



SaaS Reverse Auction

A Forward-Looking Take on Simple, Fair, and Effective Reverse Auction Technologies

Reverse auction technologies have historically been cumbersome and expensive, leaving both procurement teams and their supplier partners dissatisfied. Procurement teams felt pressured to primarily focus on costs, regardless of quality, and suppliers felt devalued in the race to the lowest bid.

In contrast, SaaS reverse auction platforms have evolved significantly since these legacy versions. The new platforms incorporate three important attributes missing from earlier iterations: visibility, collaboration, and simplicity. By leveraging new reverse auction platforms, procurement teams can now achieve greater strategic business impact.

With simple, intuitive interfaces, new reverse auction platforms make it easy for procurement teams and supplier partners alike to collaborate in real time to achieve a win-win outcome. As more enterprises transform digitally, procurement organizations must adapt to and support a faster-paced, more complex environment. Working with smaller, niche technology providers and increasing agility across the supply base will help procurement provide the speed, ease, and optimized cost structures business partners expect.

A reverse-auction is a fixed-duration event, hosted by a single buyer, in which multiple suppliers compete for business by bidding the price down—usually for a known SKU or generally accepted service. Unlike a traditional auction, the price point decreases as the reverse auction progresses.

Reverse Auctions Are Revolutionizing Supplier Relationships

Reverse auctions have earned a bad rap. Previously thought of as the heavy-handed means to extract the maximum price concessions from vendors, they've often come at the expense of valuable supplier relationships.

Despite the checkered history, organizations are taking a new look at reverse auctions to see how they can improve productivity, supplier collaboration, and business benefits. The change involves more than just conducting reverse auctions differently. It is about using them as a regular, expected part of doing business in a way that is demand and opportunity “sensing,” as Gartner suggests in some of its latest supply chain research.

How Organizations Are Using Modern Reverse Auctions



20–30x more bids delivered using reverse auctions as compared to legacy solutions



95% of procurement leaders aged 30–44 use reverse auctions



12–24% greater savings consistently reported by procurement teams using reverse auctions



60% of companies with more than 10,000 employees advocate the use of reverse auctions

Procurement groups are now reconsidering reverse auctions as tools that can improve and expand their relationship with suppliers rather than hobble it in the pursuit of short-term gains. Now, with full transparency and a system for ensuring fairness, reverse auctions are reemerging as a key tool in a more effective negotiation strategy—one that provides a win-win scenario for supplier partners and the organization.

New Perspectives on Reverse Auctions: More Than Just a Race-to-the-Bottom Bid



Price Discovery

More and more organizations are using reverse auctions as price discovery tools. In doing so, they're able to maintain a pulse on the market, identify discrepancies, and easily discern what "good" pricing looks like



Total Cost of Ownership (TCO)

Reverse auctions can provide a holistic TCO understanding of pricing relative to other factors, including delivery time, support services, and more



In the 1990s and 2000s, reverse auctions fell out of favor by procurement and suppliers with its limiting focus. Many suppliers artificially overcut their prices to compete in the auction process.

Today, reverse auctions are worthy of a second look. Modern reverse auction platforms provide an enriched auction approach that improves both the procurement and supplier experience.

Chief Procurement Officer,
LogMeIn

The Evolution of the Reverse Auction

The Dawn of Reverse Auctions: Cost Centeredness

The popularity of online reverse auctions took off like a rocket during the 1990s and early 2000s as procurement teams recognized their potential to maximize purchasing benefits. The approach rapidly gained notoriety. It became known as a way to extract the maximum cost concessions from a supply base at the expense of factors like incumbency, innovation, and competitive negotiations.

With contracts commonly awarded to the lowest bidder, regardless of these many additional ways suppliers provide value, concerns rose from both suppliers and procurement professionals. Existing suppliers argued that reverse auctions ignored their hard-earned customer relationships. Net new suppliers contended that the cost of switching suppliers favored existing vendors in the final bid analysis. On the other side of the table, procurement executives complained the overemphasis on cost reduction was one of their top three challenges, found the [Deloitte Global CPO Survey, 2018](#).

Eventually, technology innovators upped the ante and tackled these issues head on. They presented new competitive reverse auction tools that both suppliers and procurement teams simply couldn't ignore any longer.

How Have Reverse Auctions Evolved?

Newer automation platforms can make reverse auctions easy for both procurement teams and suppliers. Leveraging reverse auctions to streamline the (often repetitive) sourcing of low-cost, low-risk goods and services can enable procurement professionals to allocate more time to higher value-add, strategic initiatives.

A recent study from Gartner surveying its Procurement Leadership Council professionals showed that “fewer than 30 percent indicate that procurement delivers buys within their desired timeline.” Not surprisingly, the same study shows that less than 30 percent have automated core procurement processes.

By adding automated and semi automated reverse auctions to its procurement toolkit, companies can realize previously unattainable benefits, such as operational efficiency and agile, diverse supplier networks, from ongoing purchases. They can also make better and more sophisticated data-driven purchasing decisions without additional difficulty.

Then and Now: Rethinking Reverse Auctions

THEN: Traditional Reverse Auction Technology

- Rigid, inflexible tools
- Complicated to use
- Focused on optimizing costs
- High potential to harm existing supplier relationships
- Race to lowest bid with no regard to other factors

NOW: SaaS Reverse Auction Technology

- Flexible and configurable systems
- Focused on empowering sellers to compete in fair, transparent way
- Live, collaborative dynamics
- Highlight value of incumbent suppliers and challengers alike
- Improved speed and visibility

Changing Yesterday's Reverse Auctions for Today's Sourcing Needs

SaaS reverse auction technologies present an opportunity to simultaneously improve supplier engagement and the bottom line. To stay on top in today's competitive market, procurement leaders must modernize their eSourcing strategy.

According to [Gartner research](#), firms that adopt eSourcing can save up to 25 percent of costs. One way to advance this effort and garner support from key suppliers is to maximize the use and benefits from reverse auctions. For the sourcing team, not only do reverse auctions typically reduce purchasing costs, but they also enhance the procurement process overall and increase efficiency in the market.

Suppliers Also See Benefits in SaaS Reverse Auctions

In today's fast-moving market, procurement needs better, more interactive online tools to source effectively and drive participation with geographically dispersed suppliers. For example, these tools are necessary to level the playing field between niche suppliers in Europe and the machine shop down the street.

At their most efficient, reverse auctions accelerate procurement processes while accelerating companies' purchasing decisions. Since reverse auctions provide a live market for suppliers to post their best pricing, it is easy to see why procurement leaders would find reverse auctions appealing. What is often overlooked in this equation is the benefit to suppliers and the compelling reasons they should participate in reverse auctions.

However, reverse auctions are not one size fits all; it is key to understand when to use a reverse auction and when not to, especially at the category or supplier relationship level. At the same time, the terms and process of reverse auctions should cater to the specific requirements at hand.

The SaaS Reverse Auction: A Powerful Negotiation Tool

The introduction of new strategies to the bidding process is leading to the resurgence and transformation of reverse auctions. The first step in this process is the adoption of new tools and techniques that support more rapid, fully transparent negotiations with suppliers.

By accelerating the negotiation process with multiple vendors through more collaborative platforms, procurement teams can more easily identify key dimensions and constraints in the process, leading to better decisions. This TCO approach enables suppliers to enumerate multiple variables in addition to price and quantity.

Procurement professionals can make better decisions that go beyond price to consider additional factors such as innovation, service levels, quality, delivery, support, geopolitical risks, solvency, strategic importance of the relationship, and more.



Unifying source-to-contract on a centralized platform will yield great benefits. Reverse auctions will help modernize the buyers/sellers marketplace through the advancement of agile procurement platforms, and you won't need to trade value for price when awarding the contract.

**Manager of Travel and Purchasing,
Zappos**

The New Age of Reverse Auction Technologies Is Here

Today, procurement organizations are no longer forced to use rigid auction functionalities that came bundled with broad enterprise resource planning (ERP) solutions. Instead, new cloud-based platforms are allowing procurement teams to take a best-of-breed approach, leading to a more flexible and efficient set of tools.

According to A.T. Kearney's "The Future of Procurement Technology" report, the primary requirement for any new technology is that procurement power is in the hands of the user, without a cumbersome process to derail its utility. As adaptable, easy-to-use procurement technologies emerge, reverse auctions are no longer limited to cost-centric commodity transactions and can now inform a competitive negotiation strategy.

With this evolved approach to reverse auctions, combining transparent bidding and collaborative negotiation, enterprise procurement organizations can now enjoy:

- Increased bottom-line impact with expanded benefits
- Faster negotiations resulting from transparent bidding
- More creative solutions from suppliers
- Stronger supplier relationships with real-time collaboration
- Greater visibility into the subtleties and risks involved with each supplier, category, and event
- More comprehensive pricing and its relationship to other important values
- Seamless integration of reverse auctions into the overall sourcing process

Revitalized use of reverse auctions can strengthen procurement practices across the enterprise, drive more impactful negotiations, and ultimately, yield better business outcomes. The procurement function can be elevated and gain internal equity by shifting from being perceived as cost-focused to value-focused.

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Aside from driving down cost, one of the primary benefits of the reverse auction has been to reduce time involved in the process. With the evolution of technology and procurement strategy, today's cloud-based products can seamlessly integrate into an existing procurement process to drive incremental value without disrupting efficiencies. It's important to continuously evaluate ways to make improvements while not adding unnecessary complexity or cost; this is one fairly simple way to make that happen.

Senior Director, Spend Management,
LendingTree

Engage the Whole Business with Reverse Auctions

Savvy procurement professionals know that reverse auctions should be planned, managed, and evaluated as a step in the standard procurement workflow. Procurement can then more accurately know when to employ a reverse auction or choose an alternative negotiation strategy.

In addition, it is immensely valuable to see and understand suppliers holistically, with a historic, current and even future view guiding the most appropriate method of engagement. For business stakeholders as well, this level of visibility and the ability to collaborate directly with supplier partners is crucial to understanding the impact a supplier and a sourcing event can have on the organization.

The ability to employ a reverse auction as a simple, nondisruptive step in the efficient flow of procurement must not be underestimated. Reverse auctions do not and should not have to be a complicated production involving excessive time and effort on the part of the procurement professional. They should be conducted with little overhead to achieve maximum efficiency. Making reverse auctions easy and simple to conduct means that they can be used more frequently to apply the relevant best practices.

Enable Negotiations That Drive Impact Beyond the Lowest Price

Procurement organizations aren't the only ones that benefit from new reverse auction solutions; these new tools empower suppliers as well. Streamlined negotiations, greater efficiency, and increased collaboration save valuable time for suppliers. In addition, the enhanced visibility into live pricing helps suppliers better understand what procurement managers and the market seek.

One important step many professionals miss is including suppliers early in the reverse auction process. Companies that involve suppliers early see the greatest returns from collaborative, candid communication between all parties. By using a tool that allows procurement, the business, and suppliers to easily work together, it simplifies the request, bidding process, and decision criteria and can clearly establish auction ground rules in advance of the live event.

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Communication is fundamental to successful reverse auction outcomes—working directly to foster collaboration and transparency with your suppliers will remove supplier inertia and enable them to perform better during sourcing events. At VSP Global, our intent is to use reverse auctions across commodities and simple services projects—at all instances, we ensure all of our suppliers are trained, are comfortable with the technology and process and have clear visibility into the selection process. Choosing the right solution and platform to integrate the RFP and eAuction activities is critical to the success of strategic sourcing and supplier relationships.

Manager of Corporate Procurement,
VSP Global

Supplier Partners Play a Key Role in Reverse Auctions

Procurement organizations have enormous incentives to help suppliers understand the value of becoming more strategic partners and participating in reverse auctions. Why? PwC reports active supplier relationship management (SRM) is correlated with increased market share, faster reactions to market changes, and shorter fulfillment cycles. Suppliers may be wary of reverse auctions, but procurement can help ease the transition if they:



Recognize and Proactively Address Supplier Hesitancy

Create a center of excellence with in-house auction expertise to train suppliers and internal users on reverse auctions and answer questions. Offer a fair playing field by sharing the same information with all parties involved and clearly set objectives, prequalification options, and pricing education.



Design the Reverse Auction Experience from the Outside In

Work directly with all suppliers throughout the process to clearly communicate priorities, constraints, process, and award criteria. Try holding a trial auction to ensure suppliers fully understand the logistics and are confident bidders when live pricing is in play. This step eliminates surprises and allows suppliers to bring creative solutions to the table.



Provide Active Feedback to Suppliers

To nurture supplier relationships and increase the chances of making a high ROI award, it's important to provide feedback throughout the auction process. This maximizes the impact of a decision and helps educate suppliers on how to better meet procurement goals in the future.



Investigate Thoroughly Before Investing in Anything

Take the time to select the right solutions and prepare a change management strategy for all parties to embrace the reverse auction mindset. To achieve more streamlined, transparent negotiations, look for auction platforms that are flexible, collaborative, and easy to adopt for both business partners and suppliers.

Building a More Dynamic Sourcing Function

The SaaS automation of sourcing technologies, including easy-to-use collaborative tools for reverse auctions and data analysis, signifies a renaissance of the sourcing function. Sourcing processes are at times extremely complex, but contemporary SaaS technologies are leveling the playing field and democratizing opportunity for businesses and suppliers alike. Functionalities such as data-driven dynamic negotiations and transparent reverse auctions allow all parties to collaborate based on facts to reach optimal solutions for all. Competitive advantages gained from empowering procurement and sourcing with modern solutions will position businesses to be more agile, resilient, and competitive in ever-changing market conditions. It's time to explore what dynamic sourcing technologies can do for your enterprise.

Key Takeaways

- 1 Reverse auctions and the technologies that support them are not what they used to be.** The right technology can now power a much more flexible, fair, beneficial relationship for all involved.
- 2 Reverse auctions impact the bottom line** by increasing the efficiency and cost savings of procurement
- 3 Best-of-breed reverse auction technology is configurable** and does not simply award to the lowest bidder but prioritizes high quality balanced with a fair price.
- 4 Collaboration and transparency are keys to a successful reverse auction.** Today's technology empowers teams with these crucial elements.

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