



Reaping Big Cost Savings With Reverse Auctions

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When home fashions retailer Anna's Linens began using reverse auctions in 2008, the goal was to save \$50,000 a year on purchasing blankets. The company ended up saving a whopping \$250,000 instead. Dozens of auctions later, the Costa Mesa, Calif.-based company has saved over \$6 million by getting multiple bids on everything from printing to armored car service —along with textiles.

Getting access to more vendors and pinpointing real prices are the pay-offs, says Alan Gladstone, CEO and founder of Anna's Linens, which has nearly 300 stores in the U.S. Bids come in as far away as Pakistan, India and China.

Hefty price savings is the main driver behind reverse auctions. Projects are auctioned off to a pool of suppliers — six to ten in the case of Anna's Linens — who compete for a company's business within a small window of time. Bids get increasingly lower as the bidding progresses. Week-long negotiations and discussions are distilled into minutes.

Call it the Wal-Martization of the supply chain process.

Hungry for cost savings, more companies are turning to reverse auctions. Gartner senior procurement analyst Deborah Wilson figures that up to 50,000 reverse auctions were held in the year ending October 31. That's a 10 percent increase over the year before. Companies are typically saving 10 to 20 percent by using reverse auctions for their purchasing, she says.

Hire outside consultants or use in-house experts to oversee the process, adds Wilson of Gartner.

Retailers and grocery industries, where there's more price pressure, are already heavy reverse auction users.

"They can't afford to be relationship oriented," Wilson says.

The auctions are transparent, held on an online platform where bidders can see others bids —driving prices lower.

"It's a good way to get a handle on pricing ranges," says Craig Agranoff, a Boca Raton, Florida-based business consultant. "You can go back to suppliers and say: 'Why aren't you charging this.' It levels the playing field."

Margin-pressed suppliers aren't as enthusiastic, though.

"The process does scare away bidders," he adds. "Some companies can only go so low."

Anna's Linens saved over \$6 million by using reverse auctions on everything from printing to armored car service -- along with textiles.

Moving Beyond Fortune 500

Reverse auctions were invented in the 1990s by a former General Electric employee who wanted to streamline the buying process. Fortune 500 companies like United Technologies [UTX 77.05 -0.40 (-0.52%)], Royal Dutch Shell [RDSA-GB :LONDON STOCK EXCHANGE Loading... ()] and Exxon Mobil [XOM :NYSE Loading... ()] quickly picked up the concept. Now most big companies are using the concept, say experts.

Lately, more mid-sized companies have signed on, says Agranoff.

“They’ve noticed it’s much harder to compete internationally,” he says. Smaller companies, though, lack the scale to run these auctions unless they band together.

Clear specifications for what you’re auctioning is also necessary, says Len Kaplan, vice president of sales for reverse auction specialist Intesource.

Reverse auctions work very well when buying commodities, goods and services — even highly specialized ones, such as security, adds Tony Moldo, a Plymouth, Minnesota-based consultant who once oversaw 700 reverse auctions for Target [TGT 53.465 0.525 (+0.99%)]. You also need at least three bidders, he adds, since competition fuels lower prices.

Lowest bidders aren’t always the best suppliers, though. Large companies have been plagued with so-called suicide bidders, who were later unable to handle the job. Doing due diligence on suppliers is essential, experts agree. Quality, service and price must all fit together.

Clear specifications for what you’re auctioning is also necessary, says Len Kaplan, vice president of sales for reverse auction specialist Intesource. “One bad sourcing event can overshadow ten good ones. Be careful.”

Anna Linen’s Gladstone learned that lesson the hard way. Early in the reverse auction timeline, Anna’s Linens won bids from suppliers who couldn’t meet the shipping window. So the company switched to the next bidder.

“Since then, we’ve added more details to the process, not just specifications,” says Gladstone. That includes capital resource, back up inventory and shipping window requirements.

Some management teams are well-suited for the auction model. Others might need some training or have to discover untapped skills among its workers.

Hire outside consultants or use in-house experts to oversee the process, adds Wilson of Gartner. “It takes weeks to prepare for an auction,” she says.