CASE STUDY

ONLINE REVERSE AUCTIONS FAST-TRACK IT SOURCING AND GENERATE SIGNIFICANT SAVINGS FOR GLOBAL LUXURY RETAILER

Abstract

Infosys BPM implemented online reverse auctions through the Ariba sourcing tool for its client, a US based global luxury retailer, reducing sourcing cycle time for IT spends while also generating significant savings.

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The client landscape

The client is an American cultural icon, a global leader in the design, marketing, and distribution of premium apparel, accessories, home goods, and fragrances. The brand is synonymous with timeless design, impeccable quality, and the utmost attention to detail.

Since the middle of 2016, a small team working out of Infosys BPM's India delivery center has been supporting the client's sourcing and procurement operations across North America, EMEA, and APAC. This strategic partnership encompasses critical services in the non-merchandising procurement and sourcing areas, including spend analytics support, contract mass upload, RFP management, and market intelligence. The extended Infosys team has greatly augmented the capability and capacity of the client's procurement operations, enabling key decision making and helping address the challenging business needs of the retail and apparel market.

Transforming sub-optimal sourcing processes

In the recent past, the client had implemented Ariba as a procurement solution but was not using it optimally. Infosys BPM, with its wide exposure to the software, having used it for several of its other client engagements, began assisting the company to extract greater value from spends through a more effective use of Ariba's tools.

To this end, the Infosys BPM Program Manager initiated several discussions with the client Category Manager. During one such discussion, it emerged that as IT hardware is a competitive market with plenty of manufacturers, distributors, and aggregators, the PC refresh spend category would be a potential opportunity for significant savings.

At the time, the client was in the middle of replacing many of its older personal computers with newer models through a conventional request for proposals (RFP) via email. Infosys suggested that a reverse auction process — including its complex pricing sheets, complex formulae, and category-wise generic templates — could be built into the Ariba system. This would not only create an environment for the best possible deal, where PC suppliers would compete by offering lower prices, but would also speed up the sourcing process to meet the client's challenging deadlines.

Building a reverse auction on Ariba

Based on the discussions with the Category Manager, Infosys BPM created two reverse auction models in Ariba and showcased them to the client. Commercial terms were a pre-requisite for both auctions i.e. the suppliers had to agree to the terms before they could participate.
In the first model, the first online round on Ariba was non-competitive, and suppliers could indicate bulk volume discounts they were willing to offer for different spend tiers. They were also given the option to offer varying discounts for the three regions of the client's operations. Thus, for example, a supplier could indicate one discount percentage for a spend tier of $1,000,000 - $1,500,000 in the US region and another percentage for the same spend tier in the EMEA region.

After the first round was over, there was hardly any difference found in the overall prices quoted by the suppliers. However, there were noticeable price differences at the line item level. The next round was the reverse auction round with the top three suppliers. Three separate lots were built for each of the regions, and the ceiling price for each line item was set to L1 which was the lowest of the bids from the first round. Each of the suppliers had to make a mandatory pre-bid which would need to be equal to or lower than the ceiling price. A supplier agreeing even to the ceiling price would yield a minimum savings of 10-12% for the company.
The second model was like the first, except that it did not have round 1 – the volume discount round. In this case, there was only the competitive bidding phase on Ariba. However, suppliers were informed that the final shortlisting and awarding of the contract would be based not only on pricing but also on volume discounts, which could be offered offline to the category manager.
For both models, Infosys went the extra mile to train new suppliers on the tool and gain their confidence, with the result that the number of RFP's gradually rose.

Fashion-show worthy outcomes

The project reduced the sourcing cycle time considerably. What initially started with three RFP's in five months, rapidly picked up pace to eight RFP's along with one reverse auction all conducted in just two months. Along with the speed of procurement, the client also gained significant savings of up to 14% on their IT spends when compared to earlier spends through RFP-based processes.

Region	Supplier 1 Savings	Supplier 2 Savings	Supplier 3 Savings	Leading Savings
APAC	13%		7%	13%
EMEA	14%	8%	5%	14%
US	14%	7%	7%	14%
Total	**14%**	**8%**	**6%**	**14%**

Region wise supplier savings

The other benefits of using the Ariba sourcing tool for reverse auctions included:

- Rapid RFx creation through minimized duplication of work while building new events with the use of standard flexi-templates or copying from historical events as deemed fit
- Increased compliance in terms of transparency and confidentiality, and levers for further negotiations
- The ability to conduct competitive bidding with timing options
- Well-organized supplier response management through the usage of a message board
- The availability of an audit trail and archival of documents for future reference.
- Automated workflow with alerts and toll-gates
- Efficient reporting with reports extracted in the desired output format with minimal manual intervention

For more information, contact infosysbpm@infosys.com

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