

6 Reverse AUCTION MYTHS

Just price? Only commodities? Shooting down common objections



Procurex

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When you SEARCH

for products and services,
you want the best PRICE.



We get it. But we know you want something more too. Much more.

You insist on top credit ratings for any company you work with. You need to hire more local businesses and minority and women-owned vendors. You have a long list of specifications - whether it's the color and size of trash can liners, the service level of security guards or the complex blueprints for computer hardware.

For many of our reverse auction clients, that list of non-price requirements can go on and on. And that's no problem.

With reverse auctions, you get it all - great prices from qualified vendors, who meet every one of your non-price qualifications. And you can get pretty much anything you need.

• **Commodities?** Yep.

Services? Definitely.

Supercomputers? Come on board.



Reverse auctions bring a laser focus to procurement, offering the most efficient way to uncover the best price. It's simply a web-based sourcing event where vendors compete for your business by dropping their price each time they bid. If you're looking for the best deal, there's really no better way to do it.

Still, even though reverse auctions have been held successfully for decades, we run into the same objections on a regular basis.

Here are six reverse auction myths that we hear all of the time - and the reasons why none of them are true.



MYTH 1 With a reverse auction it's only about PRICE

This myth is No. 1 for a reason: It's an extremely common misconception about a strategy that's really no different than the normal sourcing and procurement process.

Just like a traditional RFP process, you still are in charge. You weight the different price and non-price factors that are important to you in the sourcing document.

At the end of the reverse auction, because it isn't only about price, the lowest bidder doesn't always come away the winner.

After all, as anybody in procurement knows, landing on the "best value" vendor doesn't necessarily mean securing the lowest price. Just like with any bid process, in a reverse auction, both price and non-price factors are critical to the success.

Here's how Procurex helps customers design a reverse auction that addresses all of their needs:



With **guidance** from Procurex's team, organizations come up with the specific **non-price criteria** which are important to them and **level the playing field for vendors**.



Depending on the customer's needs, those **non-price factors can include any number of criteria**, including service level and credit rating to delivery methods, technical specifications and whether the vendor is minority or women-owned.



The price and non-price factors are then weighted in the bid. **In many cases, non-price criteria outweigh price considerations.**



Once the price and non-price factors are set, **only pre-qualified vendors, who meet all of a buyer's needs**, can participate in the auction event.

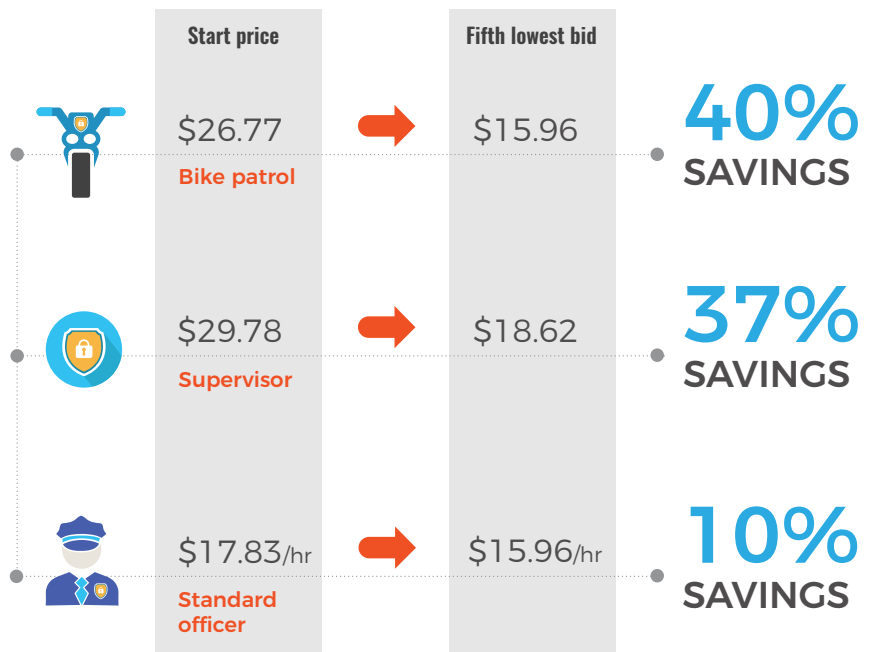
[Security Services] **California State University, Northridge**



When California State University, Northridge, needed new security services, leaders looked to Procurex to help them find the best company to meet their needs.

Of course, they wanted a great price. But Northridge was focused on other things too, including top notch references and high quality training for guard staff.

In fact, once all of the other non-price factors were included in the bid, price was only 35 percent of the weight. After the final bids were counted - all 45 of them from nine different vendors - the fifth place bidder won the contract.





MYTH 2 Reverse auctions are only for COMMODITIES

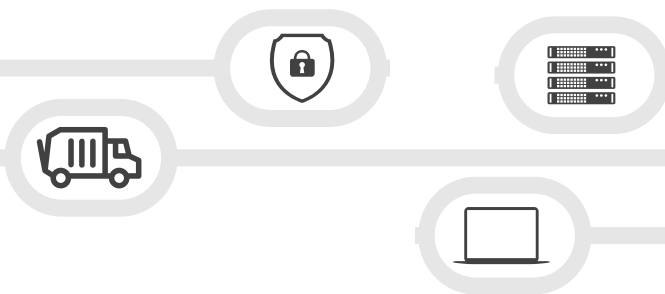
Rock salt? Office supplies? Yes, reverse auctions work well when you want to secure the staples you use every day.

But reverse auctions are sophisticated enough to help you find any number of items and services. That includes energy needs, such as natural gas or electricity; services, such as waste hauling and security; and technology equipment, such as laptops and supercomputers.

What's more, non-commodity categories often have much higher margins for suppliers, which means bigger opportunities for savings.

The trick to a reverse auction is to normalize the requirements for vendors. After years of running reverse auctions, Procurex can help you come up with a common set of price and non-price factors that will pull in vendors and ensure plenty of bidding.

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[Technology]

Yale University



When Yale University needed a supercomputer cluster, leaders didn't think they could use a reverse auction to find the best vendor. After all, what they needed didn't even exist. Yale wanted a supplier to design and build the complex equipment just for them - and meet every one of its mandates.

But Procurex pushed Yale's procurement and IT teams to think deeply about what they needed, laying out the specific capabilities required, the budget and more. That work upfront allowed for a reverse auction and a great price.



- Identify needs
- Requirements
- Budget



- Specifications
- Design
- Build

30%
SAVINGS

[Transportation]

Nashville Public Schools



When Nashville Public Schools needed school buses, Procurex worked with school leaders to design the exact specifications and recruit qualified vendors to participate in the reverse auction. Once it was all over, the price was so good, the school district was able to buy more buses than it thought it could afford.



Start price
\$115k
per bus



Final price
\$95k
per bus

17%
SAVINGS



MYTH 3 Reverse auctions take too much TIME

Reverse auctions may take some time in the beginning. But once many organizations add up the total amount of time spent on the process that extra time is minimal. In reality, it actually is more of a time shift from the end of the process (reviewing binder after binder of RFP responses) to the beginning of the process (honing in on the non-price criteria that matter most). That work pays off in big savings and time efficiencies elsewhere.

Instead of sifting through RFP responses at the end of the process to ensure the quoted price fits their requirements, organizations do the work at the start to create a thorough bid document that lists every one of their needs.



By the time the reverse auction day arrives, qualified vendors are bidding on exactly what the organization requires. What's more, buyers know that the top bidder will meet each of their specifications, regardless of who gets the winning bid.

[Commodities]

City of Philadelphia

When the City of Philadelphia began running reverse auctions, they started small - and at their speed. But the effort has netted them big savings on everything from towels to trash bin liners. Now, with some experience, they are starting to tackle bigger buys.





MYTH 4 We ^{don't} BUY ENOUGH to warrant a reverse auction

You might be surprised. When we hear clients throw out this objection, we analyze their spend. And, in many cases, it turns out that their estimates of what they are actually buying are way off.

This can happen for a couple of reasons:

In some cases, a deeper look into an organization's spend turns up information that is a revelation to even our customers. For instance, once they look at the costs for particular items such as office supplies or IT cabling across departments or locations, the total adds up to be much more than expected.

In other cases, organizations can aggregate spend, grouping different baskets of items together. An organization might spend only \$10,000 on pens and pencils. It wouldn't make sense to run a reverse auction on something of this size. But, if you add ink and toner purchases into that basket, the package skyrockets to a six-figure total - and becomes reverse auction worthy.

Customers, often with Procurex's help, **decide what goes in the basket**. **Suppliers** then **decide how they will price it**, perhaps taking a loss on the pens and pencils so they can win the more lucrative ink and toner deal.

And, finally, while a single-year contract may be too small to warrant a reverse auction, a five-year contract adds tremendous value, becomes a more attractive contract for suppliers to bid on and, in turn, increases competition and lowers costs.

City of Philadelphia

The City of Philadelphia officials didn't think they needed enough recycling bins for a reverse auction to make sense. In fact, their research indicated they only needed to buy about 3,500 bins. But, after analysis prompted by Procurex, it turns out they actually would require many more - 90,000 bins, to be exact. Now, the volume easily justified a reverse auction.

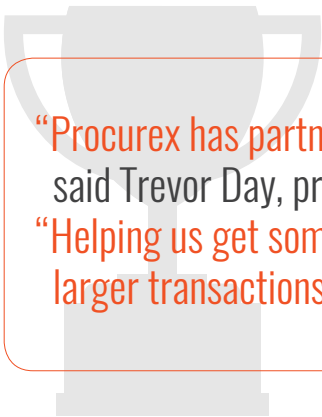


Start bid
\$476.7k



Final bid
\$332.5k

SAVED
\$144k



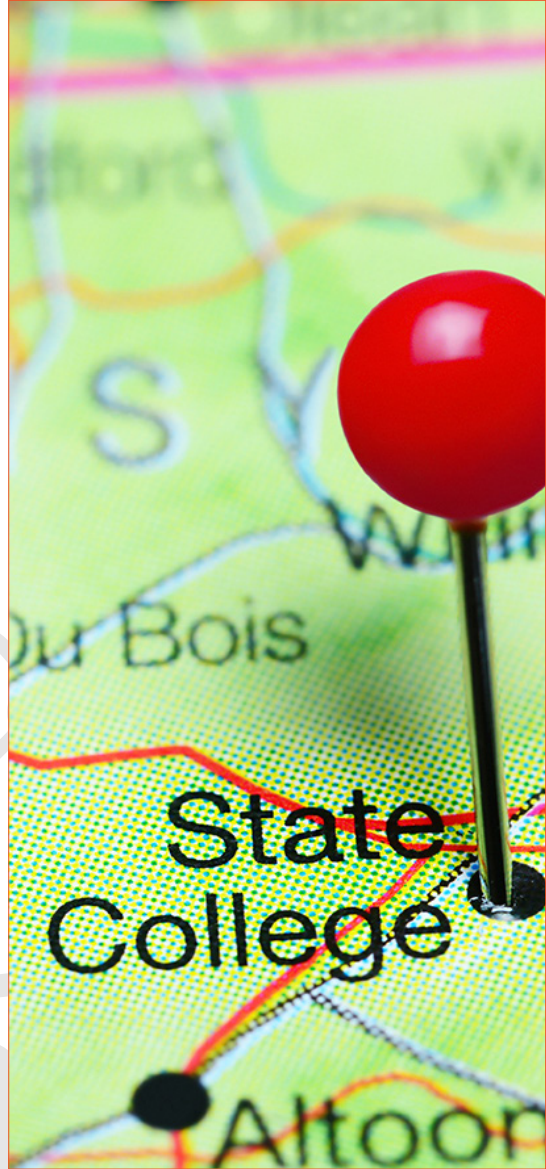
“Procurex has partnered with us to make reverse auctions work at our pace,” said Trevor Day, procurement commissioner for the City of Philadelphia. “Helping us get some quick wins with small purchases cleared the way for larger transactions and more significant savings.”

MYTH 5 **can't** BEAT state contract prices

Many of our government clients have access to special contract prices offered to state and local agencies. At first blush, they might seem like a great deal. But it's a well kept secret that those contracted prices aren't always the best and lowest.

Need proof? Reverse auctions drop them even lower. After all, committed versus potential spend has a powerful pull among suppliers.

With a reverse auction, the start price is the state contract price. Once the final bids are tallied, Procurex has always beaten the state contract price - 100 percent of the time.



[Police Vehicles]

State College, PA

State College, PA needed to add more police cars to its fleet. The borough considered simply purchasing the vehicles for the state contract price. Instead, it tried a reverse auction - and saved.





MYTH 6

Reverse auctions are incompatible with strategic vendor RELATIONSHIPS

Let's be honest: Vendors don't love reverse auctions. Suppliers also would prefer to continue to charge higher margins for their goods and services. But their complaints are a good sign for buyers. It means reverse auctions are having their intended effect - lowering costs.

What's more, you probably aren't the first buyer to suggest one. More and more organizations are conducting reverse auctions. And vendors, big and small, are agreeing to them. In private industry they are common.

Balance Strategic Vendors and Best Price

Organizations' strategic vendors are still invited to the table in a reverse auction. Customers can bring any vendor to the event. Through a supplier search, Procurex also typically suggests more suppliers to add to the list.

And there are some benefits for vendors. For instance, they get to see how they square up against the competition.

Transparency and Procurex's ability to recognize and **incorporate non-price factors** into a reverse auction also play a critical role in **ensuring that suppliers have an equal opportunity** to secure an organization's business and **non-price variables are always factored into the equation.**

[Waste Hauling]

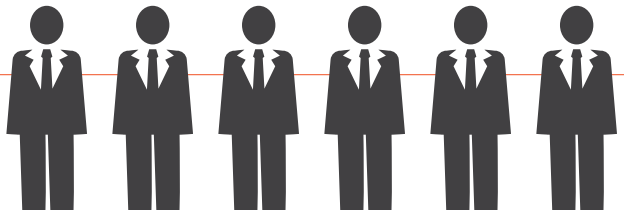
New York University

When New York University decided to move forward with a reverse auction for waste hauling services, its existing (and so-called strategic) vendor made one last plea - skip the reverse auction and simply re-up with them. The vendor said they couldn't possibly cut their price any lower and that they wouldn't participate. But NYU persisted ... and the incumbent supplier signed on. At the end of the auction, the original vendor cut his price by more than \$1 million - and kept the contract.



75%
SAVINGS

Still not convinced? Consider this: We typically don't have any trouble finding qualified vendors to bid in a reverse auction. **During the average event, three or four vendors typically show up. In some, we have double or triple that number.**





In a reverse auction,
Procurex
is with the buyer
every step of the way,
from specification development to
post-auction activities.

[Our Approach]

Our full-service approach to reverse auctions is the single best way to get the best price from the most qualified vendors.

Procurex is your partner for savings. We've fine-tuned our methodologies and software during our more than 15 years of experience running money-saving reverse auctions. In fact, working with us is like adding extra people to your staff – new team members who just happen to be experts in all things related to reverse auctions. We do almost all of the work for you. As an extension of your team, we will:

1. **Evaluate** your opportunities for reverse auctions
2. **Clarify** and normalize your specification to make it auction-ready.
3. **Qualify** vendors, train them and bring them to the table for the reverse auction.
4. **Host** the auction event itself

You just sit back and watch the savings roll in as vendors drop their price with each bid.



[Our Platform]

The Procurex reverse auction software platform is a cloud-based solution developed by our purchasing and procurement professionals over the past 15 years. We've taken the complex variables and permutations of a reverse auction process and codified them into an intuitive and easy-to-use solution that's also extremely powerful.

Today we are proud to provide what is one of the most advanced and feature-rich tools in the reverse auction industry. The highly flexible solution gives our customers a wide variety of options to fulfill their particular requirements. At the same time, it follows established procurement best practices.



Experience. Support. Qualified bids. Best deals.
That's what you'll get with a Procurex reverse auction.

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