



eSourcing in Action

An on-going series of real life case studies

FlexRFP™ DLT Backup Tapes Case Study

Background:

Recently, we concluded a project for a new client that is a leader in the Medical Services industry, who has evaluated several other major e-Sourcing providers over the last 2 years. An interesting point is that this project (IT Backup Tapes) was negotiated one year ago using a competitive e-Sourcing solution.

The Project:

Baseline Spend:	\$560,000
Number of Line Items	3
Number of Suppliers Participating:	10
Project Goal:	Single Source

Setting The Stage: Supplier Pre-Qualification and Initial Bids

Even though a reverse auction had been used to negotiate this spend category one year ago, new potential suppliers were added to the process and the IT market has fluctuated during the last 12 months. As a result, an eRFI was used to pre-qualify suppliers and an eRFP was used to collect initial bids from each supplier.

As part of EC Sourcing Group's recommended approach, suppliers are pre-qualified to participate in the event using an RFI and then initial RFP bids are collected from suppliers. The RFP bids are then used as each suppliers individual starting bids for the reverse auction.

Why?

Reason #1: By first collecting RFP bids, all bids can be examined for reasonableness prior to the live auction.

Reason #2: RFP bids can be used to determine what the best reverse auction strategy should be.

Reason #3: We feel that by allowing suppliers to enter the auction at a price that they have provided you with (RFP bid), where they can then choose whether to bid (or not) is a much more comfortable approach for them and actually promotes more competition.

The Rabbit: Run Rabbit Run!!!

Another major benefit of collecting initial RFP bids that we have seen happen in many cases is when a new (or non-incumbent) supplier is very aggressive with their initial RFP bid (since initial RFP bids are "blind"). In this project, the incumbent supplier's RFP bid was 3.3% lower than the baseline price and the lowest supplier's RFP bid was 29% lower than the baseline price. When the live auction begins, the low supplier then becomes the "rabbit" that all other suppliers will chase during the auction event.

Important Note: Please keep in mind that the IT equipment market had seen increased price pressure over the previous 12 months. The average savings across many clients/industries using FlexRFP is about 18%.

In this project, the low supplier was chased intensely by all but one of the 8 suppliers that were invited to participate in the reverse auction. The 20 minute auction was extended several times, for a total auction event time of 55 minutes.

THE END RESULT:

At the end of the 55 minute auction and more than 200 bids, the RFP low bidder was still the low bidder (33.9% savings) **BUT...The incumbent supplier finished only \$400.00 behind the low bidder, which means they moved over \$170,000 during the auction by chasing the low bidder!!! AND all suppliers (except one) finished with 27% savings or greater.** Once again, it is our proven belief that if suppliers enter an auction at a price that they feel comfortable with (their initial RFP bid), they know that there was a pre-qualification process and they know that all bids were reviewed before the live auction event, this creates an environment for optimal competition.



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About EC Sourcing Group

One of the most important things to know about EC Sourcing as a company and its philosophy of doing business is to understand the backgrounds of our company's principals & founders. We previously held positions similar to most of our clients, directing the Strategic Sourcing efforts of a well-known Fortune 500 company. This means we grasp the practical and everyday requirements of the supply management solution you seek.

We began by extensively reviewing the current solutions in the marketplace, and we liked the overall concept of applying a technology tool to the Sourcing process. However, we found that the tools available fell short in several key areas important to everyday sourcing professionals like:

1. Most were designed by IT people, not for Sourcing, Purchasing or Procurement viewpoints
2. Most were too complex for the average user (both, buyer & supplier) and did not address the day-to-day realities of what actually occurs when doing the work
3. Most required too much training and therefore don't even get used once their purchased
4. Most were inflexible "you have to do it their way" or "you can't do that in the system"
5. Most were too auction-focused, & sometimes take an adversarial approach towards suppliers

Our Unique Differences

- Founded by Strategic Sourcing Professionals with a focus on developing tools & services that are:
 - Flexible to meet the unique needs of each client
 - Easiest-to-use, taking less than 3 hours to learn, so they get used & stay in use
 - Familiar by capturing & managing data your way without requiring you to change your current process
 - IT friendly, thereby requiring no IT involvement
 - Supplier-friendly to insure their willing participation
- We believe software companies shouldn't be telling you what's important to your business or how to organize and manage your sourcing data.
- We offer many easy ways to do business with us, including flexible zero-risk payment Options and understand that your ROI defines our success.
- Above all else, we value our clients; therefore, we understand the importance of follow-up, and follow thru in every aspect of our service and support.

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