

E-Auctions in India: A Sleeping Giant

Indian companies have been reluctant to introduce e-auctions to their arsenal of procurement tools. But with the right preparation and execution, significant savings can be achieved while still maintaining supply stability.



Over the past decade, companies around the world have focused on automating business processes. One example of such automation is e-auctions, an arrow in the quiver of advanced sourcing techniques that enable global corporations to significantly reduce external spend while streamlining procurement processes. In India, many midsize and large enterprises have begun to conduct e-auctions, though in our experience most have found it difficult to achieve their full potential due to the inherent complexity of the process and the limited readiness of the supplier ecosystem.

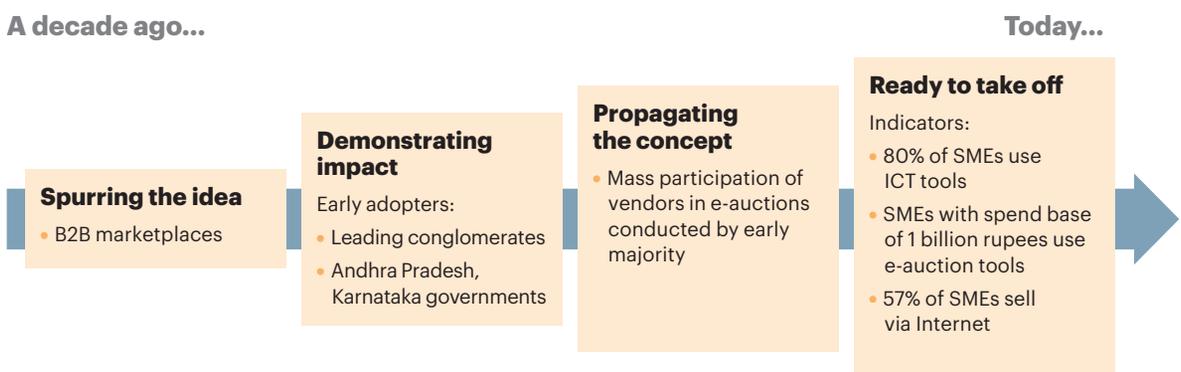
Today, the explosion in the number of suppliers, mushrooming Internet access, and the growing need to manage the bottom line are creating a perfect environment for more Indian companies to jump onto the e-auction bandwagon. But first they must overcome the perceived challenges and find the proper fit for e-auctions in their overall procurement strategy to realize the full impact and make it sustainable. It is essential not just to adopt the tools, but also to understand and adjust the implementation nuances to get it right.

E-Auctions Still Nascent in India

The concept of online procurement first arrived in India more than 10 years ago, when e-marketplaces such as FreeMarkets created platforms in the hope that thousands of buyers and suppliers would come together and use them to do business (see figure 1). The idea, however, failed, as most companies were reluctant to deal with unknown suppliers. Unlike e-marketplaces, e-sourcing (including e-auctions) is a *buyer-driven* concept, where service providers work closely with the buying organization to understand supply markets and reach out to suppliers that meet their specific business needs.

The switch to e-auctions was compelling for most large organizations in India, but only a few large conglomerates were quick to adopt it—a winning move that helped them shave between 10 and 15 percent off the cost base of the auctioned categories. One leading Indian automotive conglomerate started out with standardized products such as oils, lubricants, and fasteners, before gradually adding more complex categories such as castings, injection moldings, and sheet metal.

Figure 1
Evolution of e-auctions in India



Notes: SMEs are small and midsize enterprises. ICT is information and communication technology. One billion rupees is approximately US\$16.3 million.
Sources: Federation of Indian Chambers of Commerce and Industry, Google; A.T. Kearney analysis

Clearly, the early adopters demonstrated that the e-auction process is much more advanced than traditional RFQ-led negotiations.¹ For one thing, e-auctions deliver the benefits of automation, including greater process control, increased transactional transparency, fewer intermediaries, and shorter procurement lead times. For another, they increase the buyer's bargaining power by showing incumbent vendors in real time the possible loss of business and creating time pressure to seal the deal. Thus, e-auctions generate an extremely competitive price-discovery environment and potentially result in major savings.

As confidence in e-auctions grew, they were adopted by several state governments, including those of Andhra Pradesh and Karnataka. In many cases, the initial reason for adoption was more about transparency and agility than it was about lowering costs.

Yet despite the success of early adopters, e-auctions have yet to take off in India. This suggests significant potential opportunity considering that procurement leaders worldwide are already using e-auctions to manage more than 35 percent of spend, as highlighted in the A.T. Kearney Assessment of Excellence in Procurement study. Many Indian companies have simply used e-auctions to achieve incremental savings in a limited number of categories, without adequately calibrating the true price point. Such a tactic merely squeezes a less-than-ideal supplier pool and defeats the overarching objective of creating a win-win collaboration with the right suppliers and obtaining sustainable outcomes. Our experience in India also underscores the need to instill more confidence in the entire concept of e-auctions.

Myths That Are Holding Back Adoption

Three misconceptions are holding back acceptance of the e-auction concept in India and need to be dispelled to inspire confidence among future adopters.

Myth #1: Indian suppliers are not IT-savvy enough

In reality, Internet penetration is growing very quickly, and most suppliers already enjoy access. Small and midsize suppliers may not be completely comfortable with technology, but they are eager to learn and change. Indeed, we have sometimes found that it is precisely these vendors—from agricultural suppliers in rural Rajasthan to small bottle makers across various industrial belts—who are the most interested in participating in e-auctions (and have successfully done so). A new, forward-thinking generation is running many of these businesses, so writing them off is a big mistake. They do, however, require training, and it is vital to answer any questions and address any apprehensions they might have.

Myth #2: Only a few categories are suitable for e-auctions

Actually, nearly all categories can be sourced using e-auctions. The key is to adapt the auction strategy to the category's supplier market dynamics and degree of standardization. Hence, there is a distinct need to comprehensively understand the supplier market, including the level of consolidation, the relative power of buyers and sellers, and customers' true requirements (including the level of customization).

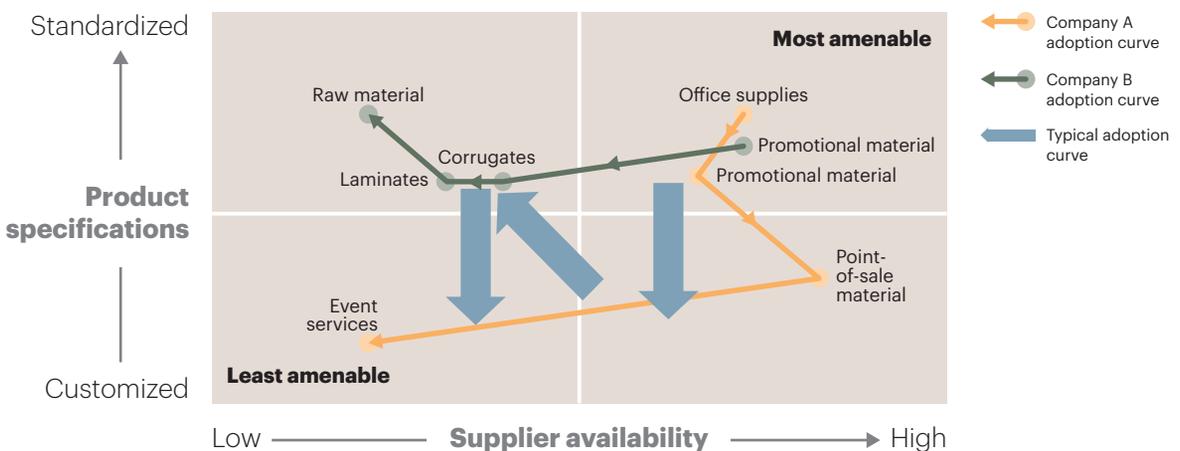
¹ RFQ is request for quotation.

Consider the following:

- For **standardized specification items** (for example, scratch cards, adhesive tape, or leaflets), a company can use an e-auction to try to spark a pure price war. To do so successfully, a large number of new suppliers must be identified (from small regional purveyors to large national companies) and uniform specifications must be locked in through a pre-auction request for proposals (RFP). Then, it's simply a matter of putting the full annual business volume on the table and waiting for the competition to begin.
- **Commoditized items** bought at regular intervals (such as flour or sugar) can be sourced via an online quote system comprising both small and large suppliers. This approach promises to award the contract for a particular day to the supplier quoting the lowest rate. Transparency of the business at risk, together with the frequency of procurement opportunities, keeps pressure on suppliers high and engages their interest.
- **Customized, non-commoditized items** such as event services can represent a large portion of spending at a consumer-facing company. We segregated one client's events spend into high-value creative costs and lower-value materials and services, tailoring the approach accordingly. This technique can also work for categories with hidden conversion or labor costs, such as wire harness and sheet metal fabrication.
- For **items with fragmented supplier markets**, one effective method is to consolidate spend across similar categories (or across regions), conducting e-auctions on the final aggregate value. (Suppliers can later be asked to break down their offers by item.) Spend on maintenance, repair, and operations (MRO) services and promotional items are classic examples of categories where such a strategy can be used.

While innovative approaches make e-auctions broadly applicable to nearly all categories, most Indian companies follow a similar sequence and timing (see figure 2). They start with categories that have standardized specifications and high supplier market competition before moving on to complex items with fewer suppliers. Category criticality, supplier switching costs, and the nature of incumbent supplier relationships also influence the prioritization.

Figure 2
Amenability to e-auctions and adoption strategy



Source: A.T. Kearney analysis

Myth #3: Large incumbents won't participate, and new vendors could jeopardize supply stability

Successful e-auctions require tough competition, especially from new suppliers. But getting incumbent suppliers on board is important too, because a mix of old and new suppliers facilitates the transition.

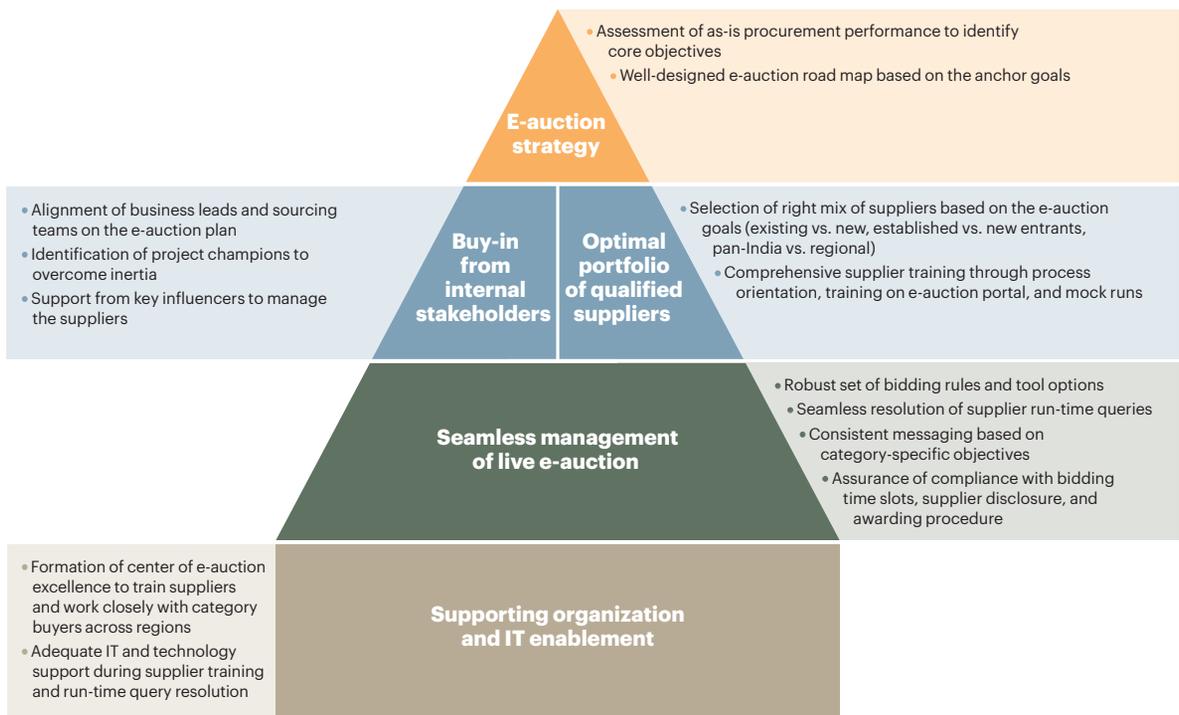
Often, Indian companies prefer to negotiate hard with incumbents—who are perceived to ensure a stable supply—rather than introduce unproven vendors who could upset the status quo. Consequently, only a small portion of spend is placed on the block, creating inefficiencies in the e-auction process.

Our experience suggests, however, that a stringent process to qualify new vendors can minimize buyer anxiety and present a credible threat to incumbents' business. Under these circumstances, even the most circumspect incumbents will usually choose to take part in the e-auction.

Contours of a Successful E-Auction

The success of an e-auction hinges on having the right strategy, executed at the proper time and in the appropriate manner. A.T. Kearney's E-Auction House of Excellence (see figure 3) encapsulates the critical factors. (See sidebar: Snapshots of Success on page 5 for practical examples of results and practices.)

Figure 3
A.T. Kearney E-Auction House of Excellence



Source: A.T. Kearney analysis

Snapshots of Success

Based on our firsthand experience, companies in India can achieve between 4 and 17 percent savings in categories sourced by e-auctions. The factors most critical to success vary depending on the nature of the category (see figure).

To overcome one multinational company’s initial hesitation to introduce new suppliers, we adopted a hybrid sourcing approach that began with a detailed pre-auction RFP to

thoroughly assess vendor capabilities and establish a favorable starting price-point range. This approach also improved supplier understanding of the different specifications and business volumes at stake, thus intensifying competition during the actual e-auction.

At another client, we ran an e-auction in parallel for multiple point-of-sale material categories. After the first round we assessed suppliers’ interim positioning,

and our client used that information to nudge certain suppliers toward specific categories (for example, by encouraging niche suppliers to compete in categories best suited to their capabilities). While small suppliers couldn’t compete in categories where market scale was the key price enabler, they often emerged as winners in other areas where scale-driven costs were less important.

Figure
Savings in select categories

Category	Savings range (%)	Major contributor to e-auction success
Laminates	4–17	<ul style="list-style-type: none"> • Large spend volume, making the auction attractive for suppliers • Good understanding of supplier market, including an understanding of nationwide suppliers who would be attracted by the large volumes on offer
Butter	7–11	<ul style="list-style-type: none"> • Roping in new suppliers from emerging dairy regions, based on a thorough understanding of the supplier market • Minimal offline negotiations after the auction (especially important given the recurring nature of the purchase)
Promotional material	7–8	<ul style="list-style-type: none"> • Appropriate lot and auction strategy based on initial responses to RFQ
Hard point-of-sale materials	6–8	<ul style="list-style-type: none"> • RFPs conducted before the auction to negotiate based on “should-costing” of unbundled elements
Uninterruptible power supply (UPS)	12–15	<ul style="list-style-type: none"> • Active support from the buyer for the entire process

Notes: RFQ is request for quotation. RFP is request for proposal.
Source: A.T. Kearney analysis

E-auction strategy

The starting point of an effective e-auction process is a clear outcome-focused plan. An assessment of as-is procurement performance (including cost of inputs, process and contractual compliance, historical savings yields, and product lead times) helps to define anchor goals and steer the entire buyer group in the same direction.

Major decisions in the e-auction plan—category sequence, timelines (for the pre-auction, live, and post-auction stages), the supplier outreach process, and the value proposition for suppliers—will be completely different, depending on whether the buyer wants to get the best-quality raw material from global suppliers or minimize supply risks by expanding the vendor base.

Internal stakeholder buy-in

A well-aligned anchor theme helps the buyer develop a robust plan and communicate it transparently within the company, so as to overcome inertia and garner support across functions. While the core activities can be managed by a champion group, support from other employees to manage suppliers and conduct related processes is also essential.

Optimal portfolio of qualified suppliers

The importance of the work done to understand the supply market cannot be underestimated; the number and quality of suppliers can spell the difference between success and failure. It is crucial to understand the criticality of the material being sourced, along with the structure of the supply market, and come up with an exhaustive list of potential suppliers that can be roped in. An optimal pool includes participants of the right type and size, adequately trained before the final run. And, of course, the participants' credentials must be rigorously assessed beforehand to ensure that the auction winner is duly qualified.

E-auctions can deliver major savings

by offering the benefits of automation, increasing buyers' bargaining power, and generating a highly competitive price-discovery environment.

Flawless management of the live e-auction

Seamlessly running the live event, although apparently tactical, is one of the most crucial elements of the House of Excellence. In our observation, suppliers invariably encounter difficulties during the event. Being prepared to resolve their inquiries can help avoid the loss of a potential winner due to technical or content issues and make the outcomes more powerful. The proper use of messaging at the time of bidding, combined with effective coordination, can push the price floor to its true limit.

Supporting organization and IT enablement

Apart from the category sourcing leads and other employees involved in managing the process, a dedicated center of e-auction excellence is needed. Ideally led by an experienced professional with an e-sourcing background, such a center helps to formulate the e-auction strategy, align stakeholders, run the auction, and, most importantly, coach vendors during the initial stage. In companies with high procurement performance, technology and IT teams' roles often go beyond handling system and connectivity lapses: advanced IT mechanisms such as self-generated messages to suppliers, automated verbal query resolution, dedicated phone connections, and portal-linked live messaging can significantly improve run-time query resolution.

Time to Awaken

As more and more Indian companies witness the power of e-auctions, acceptance has increased in recent years. While the growing supplier market and increasing Internet penetration have made e-auctions more applicable than ever, complexity continues to hold back momentum. Companies that wish to take advantage of e-auctions' full potential need to incorporate them as part of their overall road map to achieve procurement excellence. Clarity and alignment on strategy, a strong pool of suppliers, and cross-functional support can help the buyer organization overcome execution challenges and achieve the desired results. As the need to increase business efficiency grows, e-auctions must become an integral part of companies' DNA.

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