*** PORTFOLIO: Editorial Copywriting ***

Listicle Ghostwriting for Client's CEO

By Bob Hebeisen, January 2024

About the project: I researched and wrote this listicle byline, negotiated changes with the editor, and placed it in a key vertical publication.

CPO Rising

3 Best-Practice Tips for Running Procurement Auctions

By Blake Wetzel
Blake Wetzel is CEO of AIQ, a recognized leader in procurement consulting and e-auctions.

January 24, 2024

The rewards of procurement auctions can be tremendous. A recent review of dozens of procurement auctions conducted over the past two decades revealed that enterprises not using auctions pay technology costs that are, on average, 79 percent higher than the market demands. Conversely, those organizations deploying procurement auctions are realizing reduced technology expenses by up to 44 percent.

What makes procurement auctions so effective? In a procurement auction, multiple pre-qualified vendors are invited to compete for a customer's business via virtual reverse auction. Competitive spirit naturally compels participating vendors to bid costs down well below list prices, and even below typical pre-approved discounts. In a procurement auction, vendors get real-time feedback on how they rank each time a competitor enters a bid, triggering them to lower their bid. A typical two-week auction involving a handful of vendors often produces hundreds of bids, concluding in a frenzy of activity, with dozens of bids entered in the final hours.

The bottom line is that procurement auctions can be extremely effective for reducing vendor prices. If a business is not using procurement auctions to negotiate and renegotiate enterprise expenses including, SaaS, cloud and data services, CRM, billing services and software, networking, contact center technology and services, and dozens of other categories, there is a strong likelihood they are leaving money on the table.

Here are three best practices for getting the most out of a procurement auction:

1) Create a data-driven scoring methodology that optimizes for fit as well as price.

Procurement auctions are a great tool for finding the lowest price. However, most enterprise purchases are not for commodities like paperclips; they are for complex products and services where competing vendors offer differing feature sets, integration capabilities, product roadmaps, and services. It's often not possible to make an apples-to-apples comparison on price alone. The goal of the procurement auction is not necessarily to find the lowest price, but to find the combination of price and non-price factors that represents the best value and fit for the buyer.

So, how does a business create a data-driven auction process that balances price and non-price factors, delivering the best value and fit?

A best practice is to prepare for the auction by creating a rubric that quantifies the value of non-price factors important to the business. Think of it as a vendor scorecard with a numeric value assigned for each feature requirement.

For example, if a business is looking to buy or re-bid billing software, there are many product requirements the software must satisfy to suit the business' needs. One critical requirement might be integration capabilities with the CRM system. The quality of the integration likely matters as well, so a bidirectional native and supported integration might earn one vendor a high score for that category, whereas a do-it-yourself, unsupported API integration might earn a different vendor a substantially lower score. Expand this exercise to create a scorecard that includes all the critical vendor and product requirements.

The pre-auction scorecard exercise delivers a data-driven numerical ranking of the vendors and products that best fit the business needs, bringing together vendors that can deliver the services necessary — at an advantageous price point. Cost, value, features, and futureproofing are all important considerations, and should be quantified for a successful procurement auction.

2) Understand the willingness (or lack thereof) to move on from an incumbent vendor.

Effort-based, time-based, and monetary switching costs are often a reality when changing vendors. There is value in familiarity, especially if the product is already integrated with existing business processes; if employees are already trained and successfully using the solution; and if the vendor is already approved and set up in accounts payable. On the other hand, if stakeholders are dissatisfied with an incumbent provider, then that must be a consideration.

In such circumstances, the rubric and scorecard can help — vendor familiarity should be one of the categories in the scorecard. If an incumbent is valued and the task of onboarding a different vendor would be difficult, the scorecard should reflect this. Stakeholders will often say it is too disruptive to change vendors but work with them to try to quantify the pros and cons of making a switch. Can valued functionality and better service be gained by switching vendors?

Is it worthwhile to move on from a valued vendor if the cost can be reduced by 40 to 50 percent or more? What is the tipping point where the amount of potential savings makes it impossible to ignore? Thus, working with stakeholders to establish a data-driven threshold is critical to determine if changing vendors is in the best interest of the business.

Remember, even if it is determined that an incumbent vendor will be retained, it is not uncommon for an existing vendor to reduce their fees by 20 percent or more through the competitive dynamics of the auction process.

3) Build trust with the stakeholders outside of finance.

It would be so much easier if procurement could independently identify opportunities for cost savings, run auctions, lock down contracts with the lowest-priced vendors, and deliver millions of dollars in savings to the enterprise. But that's not the way it goes with enterprise purchasing, and that's not the way it goes with procurement auctions.

There are many stakeholders outside of the corporate finance team that must be part of the negotiation and auction process. The IT team must be included because it is the "owner" of any technology-related initiative and is necessary to ensure that technical requirements are satisfied and that the objectives line up correctly. End users of the products and services should also be consulted to understand their experience and needs, and any potential disruptions caused by switching vendors.

It is important to work as a team to formulate migration plans and review new ways to connect business processes. The team will share credit for harvesting millions of dollars that can be used to fund new projects, improve profitability, and even prevent layoffs.

Successful procurement auctions are a team sport. This can be a challenge. However, it is also a fantastic opportunity to elevate the strategic profile of procurement throughout your enterprise and build rewarding relationships with other powerful leaders in your organization.

About Blake Wetzel

Today's article is a guest post from Blake Wetzel, CEO of AIQ, a leader in procurement consulting and e-auctions. AIQ provides an end-to-end service, from performing the spend analysis to sourcing and qualifying vendors to road mapping the overall renegotiation strategy to running auctions, to delivering renegotiated contracts to the client. Learn more at www.aiq.co.

Original publication URL:
https://cporising.com/2024/01/24/guest-article-3-best-practice-tips-for-running-procurement-auctions/