

# Bidding Down Prices

Reverse auctions generate **savings** in supply chain

BY M.V. GREENE

**D**elivering “price and quality” to customers is a standard mantra for any retailer, but arriving at that balance of cost and value is always a challenge. The starting point to savings typically lies within the supply chain — that’s where efficiencies can be generated and those lower costs passed on to customers.

With some 130 stores in the Northeast, Schenectady, N.Y.-based Price Chopper Supermarkets takes that price-quality creed to heart through the use of an ambitious e-sourcing platform that leverages reverse auctions.

Through reverse auctions, Price Chopper is able to generate competitive bidding not only on grocery items such as bakery, seafood, produce and dairy, but also on services such as construction and human resources. “We’ve achieved significant savings on [a] smaller level of spend,” says Jason Kennedy, the chain’s director of continuous improvement and administrative effectiveness.

The reverse auction is a phenomenon in sourcing and spend management fueled by the capabilities of the Internet. In typical auctions, a seller offers a product or service and buyers bid, with the price increasing as the auction transpires. With reverse auctions, sellers vie for a buyer’s business with the notion that the price will decrease as a result of competition.

“Before we had this process in place, we would never really go after [smaller



items],” Kennedy says. “If anybody within the organization has an idea on a specific category, no matter how large or small, we can provide detailed specifications to attract enough suppliers in the market who are willing to bid. Then we can generate significant savings.”

## Strategic sourcing

Price Chopper’s reverse auctions are developed through an electronic sourcing platform from Intesource, a Phoenix-based spend management solutions provider. The Intesource platform is a customizable, enterprise solution with support for electronic negotiation and services.

Prior to launching the solution, Price Chopper’s sourcing protocols lacked organizational consistency. “We were looking for a strategic sourcing solution that we could implement throughout our organization,” Kennedy says.

E-sourcing standardizes an organization’s procurement practices and ensures that all areas of spend within the supply chain are under supervision, says

Intesource vice president of sales Len Kaplan.

“The days of just going out and renewing contracts are over,” he says. “Competition is just too tough. These organizations work off small margins. Bringing all spend under management or under some type of review process has proved to be quite valuable.”

Another benefit of reverse auctions is shortened cycle times, as procurement now can be achieved in days rather than months when compared with paper-based RFP processes, according to Kaplan.

At Price Chopper, individual departments had been purchasing their own products and services, creating a silo effect within the supply chain. Through the e-sourcing program, Price Chopper has created a coordinated spend process that permeates company operations: Suppliers who want the company’s business have to compete for it in an open, transparent process.

Price Chopper has run more than 250 sourcing events on the Intesource plat-



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form since 2006. A sourcing event for floor cleaning throughout the chain attracted more than 30 suppliers who offered some 3,000 quotes for the work in less than two hours of auctioning. A pharmacy/generic drugs event drew in spend of \$6 million and allowed Price Chopper to save 31 percent over its previous cost for the category.

Additionally, when corporate offices were being remodeled — including new consumables and plumbing,

glass glazing and office furniture — the company used a reverse auction for the construction work.

“It’s all done online, with the vendors entering quotes based on a level of transparency that the customers determine they want to put into the marketplace,” says Brian Miller, Intesource’s vice president of services and Price Chopper’s account manager. “The vendors can continue to lower their price until they receive an indication that they are the best price in the marketplace.”

### **Transparency on both sides**

Intesource supplies templates that allow bids to be scrutinized by unit cost, transportation cost, duties and tariffs, utilization costs, warranty costs and other considerations. A bid for floor care might specify the type of products suppliers should use, the frequency of the cleaning and even how often floors are to be stripped and waxed.

By outlining specifications in advance, Kennedy says, vendors have a firm grasp

of the terms and conditions.

Vendors “need to know what they are bidding on,” he says. “Everyone needs a clear understanding of that in order for it to be competitive.”

Miller adds that retailers that develop their own specifications for bids gain an advantage because they remove that task from self-interested incumbent vendors. “This process forces [retailers] to start to understand exactly what they are buying and define specifications,” he says. “They begin to build a specifications library.”

Beyond the reverse auction process, Price Chopper gains more muscle with potential transactions through Intesource’s contract and vendor management tools and databases.

Vendor tools locate additional potential suppliers, allowing buyers to expand their supply bases. Within contract management, buyers can certify that vendors are insured or be made aware of hidden contract terms, such as language for automatic renewals.

Ken Gregory, Price Chopper’s reverse auction analyst, says e-sourcing gets the chain closer to fulfilling its mission of driving savings to its customers.

“We want to make sure what they are buying is lower retail cost, but also best overall value,” Gregory says. “It’s a balance of the best overall value and the best price.”

Kennedy says the dramatic change in approach to sourcing at Price Chopper has given the chain added impetus for finding costs savings. Sourcing events at corporate headquarters generate excitement among internal departments and stakeholders in that quest for price and quality, he says.

“We will book a conference room, put the auction up on the screen and everybody attending can see the prices being driven down,” he says. “It really gets everyone excited about what it is we are doing.”

**STORES**

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