experience:** We have been successfully integrating with SAP for over 15 years. We grew up in SAP's backyard. Being able to integrate with SAP is a requirement for software providers in Germany

**Our Numbers are what differentiate us:** We consistently reinvest 35% of our revenue into R&D, Our average customer tenure is 8+ years, our utilization rate is 2x the industry average, our renewal rate is over 95%

**Bring Your Own Data Program:** We designed our solution to allow for easy integration of providers of 3<sup>rd</sup> party data such as risk, compliance, diversity, etc.

## Basic Auction Formats



# Today's Agenda



- ❑ What does an eAuction look like?
- ❑ How have eAuctions evolved at Google?
- ❑ What can be done to increase their use?
- ❑ How do you measure the performance of eAuctions?
- ❑ What are the challenges / issues?
- ❑ What else is there to watch out for?

## Objectives for Today



- To refresh our thinking towards eAuctions and understand the different **eAuction types, best timing, and benefits**
- To share insights into **real scenarios** of different auction types based on SynerTrade's experience
- To understand what eAuction-related challenges are, how to prepare, and to overcome any eAuction obstacles through **proper auction strategies and setups**



**“An auction a day  
keeps the costs at  
bay”**

- Revenue: \$89.5BN – 74,000 employees (2016)
- Customer: Since 2008
- Usage: Worldwide - 9BN US\$ of spend  
p.a. handled via SynerTrade
- Modules: RFX, Auction

## How have eAuctions evolved in Google?

- Started in Q2 2007 with 2 Trial Auctions.
- Q1 2011: “An Auction a Day Keeps the Costs at Bay”.
- Sourcing projects that include an auction: 60%

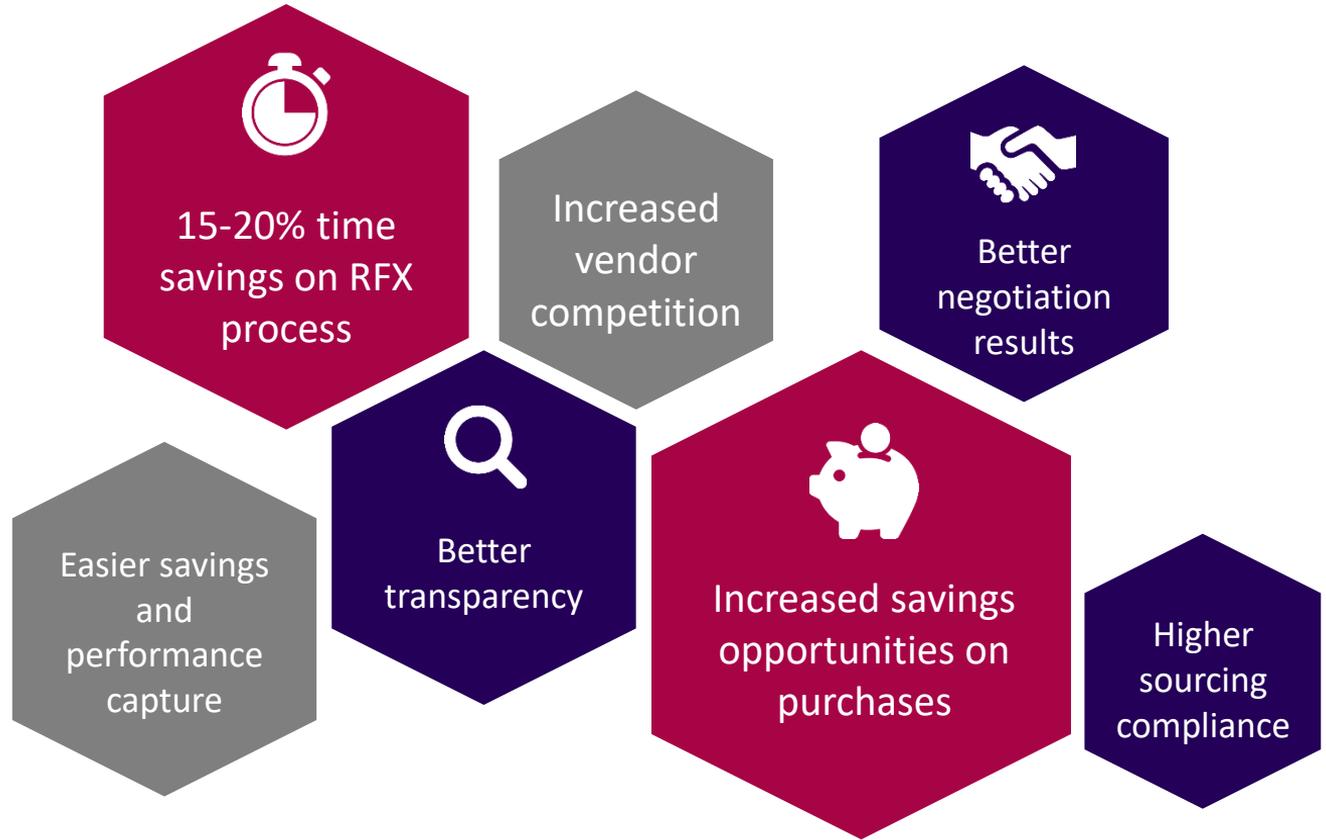
# What has Google auctioned?



Legal Services



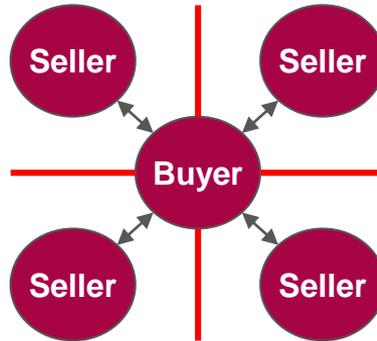
# The Benefits



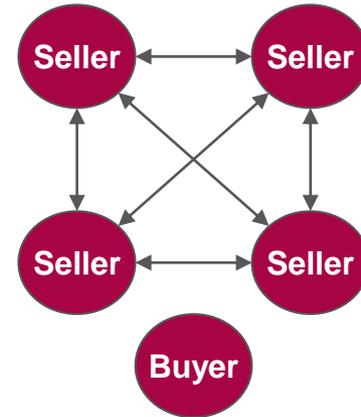
How do  
online  
reverse  
auctions  
speed up the  
process?

eAuction is used to obtain real time market pricing by letting the suppliers compete against one another in live bidding

Typical Negotiation



eAuction



*eAuctions are cool!* – They are quick, transparent and a fun event.

# When do eAuctions have the greatest impact?

eAuctions have the greatest impact when:

- Specification of Sourced item(s) is clear and common across suppliers
- Multiple qualified suppliers exist
- Buyer and suppliers are professional - No side or further negotiations



# Common misinterpretations of eAuctions

Assumptions	Reality
eAuctions are solely about attaining the lowest price	Like any procurement decision, such as in traditional tendering, eAuctions are a form of negotiation. The final decision is not made on price alone. eAuctions in fact can be even more subjective to the suppliers who are only trying to achieve the lowest price.
eAuctions should only be used for large quantifiable items/goods	If what is being purchased has the ability to be compared to another service, than it can be auctioned.
eAuctions damage long time relationships with suppliers	Anytime you go to market there is a natural threat, and eAuctions are simply a tool to conduct final negotiation.

# eAuctions offer benefits to both buyers & suppliers



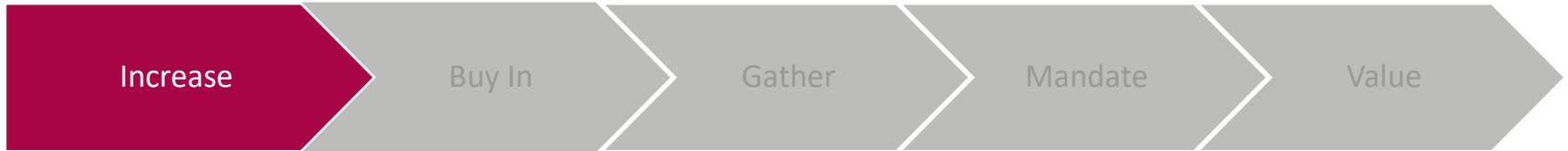
## BUYERS

- ✓ **Increased rate reduction**  
Average 4% rate reduction compared to traditional paper RFP's
- ✓ **Market Insight**  
With multiple bidders comes insight and clarity into the true market price for any commodity
- ✓ **Expand your potential buyers**  
Suppliers from any geographical location including low-cost countries can bid in the auction at the same time
- ✓ **Time Saving**  
Negotiations with multiple suppliers that could take several days or weeks can be completed in a matter of hours
- ✓ **Make eAuctions a standard**  
Create a standardized process and create new benchmarks for improving sourcing activities

## SUPPLIERS

- ✓ **Time Saving**  
eAuctions help buyers come to decision quicker which leads to reduced sales cycle
- ✓ **Real time insight**  
Suppliers are able to receive real-time feedback on where they stand in the market in comparison to competitors
- ✓ **Simple and transparent process**  
Less variables than a traditional RFP process, whereas each supplier is engaged in one evaluating process
- ✓ **Lower up front costs**  
Due to shorter sales cycle, eAuctions dramatically reduce the overall hard costs of winning a new client by reducing travel expenses and time allocated to the sales cycle

# What can be done to increase eAuction use?



- Gain senior leadership sponsorship.
- Only hire truly collaborative sourcing professionals who are open minded about eAuctions. Often resistance comes from within the procurement function, not necessarily stakeholders.
- Provide support through an internal centre of excellence - so buyers don't have to remember how to use the system. Do not rely solely on technical helpline from eSourcing provider.
- Choose the right easy to use tool, which is still capable carrying out complex price negotiations with multiple suppliers.

# What can be done to get buy in from Senior Leadership?



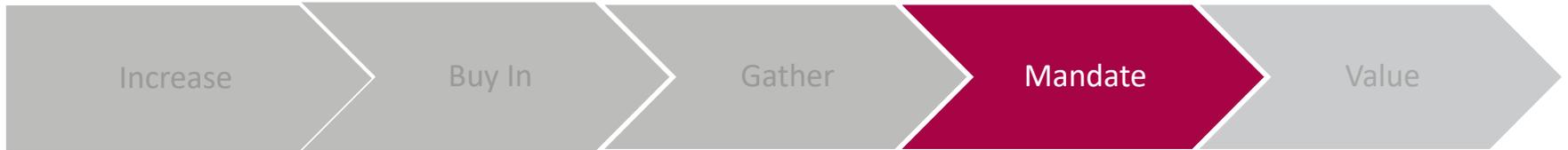
- Focus first on like-minded stakeholders that are receptive to eAuctions or on low risk areas. Accept even low spend items for auction (e.g. threshold \$30k) to gain trust that auction process adds real value.
- Once you have a first win in one category, the auction concept can be marketed very readily to other categories or higher spend.
- Make sure all activities measure up to the highest ethical standards (no phantom bidding, no rabbits, no acceptance of offline private bids, etc).

## Gather feedback and sell it internally



- Build up **strong documentation** for easy cloning (dedicated Intranet site linked to multiple other sites, two page summary of each eAuction, testimonials, videos, etc.)
- Invite **senior leaders to come in** and witness the auction event, show good auction graphics on screens in restaurant. Use team meetings / functional meetings to give tech talks demos and **mock auctions**.
- **Create eAuction culture and celebrate successes - communicate when key milestones are achieved** (100th eAuction, \$1bn spend taken out to bid, etc). Use Intranet news stories or company-wide / specific group eMails.
- **Reward key individuals / teams** on successful or early adoption of auctions **by small bonuses, peer rewards, tokens, etc.**

## What else can you do?



- In some companies a **more mandated approach** may be necessary to ensure adoption of eAuctions.
- Google's Governance Statement for Competitive Bidding:
- **80% of Google's supplier spend will be competitively bid on a two-year cycle.**
- The bidding is facilitated by an independent team, **using a standardized process**, offered as service to spend owners, to **ensure consistency and transparency!**
- eAuction will be the preferred process for negotiating price.
- Business owners who claim targeted spend can't be competitively bid will need an appropriate reason (i.e. supply market monopoly etc.) and **a waiver from senior management.**

## What is the real value of an eAuction?

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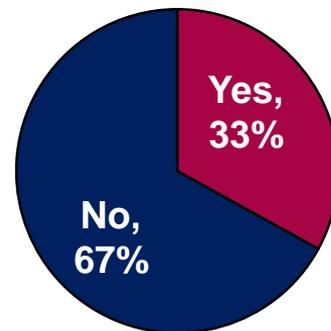


- The rate difference in all Google auctions between eAuction pre-bid and final bid of contracted suppliers is 15.3% on average.
- The average rate difference in all auctions between eAuction pre-bid and final bid of all suppliers is 17.9%.
- In 51% of eAuctions, apple-to-apple comparisons are available how annual rates could be reduced in terms of historical pricing. **The average rate reduction is 17.6%.**

# Do you have to accept the lowest bid?

Sourcing decisions in eAuctions are made based on **all important total value criteria** – not just lowest price!

Of all eAuctions performed to date, **the lowest price bidders have only been contracted in 33% of eAuctions!**



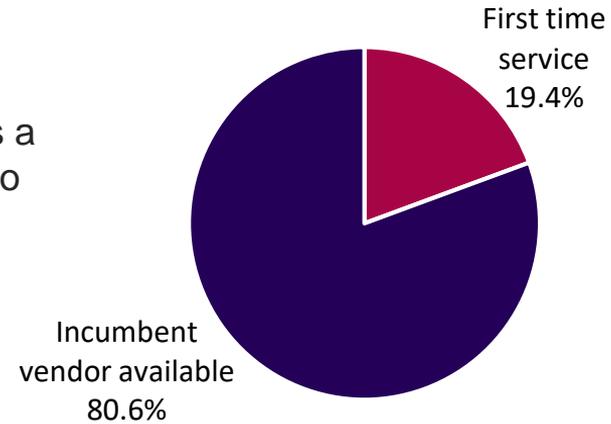
## Sample Evaluation Matrix

Is the business awarded to the lowest price bidder in the eAuction?

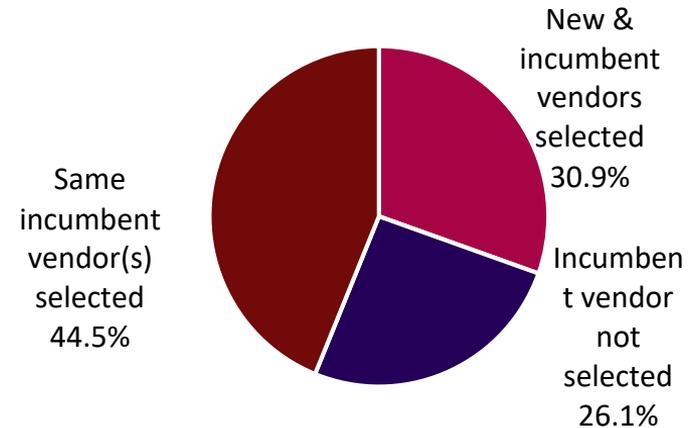
	Supplier A	Supplier B	Supplier C	Weighting
Quality	3.5	4	3	25%
Experience/Functionality	3	3	4	20%
Global Capabilities	2	4	3	25%
Availability/Speed of Execution	3	2	1	20%
Pricing	3	1	4	5%
Corporate Risk/Adherence to Terms	2	2	3	5%
<b>Total</b>	<b>2.8</b>	<b>3.2</b>	<b>2.9</b>	<b>100%</b>

# What about the existing vendor?

In **19%** of eAuctions it is a **first time service** with no incumbent vendor!



If incumbent vendor(s) participate, **it is quite rare (26%) that incumbent vendor(s) is not selected!**



# When is the best time to use an eAuction?

- ❑ When you have a **competitive market**.
- ❑ When you have **specific** goods or services.
- ❑ When you can create categories with the exact **product specifications** you desire.
- ❑ When there are products that are almost identical across a broad spectrum of suppliers, in any geographic region.
- ❑ Highest participation rate comes in the morning.
- ❑ Auctions with **longer time windows** tended to receive more bids than those with short time windows.

# WHAT DO YOU NEED TO WATCH OUT FOR?



# Watch out for Supplier Visibility Rules

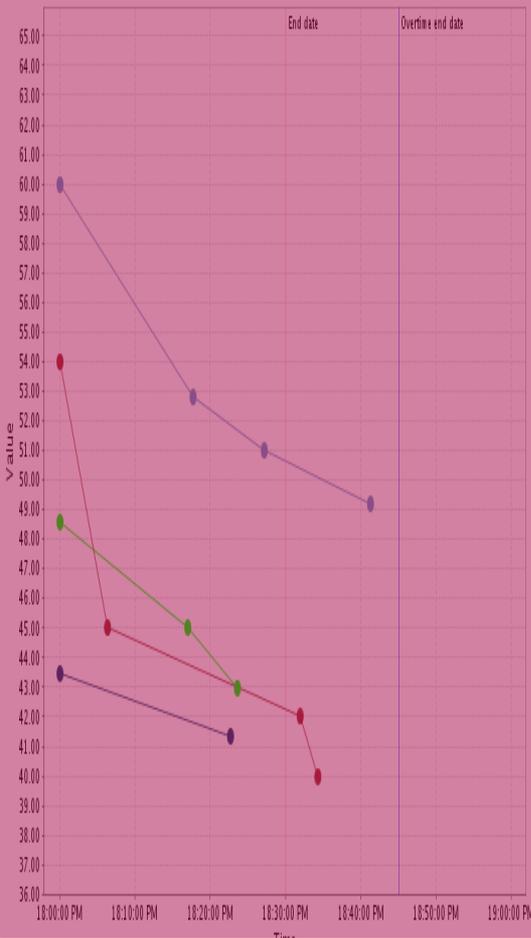
Supplier Visibility Rules		When to Use It and Why
<b>Rank only</b>	Bidders can see only their bid and rank; they cannot see leading bid.	<ul style="list-style-type: none"><li>▪ Best when pre-bid values have a large spread (so that higher bid suppliers are not scared away from bidding).</li><li>▪ Works better if supply market is sensitive to price disclosure and transparency.</li><li>▪ Typically attracts more bid activity than price-visible eAuctions.</li><li>▪ Can be used with a lower number of bidders.</li></ul>
<b>Best bid only</b>	Bidders can see only their bid and leading bid.	<ul style="list-style-type: none"><li>▪ Most effective in auctions driven by price/market share.</li><li>▪ For a category that is commoditized and competitive.</li><li>▪ Suitable for a very high number of bidders (10+).</li></ul>
<b>Leading bid and rank</b>	Bidders can see leading bid and their rank.	<ul style="list-style-type: none"><li>▪ Is typically used in events with a higher number of line items and 3+ suppliers.</li><li>▪ Is often used as a mechanism to establish a “preferred supplier base” for actual line-item awards.</li></ul>
<b>All bids shown (open bid event)</b>	Bidders can see bids of every supplier at every point in the auction event.	<ul style="list-style-type: none"><li>▪ Useful in an extremely competitive marketplace with 4+ suppliers.</li><li>▪ Attracts suppliers seeking market intelligence and new business.</li><li>▪ Builds up excitement and transparency, but can alienate strategic suppliers.</li><li>▪ Bidders may use this format to cause collusion.</li></ul>

# What are common challenges with an eAuction?

- ❑ When Not to Use an eAuction
  - ❑ When you don't have multiple suppliers
    - ❑ No competition/Sole source
  - ❑ If you are not clear of specification
- ❑ When Have an eAuctions Not Worked
  - ❑ Danger of supplier cartel / **supplier collusion**
  - ❑ Suppliers that have only entered the auction so that others can see their name to gain market and brand awareness
  - ❑ Poor specification
  - ❑ Poor preparation
- ❑ Internal stakeholder pushback
- ❑ When suppliers give pushback from not wanting to participate

## Key Take-Aways from Today





1. eAuctions are easy to take part in and work very well with the appropriate strategy, preparation and documentation in place.
2. eAuctions are a quick way of establishing market pricing
3. You don't have to select the cheapest. Sourcing decisions in eAuctions are made based on all important total value criteria
4. Does not replace judgement and collaboration: Auctions help to capture best prices but do not award business to 'winners'; final awards should still be a factor of quality, service, cost and risk considerations with your business stakeholders
5. Highly applicable – but not universal: Auctions can be applied to almost all categories but not all cases are suitable for auctions (e.g. when there is only one supplier or attractiveness of the business is low)



Please feel free to reach out to David or Roger should you have any further questions or would like to discuss in more detail

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# Evaluation How-to:

## Why?

- Your feedback **drives SIG Event content**
- By signing and submitting your evaluation, you are **automatically entered into a prize drawing**

## How?

From the **App**

1. Select **Sessions**
2. Select **Day**
3. Select **Session WS06**
4. Click on **Clipboard Icon**

**COMPLETE & SUBMIT EVAL**



# Workshop # 6

## Auctions are NOT Dead

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tweet

tweet

retweet



# Are You a Winner?

Thoughtonomy

Engage with SIG on **Twitter**  
during the Summit!

Follow **@SIGinsights**

Mention **#SIGspring18**  
in your tweets!

All **Tweeters** will be  
entered to win a  
**\$50 Gift Card.**

*The winner will be announced  
Thursday, March 29, 2018*

# Have an idea or want to present?

If yes, please take a moment and submit your name  
and idea here:

**[www.sig.org/present](http://www.sig.org/present)**

*Thank you!*

