I-ADAPT

Independent Assessment into the Development of Auctions as a Purchasing Tool: 2012 Update

A Study to Determine the Impact of Online Auctions on the Buyer and Supplier Relationship

Research conducted by the University of the West of England and supported by the Chartered Institute of Purchasing and Supply

E Auctions – Their impact on the Buyer–Supplier Relationships.

Background

Nine years ago the Procurement Innovation research team at Bristol Business School / University of the West of England in conjunction with the Chartered Institute of Purchasing and Supply (CIPS) conducted research into how E Auctions were used and in particular how they affected the buyer-supplier relationship. Their findings concluded that rather than the popular conception at the time that they would have a damaging effect the opposite was in fact the case, at least from the buyers' perspective. Now in 2012 the same team, again in conjunction with CIPS, have repeated their research to see what has changed especially as the deployment of this software tool has grown significantly over this time period. The survey sample was again a mix of mainly private but also included some public sector buyers who have had direct experience in using E Auctions.

Main Findings

1. Frequency of Use

62% (63% in 2003) of buyers had run their last auction within the last 3 months

7% (34% in 2003) of buyers had run their last auction in the last year

31% (3% in 2003) of buyers had run their last auction over a year ago

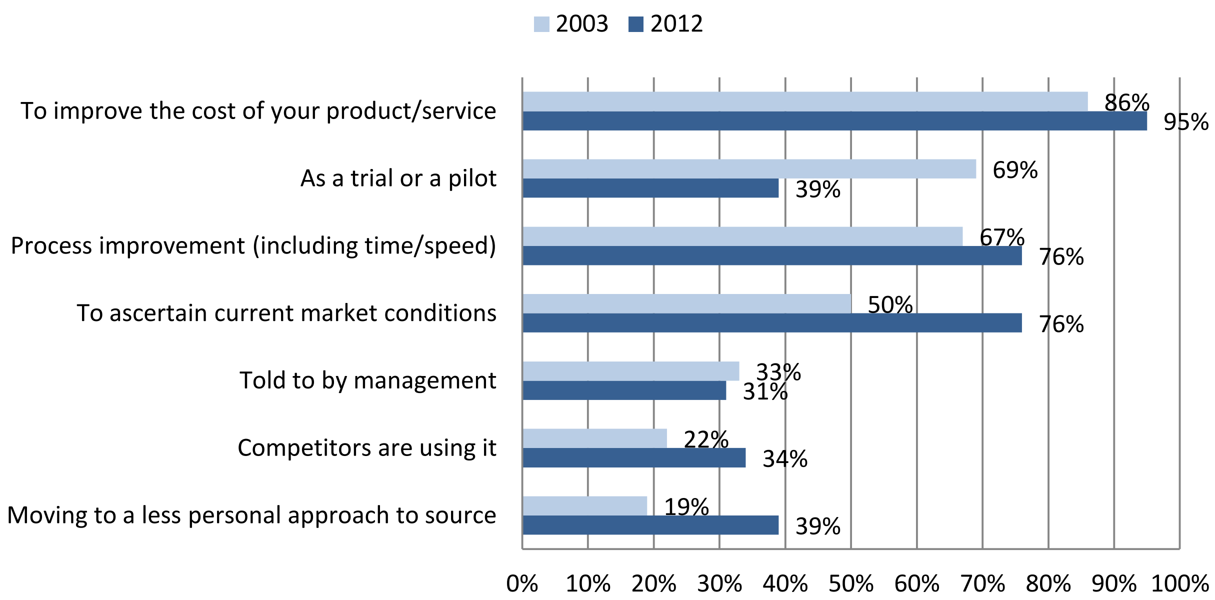
33% of respondents had experience of more than 20 auctions which was an increase from 22% in 2003. Only 5% of respondents had stopped using e-auctions so further research is required to find the underlying reason why a large percentage have not run auctions within the last year.

2. Categories that have been auctioned

In 2003 we said that the range was extensive i.e. from Cheese to Consultancy . In 2012 we found the same but this time from Flour to Legal Services.

3. Why run an E auction?

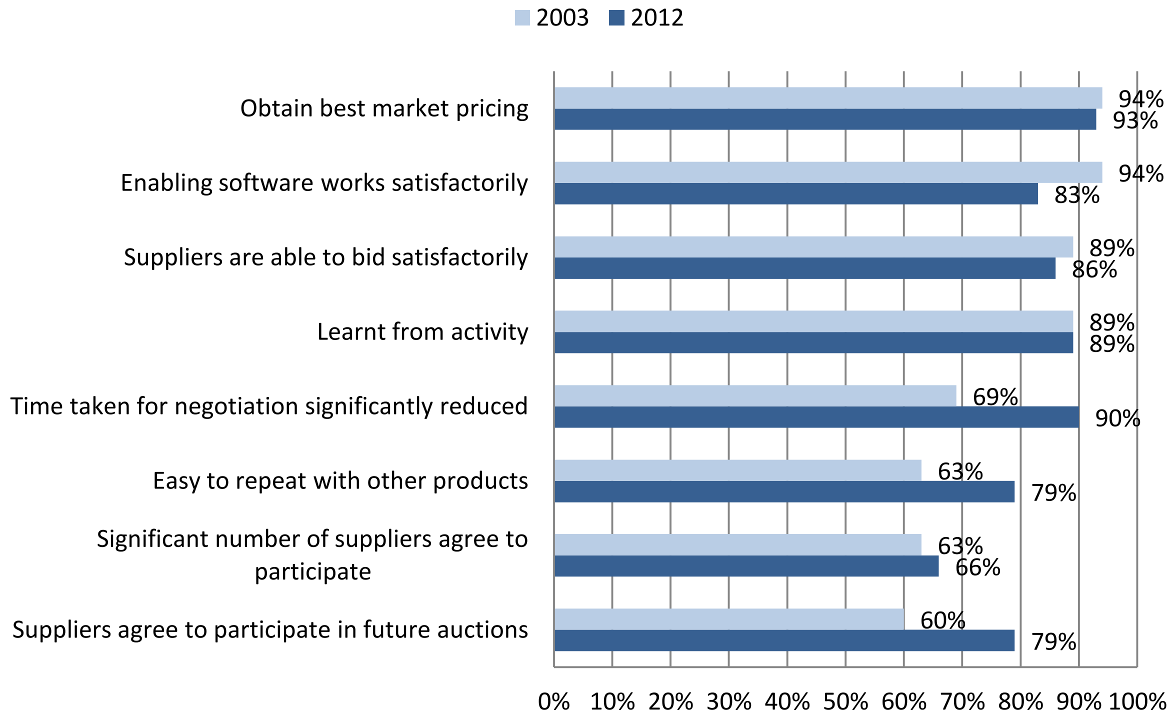
Fig 1: Reasons for Choosing Auction



As expected and shown in Figure 1, there is a significant reduction in the level of trial / pilot activity, however cost has become an even stronger top reason. There is also an interesting trend towards ascertaining current market conditions and taking a less personal approach.

4. What is your success criteria?

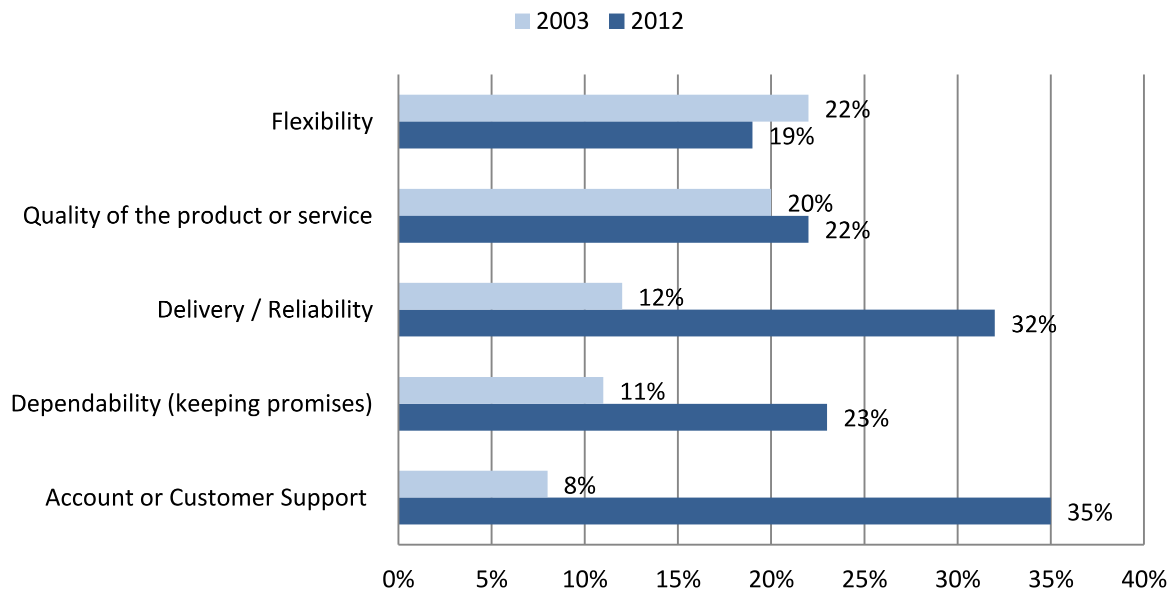
Fig 2: Success Criteria



Pricing is still clearly the primary success criteria. However, it is interesting to note that the reduction in process time has become the second most important factor. Surprisingly, an increase in supplier participation is emerging as a key success criteria. This may indicate some challenges in this are being experienced.

5. How did Supplier performance change post using an E-Auction?

Fig 3: Performance Measures (all)



The original findings indicated that supplier performance actually increased post an auction, in the above areas for the vast majority of respondents. These new findings show an even greater level of improvement in the areas of delivery, reliability and particularly account support. This re-enforces our view that this is largely due to a much improved pre–auction process by the buyer and a recognition by the supplier that having fought hard, often on price, to win a contract they were going to invest appropriate resources to ensure they kept it.

6. What percentage of Auctions did the Incumbent Supplier win?

There is a sizeable percentage of incumbent suppliers winning e-auctions. However there is no significant difference between the two results with 60% in 2003 and 54% in 2012.

7. What were your key success enablers?

The top six enablers in 2012 are the same indicators identified in 2003 however their position in the top six is different. However, as illustrated in Figre 4, having clear auction objectives rose in prominence whilst training became marginally less importance.

Fig 4: Key Success Enablers

Top 5

Key Success Enablers (2012)

1. Sound supplier pre-qualifying process
2. Comprehensive specification for product/service
3. Clear auction objectives
4. Supplier auction training
5. Selecting suitable commodity
6. Clear auction objectives

8. What were your key failure criteria?

As with enablers, the top 5 failure criteria identified in 2012 and 2003 are the same criteria but are in a different order of importance. As shown in Figure 5, the ‘Lack of a competitive supply base’ which increased in prominence may indicate the adoption of a more selective approach to auctions from some suppliers.

Fig 5: Key Failure Criteria

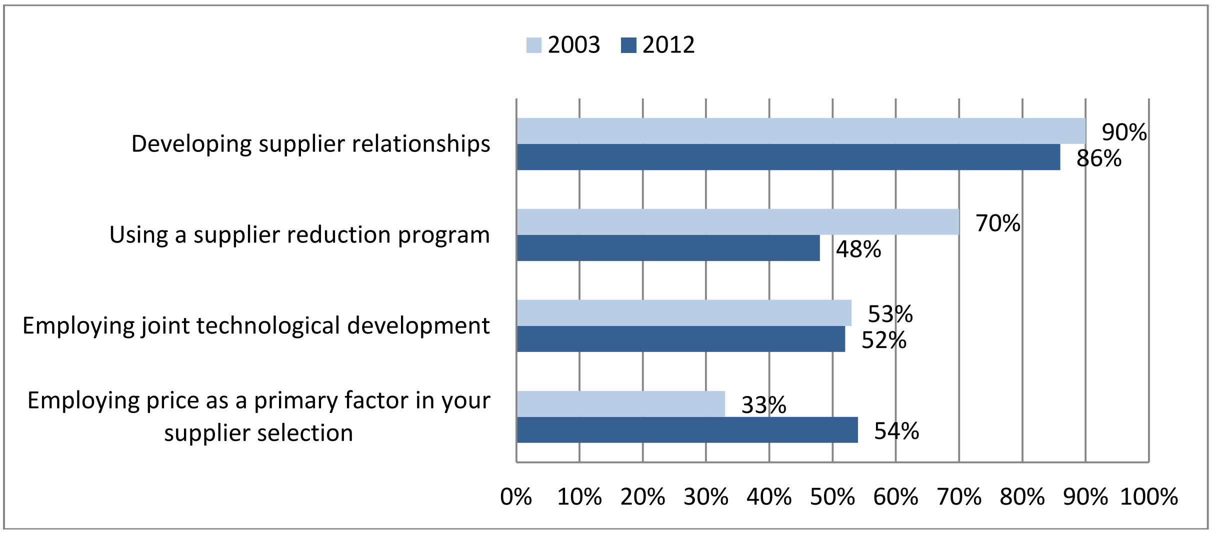
Top 4

Key Failure Criteria

1. Lack of competitive supply base
   Lack of supplier participation
2. Unsuitable commodity/service
   Poor Training of buyer/supplier
   Auction timing

9. Do you consciously develop Supplier Management initiatives as part of you E-auction process?

Fig 6: Supplier Management Initiatives



As illustrated in Figure 6, again a very high number of respondents made a direct link between their overall supplier management approach and the use of E Auctions. Reducing suppliers seems to be less important whilst price strengthens as the primary factor in supplier selection which may well reflect the challenging economic conditions.

10. Would you continue to use E Auctions?

In 2012, 95% of respondents expressed their interest to continue using E-Auctions in comparison with 100% in 2003. Despite the slight fall, E-Auctions are still viewed as a valued tool by those buyers who are deploying it.

Overall Summary

In answering the question that we posed namely - 'Does the positive effect we found that buyers auctions had on supplier performance / relationship in 2003 still hold good in 2012?' - we can categorically state from the gathered evidence that it has not just stayed the same but in the cases of reliability, dependability and account support, it has actually improved still further. This supports our original thinking that buyers are undertaking a greater level of due diligence when it comes to identifying potential e-auction participants whilst suppliers who win e-auctions have developed a similar enhanced diligence in respect of serving the customer in question.

In respect of a number of areas, the findings in 2012 were fairly consistent with the 2003 findings. This consistency applied to areas such the range of commodities / services subjected to auctions, the level of incumbent success (54%) and the desire to continue to run auctions in the future (95%). Key success enablers were again consistent with the 2003 findings with 'sound supplier pre-qualifying process' and 'comprehensive specification' heading the list. Similarly, the failure criteria are also consistent with the earlier survey, with the lack of competitive supply base and poor supplier participation heading this list.

The strengthening of price advantage as the primary reason both for using an auction and its number one success criteria seem to reflect a 'sign of the economic times'.

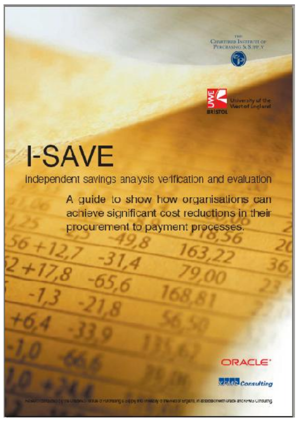
The key areas for further investigation centred around the much higher percentage of buyers who had not run an auction for over a year despite having significant experience (31% now versus 3% in 2003) as well as the increase in importance of supplier participation in future events as a key success criteria (79% now versus 60% in 2003).

The I-Series Research Family

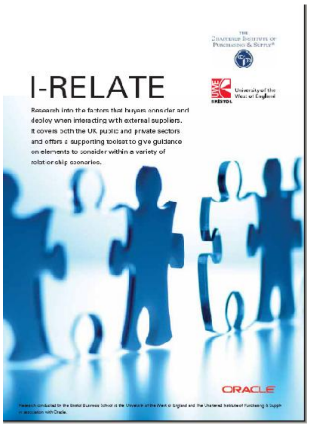
The I-Series is the result of over ten year's worth of cumulative research. The aim is to produce research that is:

- Independent
- Topical
- Aimed at practitioners
- Available to all
- Easy to understand
- Based on sound academic research
- Accompanied by a toolset where appropriate

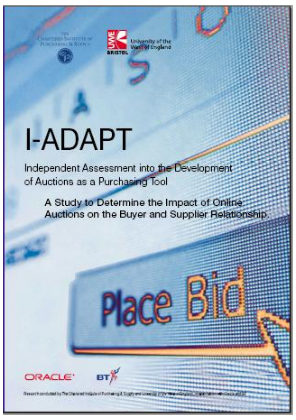
These projects have collectively been accessed by over 35,000 people in 32 countries.



I-SAVE – Independent savings analysis, verification and evaluation including a self-help toolset providing aid when trying to assess the savings contributions / ROI from an investment in your procurement 'environment'.

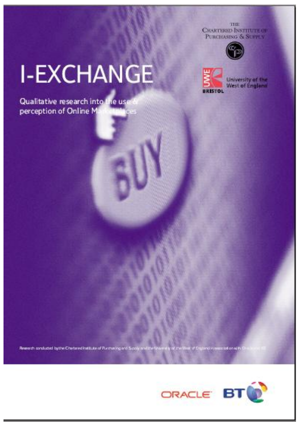


I-RELATE – A study to determine the factors that a buyer takes into account when considering a potential supplier and how the strength of these factors varies depending on the nature of the relationship. An accompanying toolset allows practitioners to benchmark their approach by supplier relationship grouping against our research findings.

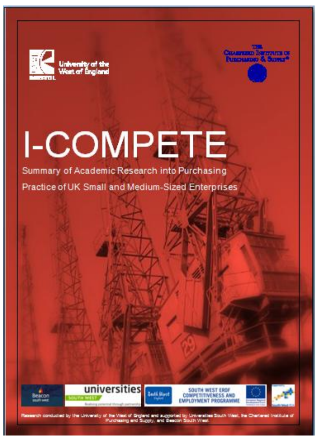


I-ADAPT – A study to determine the impact of online auctions on the buyer-supplier relationship. Specifically excluding price-saving considerations and looking at what happens post e-auction in areas such as supplier quality, delivery, reliability and account management.

It is now approximately 10 years since the advent of E Sourcing tools such as E Tenders and E Auctions. Supported by the Chartered Institute of Purchasing and Supply, **I-SOURCE** looks to discover how widely these tools are used in the current purchasing environment and what role do they play within organisations.



I-EXCHANGE – Quantitative and qualitative research into the use and perception of e-marketplaces. Assessing how both buyers and suppliers view them and if they have now developed to become a real consideration in an e-procurement context.



I-COMPETE is the most recent of our research projects. It looks to fill the gap in the academic literature by looking at purchasing practice by SMEs in the South West of England. In addition to a series of case studies derived from the research, the findings of the study are presented via both a brochure and an on-line toolset available free to practitioners.

I-INNOVATE – An investigation into the emergence of a fifth stage of purchasing development. This research identified key elements that span the purchasing 'environment' and produced a toolset that lets the practitioner benchmark themselves against the leaders in both private and public sectors.

For more information on this research, visit: www.icompete.org.uk or email Dr Peter James at Peter.James@uwe.ac.uk