



**TRADE
INTERCHANGE**
Smarter Supplier Management

Best Practice Guide

Picking eAuction Categories to Drive Savings

5 stage process for understanding Reverse Auction category selection and maximising savings potential.

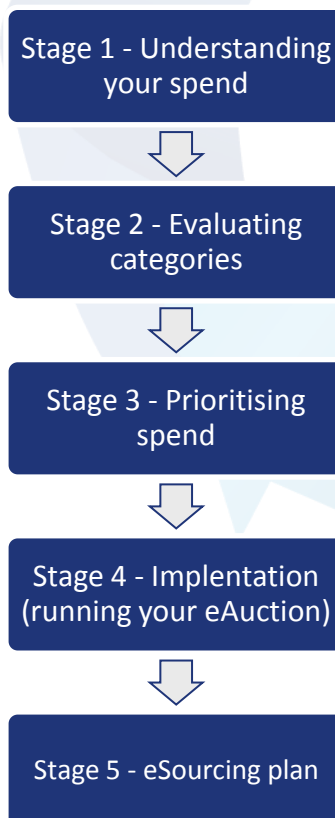
Introduction

Many organisations have heard about the benefits eAuctions deliver and would like to be in a position to run online negotiations, but aren't sure where to begin. This Trade Interchange eSourcing guide offers practical advice about the preliminary stages of running eAuction events – Category Selection.

Category selection is the important process of selecting suitable eAuction categories and preparing them in a way to harness the greatest potential savings. As one of the longest established eSourcing providers in the UK, this guide based on our extensive industry experience and knowledge, focussing on ascertaining viable categories to drive maximum saving potential from your eAuction events.

The process

Based on our industry experience we have broken down the category selection process and developed a 5 stage step by step guide to establishing viable eAuction categories. The process focusses on gathering, classifying and leveraging spend data for the purpose of attaining visibility to reduce costs, improve performance and essentially drive maximum saving potential.



Stage 1: Understanding your spend

The first stage of the process is to fully understand what areas of spend your company actually has and what they are worth. A useful starting point is to collect key data from across the business to compile a 'Spend Summary Report'. This is a fairly simple document that includes;

List Item	Example
• A list of all items	Ink Toners
• That are sorted by annual spend	£100,000
• That have been assigned a spend category	Stationery
• Stating the current supplier(s)	Stationery Station
• What areas the suppliers can supply.	Paper, envelopes, pens

This information can be gathered using a number of internal resources, which can help build up a comprehensive picture of where spend is taking place, on what and with whom. Areas where you can start to look to gather this information include the following;

Internal system	Information Generated
Purchase ledger	The purchase ledger contains individual accounts of suppliers, and can help identify where money is actually being spent and with whom.
Management Accounting	Management Accounts can help provide more in-depth and strategic views on costs. It can help identify large areas of procurement.
Supplier Information Management systems	Supplier Information Management (SIM) offers a searchable database for all active suppliers within the organisation, providing information on current spend, contract detail and supplier capabilities.
Request Information from supplier	You can also approach suppliers and request information relating to your spend, and further information about what additional items they are able to supply.

You might find that there are some inconsistencies between data sources and how they name or classify items. This might require some level of auditing to ensure the information you are gathering is accurate and consistent.

Once you have worked out where you are spending, start sorting and grouping your categories, identifying where suppliers fit into your overall spend or procurement function. Start gathering items into groups or categories, identifying current suppliers and their capabilities. Building up category groups will help establish where suppliers currently fit into your organisation, identifying overlap between suppliers and additional items suppliers could potentially supply.

Category Selection Tip

As eAuction becomes part of your ongoing eSourcing strategy, look to gather information on a ongoing basis. Using a system like a supplier information management system (SIM) will help ensure you have the most complete and accurate information. For more information on SIM systems please [click here](#)

Stage 2: Assess categories saving potential

Using the document you created in stage 1, you are now able to start identifying areas where there might be savings potential. You can start evaluating savings possibilities by carrying out an assessment of each category. If you feel the volume of categories you have is too great and isn't practical, start by reviewing the top 20% of suppliers and work from there.

Work through items one by one. As a general rule of thumb you will need to look at the following criteria per category;

Criteria	Outcomes
How recently they were last negotiated	A contract that hasn't been negotiated for a long period of time is likely to offer more savings potential than one that has been recently tendered.
The value of negotiable spend	The greater the annual spend, the more attractive it is for suppliers to participate and the more competitive they are likely to be with their pricing.
The number of potential participants	The more participants within the negotiation the more competition for your business. As a general rule of thumb you would want at least 3 potential suppliers to participate, although auctions can still run with 2 suppliers.
How easily can the product be defined?	The more accurate and easier the product is to define, the more accurate the quotes will be and the fewer problems or complications during the process. You can still run online negotiations with complex products or services - you might just have to spend more time in the preliminary stages addressing the definition of the item and post auction in nailing down the specification and service aspects.

Category Selection Tip:

If you think the value of the contact you have is too small and won't attract enough interest from suppliers (this can depend on suppliers and the category as different categories have different spend thresholds) look to negotiate for a longer term contract. This will help ensure you have more negotiation power. If you are concerned about entering into lengthy contracts, you could consider negotiating yearly 'get out clauses' if KPIs or SLA aren't being met.



Stage 3: Establishing savings potential

Once you have established the items you want to include, a useful next step is to start prioritising your suitable categories. Introducing a simple point system to score and rank your categories provides a useful and accurate method of ascertaining category suitability and saving potential.

Start by using the answers you gathered from stage 2 to compare categories side-by-side and assign a score. Once you have scored each category you can assign an overall ranking. The higher the ranking the more suitable the category is for eAuctioning. You can then start prioritising higher ranking categories.

There are a number of methods you can use to score and rank your categories, depending on your industry sector, organisation and category objectives. Below offers just one example of how some of our clients go about this stage of the process.

	Last Negotiated		Annual Spend		No. of incumbents		No. of Suppliers		Definability		Rank (x+x+x+x)/5 =
	Result	Score	Result	Score	Result	Score	Result	Score	Result	Score	
Stationery	14 months	3	£120K	2	4	4	10+	4	Large list, but easily defined	4	3.4
Temporary Staff	20 Months	4	£200K	3	5	5	15+	5	Many items, all needing in-depth specification	1	3.6
IT Hardware	12 Month	2	£220K	4	2	3	4	1	Some list, some level of specification required	3	2.6
Maintenance	24 Months	5	£300K	5	1	1	5	3	Complex specification	2	3.2
Uniforms	7 Months	1	£100K	1	2	3	4	1	Very specific list, already have spec	5	2.2

Stage 4 – Implementation

Once you know what areas you are going to auction you need to start thinking about implementation to maximise savings. It is important here to consider what you want to achieve from each individual event as depending on the category, your objectives could vary greatly.

It might be that a category is more complex than others and you might decide that you need to run an eRFx prior to the event.

You also need to consider what auction type would best suit your category. Trade Interchange offers a number of auction types and functionalities to ensure you get the most from your event. Auction types include;

Auction Type	Auction Features
Price	Suppliers are able to see the leading price in the auction. This offers a good platform to use when negotiating a price driven item or service.
Positional	Suppliers can see where they are ranking, if they are 1 st , 2 nd , 3 rd in the auction.
Leading/not leading	Suppliers can only see if they are leading or not leading in the auction. This can be useful when you have a limited number of specialist suppliers bidding.
Basket	Multiple items are auctioned and their values appear as a total value. Basket auctions are useful when a contract has a number of line items, but you are looking for one supplier to supply the whole contract.
Multi Item	Multiple items are auctioned and their values appear separately. Multi auctions are typically used when a number of items are being auctioned but not every supplier can supply all the items.
Forward	Similar to a traditional reverse auction, but bids go up instead of down. This can be useful when negotiating rebate values of goods or services.
Weighted	Takes into consideration additional factors including different currencies, delivery terms as well as items that can't be supplied. Weighted auctions ensure an even playing field for all suppliers.
Dutch	Characterised by a first come first served principle. From a set starting price the auction will go up in pre-defined price steps until the first supplier accepts the current level. Dutch auctions are useful to use when the market price is uncertain.

Trade Interchange is able to explain these in more detail and offers assistance in helping you identify what auction type would best suit your category.

Stage 5 - eSourcing plan

Finally, when you know what you want to eAuction and how you are going to implement it, it is useful to put together a 6 or 12 month eAuction plan. This will help to ensure you schedule sufficient supplier notification times, including any eRFx's or special requirements such as product samples or scheduled site visits. You can also plan for when existing contract are coming up for renewal.

Additional Advice

Trade Interchange is always happy to have an informal discussion with current and potential customers to offer additional advice and support in selecting successful eAuction categories. Using our extensive industry knowledge, Trade Interchange works with a customer to ensure eAuctions harness maximum saving potential – contact us for more information.

Next stages for category selection

As an initial step to finding suitable eAuction categories we recommend reviewing your current processes. Here are a few questions that you could start by looking at;

- What % of your negotiations is being conducted offline?
- What visibility do you currently have over your company's spend?
- How are categories currently being negotiated?
- When do you decide to renegotiate a contract?

Trade Interchange offers Industry leading eAuction solutions and support, so if you are looking to gain more competitive, transparent and consistent negotiations, we invite a next step discussion to better understand your sourcing objectives and possible eAuction categories. From this we can evaluate your current processes and offer a demonstration to illustrate specific benefits of eAuctions to deliver your personal business goals.

Call us on **+44 (0) 20 8780 0610**

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Trade Interchange helps organisations reduce the costs, risks and complexities associated with managing a large supplier base. Its solutions support a range of supplier management activities: from initial tenders and supplier information management (SIM), through to supplier contract and performance management. The cloud-based proprietary ARCUS[®] platform features a suite of easily-configurable modules that are fast to deploy and simple to use. The ARCUS eSourcing modules also underpin the fully managed eAuction service.

Founded in the UK in 2000, Trade Interchange is a privately held company with offices in London, Teesside and Sydney, Australia supporting international clients, including leading brands such as Brakes, Centerparcs, Macmillan, Morrisons, Sodexo, Whitbread and WHSmith. Trade Interchange is accredited to the ISO27001 information security management standard.

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