UNIT4
In business for people

It's time to try something new in your eAuction program

CHOOSING THE RIGHT EAUCTION FORMAT FOR YOUR PROJECT:

REVERSE VS. DUTCH VS. JAPANESE

Introduction

If you ever want to start a heated debate in procurement circles, just start talking about eAuction strategy. While eAuctions are a proven strategy for conducting negotiations, there have been persistent arguments and misconceptions about their efficiency and applicability. It's always worth addressing these questions head-on because the benefits of eAuctions are significant:

Lower prices

- eAuctions generally provide savings of >10% compared to previously negotiated prices

Time savings

- Negotiations are conducted simultaneously with all suppliers
- The full negotiation is typically completed in less than an hour, including extensions

Market transparency

- All bidders receive the same information and are
- bidding against the same "target"

Process improvement

- Structured and uniform corporate working procedure
- Bids are only accepted within the system
- All data and communication are stored in one place and automatically compiled

In order to get the best results consistently, smart eAuction practitioners will vary their strategy depending on the market conditions.
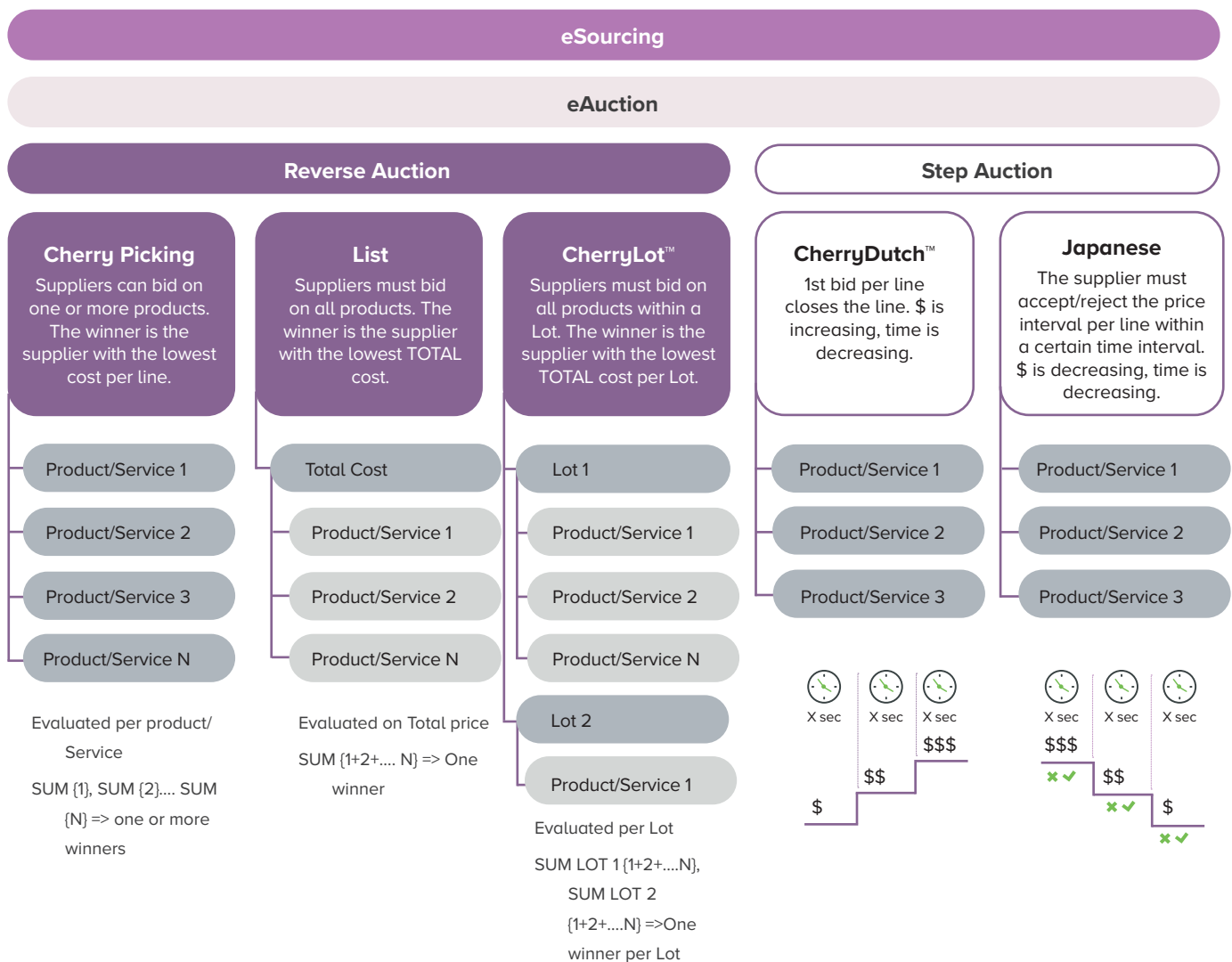
As a long-time expert in eAuctions, Scanmarket has been fortunate to see eAuction usage across many different organizations, categories and market conditions. Even with organizations that have eAuctions as an established negotiation tool, most have barely started to explore all their options with regard to strategy. Most eAuction programs rely heavily on standard reverse auction formats. While this is a good approach for many categories, it is definitely not a one-size-fits-all tool.

Choosing the right eAuction format is entirely dependent on the market conditions you are facing in the category under consideration. The primary factors to understand are:

- **Number of qualified bidders:** How many bidders are you expecting to participate in your event?

- **Expected bidding approach:** Based on your interaction with the suppliers, how aggressive will each be in its bidding approach? Are there specific suppliers that you know, perhaps from RFI and RFP responses/pre-bids, have the ability to bid substantially lower than others?

- **Consistency of specifications and qualifications:** Despite efforts to standardize specifications, do some of your qualified bidders have unique capabilities? These can be both positive (superior service) and negative (e.g. suspect quality)

When looking for alternate approaches, be sure to consider using different eAuction formats. In addition to the typical standard reverse auction, every organization should be using Dutch and Japanese auctions in at least some situations.

Dutch and Japanese auctions are both "step" auctions. They differ from standard reverse auctions in that changes in pricing (bids) are driven by the eSourcing platform at specified time increments rather than bidding activity by suppliers.

	eSourcing	

	eAuction	

Reverse Auction	Step Auction

Cherry Picking Suppliers can bid on one or more products. The winner is the supplier with the lowest cost per line.	**List** Suppliers must bid on all products. The winner is the supplier with the lowest TOTAL cost.	**CherryLot™** Suppliers must bid on all products within a Lot. The winner is the supplier with the lowest TOTAL cost per Lot.	**CherryDutch™** 1st bid per line closes the line. $ is increasing, time is decreasing.	**Japanese** The supplier must accept/reject the price interval per line within a certain time interval. $ is decreasing, time is decreasing.
Product/Service 1	Total Cost	Lot 1	Product/Service 1	Product/Service 1
Product/Service 2	Product/Service 1	Product/Service 1	Product/Service 2	Product/Service 2
Product/Service 3	Product/Service 2	Product/Service 2	Product/Service 3	Product/Service 3
Product/Service N	Product/Service N	Product/Service N		
		Lot 2		
		Product/Service 1		

Evaluated per product/
Service

SUM {1}, SUM {2}…. SUM {N} => one or more winners

Evaluated on Total price

SUM {1+2+…. N} => One winner

Evaluated per Lot

SUM LOT 1 {1+2+….N}, SUM LOT 2 {1+2+….N} =>One winner per Lot

Dutch auctions

In a Dutch auction, the opening bid price for all bidders is set (based on pre-bid intelligence) by the auction manager at a pricing level that is **too low** for any bidder to accept. At pre-determined intervals (e.g. each minute), the system will increase the bid price by a moderate increment (e.g. 0.1%). This continues until the first bidder accepts the bid price. At that point, the event closes.

Pro's

- Maximum bidding pressure on participants
- Fosters FOMO (Fear Of Missing Out) in the supplier community, driving better bids
- Can be run efficiently as there are no extensions or re-bidding

Con's

- There is no second place; only one bid is received from the suppliers during the course of the event
- Limited award scenarios based on limited data

Best for:

- Scenarios where pre-bid intelligence has indicated that one of the bidders has a significant cost advantage over other bidders

Benefit vs. Standard Reverse Auction

- In this scenario in a standard reverse auction, there's no incentive for the bidder with the best pricing to submit their very best bid. Instead, they only need to submit a bid that puts them in first place
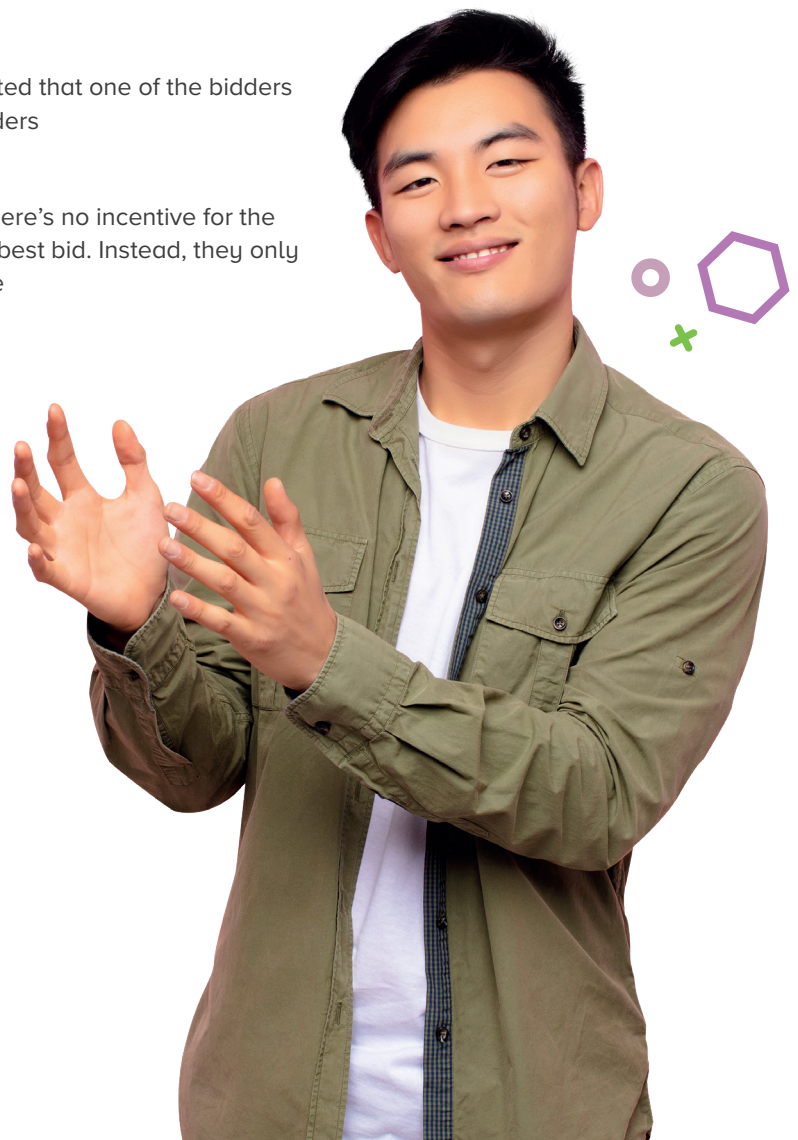
Japanese auctions

In a Japanese auction, the opening bid price for all bidders is set (based on pre-bid intelligence) by the auction manager at a pricing level that is **so high** that all bidders will accept. Each bidder is required to signal their assent by accepting the bid in the system. At pre-determined intervals (e.g. each minute), the system will decrease the bid price by a moderate increment (e.g. 0.1%). At each step, the bidder needs to accept the bid to signal their assent. This continues until there is only one bidder remaining who accepts the bid price. At that point, the event closes.

Pro's

- Forces all bidders to participate by accepting each new bid in order to continue
- More award options due to amount of bidding information
- Bidding information can be combined with specification differentiation into multiple award scenarios

Con's

- Limited FOMO compared to Dutch auctions
- Can lead to long events if decrements and time intervals are not set correctly

Best for:

- Scenarios where there is limited expected bidder participation
- Projects where there are different specifications/ qualifications between he bidders
- Situations that require extra confidentiality (e.g. public sector)

Benefit vs. Standard Reverse Auction

- By continuing the price decrements, bidders must provide their pricing across a broader range than just bids relative to competitors' pricing

Dutch vs. Japanese

One easy way to remember the difference between Dutch and Japanese auctions is to focus on what triggers the end of the event:

- Dutch auctions end when the **first** supplier places a bid, "The first one who jumps in the pool"
- Japanese auctions end when the **last** supplier places (confirms) a bid, "The last one to get out of the hot tub"

Regardless of which eAuction format you use, it is imperative to execute the project according to a rigorous, structured process in order to deliver the best results.

RFx	Suitability analysis	Strategy selection	eAuction creation	Supplier training	Live eAuction	eAuction evaluation
• Prequalify suppliers • Collect start prices for eAuction • Information about qualitative differences between suppliers	• Evaluate the procurement • Analyze the market & competitive situation • Agree on the eAuction suitability	• Evaluate the available eAuction types • Agree on the eAuction strategy • Select the eAuction type template	• Notify suppliers about the upcoming eAuction • Create eAuction specifications and guidelines • Enabled required functionalities	• Select training method • Make necessary training preparations • Conduct training sessions	• Monitor eAuction • Manage potential supplier questions • Increase supplier activity	• Evaluate eAuction result • Give feedback to suppliers • Share lessons learned

As you can see, there are multiple options for your eAuction program to incorporate new techniques, approaches and formats. The most important step in any successful eAuction takes place long before the event: understanding the market dynamics and what will drive suppliers to provide you with the very best bid.

Scanmarket is a source-to-contract software provider that develops advanced functionalities in an effortless design. Originating from the needs of the end user, Scanmarket's S2C solution is attuned to meet the needs of the procurement professional. We take ownership of customer success with experts at your fingertips to drive user adoption. Digitalize your upstream procurement functions with technology that is built to be used.

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