e-Auction Basics

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Lesson 01- what is an e-auction

Lesson one what is an e-auction? Today in this course, we're going to review what is an e-auction? The fact that e-auctions are not evil. Top opportunities and quick wins parameters to decide on e-auctions some metrics and we're going to review a few other auction types. So what is an e-auction? An e-auction, also known as a reverse auction, is when suppliers bid down on selling a product until they reach their bottom dollar. It's done electronically and it was once described to me as eBay backwards, where suppliers are bidding down on a product rather than bidding up to purchase a product. It increases the visibility and transparency of a transaction between supplier and buyer, and it allows sellers to offer their lowest price, which sometimes they don't want to do. But it can be very helpful as a negotiation tool. My best practice is to use an e-auction after a request for proposal as a negotiation tool. It is a fast, objective way to get a best and final offer, and you can fall back on that request for a proposal if you need to. It also validates the RFP pricing. The other opportunity is a direct to auction. That's when you're not doing an RFP before you do the auction. It's often faster than an RFP and you need good scopes of work and suppliers that really know the routine in order to do that, you also need those suppliers to probably be under existing agreements to have terms and conditions with them and have that trust level built up with them. Or a direct to auction can fail very quickly. So I get a lot of questions about what suppliers can see in an e-auction. Suppliers can see their own rank, meaning what rank they are in the auction, 1st, 2nd, 3rd, etcetera. They can see their current bid, what did they bid last, what's been entered. They can also see the e-auctions rules. What is the overtime rule, the end time, etcetera. We'll talk about overtime a little later. They also can see any attached bid documents and they can see the lowest price if the buyer chooses to share it. Suppliers cannot see how many suppliers are in the e-auction. They know there are at least as many as their rank is. So if they see they're rank three, they know there's at least three suppliers in the auction, but they don't necessarily know if there's 6, 10 or 3. They also do not know the names of the other suppliers invited to participate or participating in the auction. That's important because it's confidential and you need to keep it. That way, they do not know what the other suppliers have bid, unless they are not the lowest supplier, and then they know the lowest suppliers bid. The value of an e-auction is largely monetary, but there's a few other benefits as well. What you're seeing here in this table is real data from a real e-auction program. In this case, you can see that there was a little bit better RFP reduction in year two versus year three as we improved the program and improved some of our parameters around it. We also ran a lot more e-auctions in year three than we did in year two, which was quite a few e-auctions. 1900 a year in year two, 2400 in year three. The resources required is also an interesting thing. We only required two and a half people, roughly, which was two full time people and one intern to run that many e-auctions. They're incredibly efficient once you get them up and going. And then an important note is that 50% of the auctions had reduction. That means that 50% of them did not. So if you're running an e-auction program or starting one up, and only half of your e-auctions are having any reduction at all, that's normal. When we first started in the auction program, my CEO looked at me and said, there are three places we can get our profits when sales are fixed. Obviously the sales team has their jobs to do and they can increase sales as well. But when sales are fixed, the three places you can get money is from your customers, your employees, or your suppliers. And when he looked at me and said this, he said, I'll choose my suppliers every day. So the CEO really wants to get their money from where they can get it, and they don't want to be upsetting customers or laying off employees in order to get that value. Please take the lesson one quiz. Now there will be a quiz after each of these lessons to test your understanding of the material. After you've completed your quiz, come back for lesson two.
