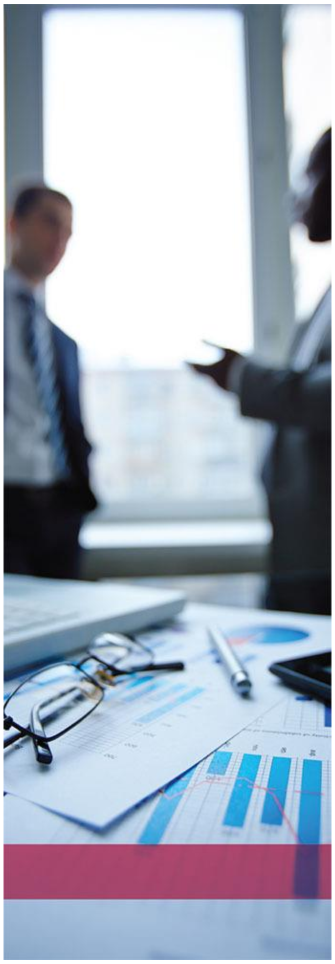

When Not To Utilize Competitive Bidding

IN SECTION: INSIGHTS

Conducting an RFX can be effective, but it isn't always the best approach to optimal pricing and value needs.

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Every year, sourcing professionals conduct hundreds of competitive-bidding exercises to elicit pricing, service-level commitments and proposals for solutions from suppliers that can meet their organization's requirements for a wide array of goods and services. Soliciting competitive bids, usually done through the RFX toolbox (including RFQ and RFP), is an essential role for a sourcing organization. The competitive-bidding process allows companies to (1) validate supplier interest and capabilities, (2) select solutions that optimize their needs and (3) negotiate optimal pricing and contract terms that drive value to the business.

There are instances, however, when going out to bid might not be the ideal approach to meet the specific needs of a business. In fact, an alternative approach can be more effective than an RFX in the following five areas.

LIMITED SUPPLY ALTERNATIVES

Some categories have a limited number of available, qualified or interested suppliers, often because there's a monopoly and only one supplier can provide the item or service, or because there is only one qualified source.

This single source of supply could be the result of market conditions or a lack of qualified new suppliers, or because a supplier owns the intellectual property (IP) that supports the product or service (for example, Microsoft software) being sourced. In other cases, the company and the supplier might have a joint investment in the IP, equipment or distribution channels, making it difficult to switch to another supplier.

In these situations, conducting an RFX may not be the best solution. Instead, you'll achieve better results by establishing a long-term, flexible contract that addresses risk-mitigation tactics and provides a well-defined pricing structure, as well as a set of balanced supplier performance metrics.

TIME CONSTRAINTS

Because some sourcing situations are time-sensitive, an RFP may take too long to deliver the supply requirements. For example, when there's an inventory stockout, it's critical to replenish the item right away, leaving little time for a formal competitive bid solicitation and supplier selection process.

Likewise, an organization might need to make a one-time purchase for a service — such as a repair — that's required "right now" to maintain business-operation continuity. As a result, the company might want to find a supplier that's available ASAP and issue a PO rather than go to bid.

Another example: A new market-entry timeline could require that products be immediately available. In this case, a company might use an existing supplier in another market rather than qualifying local suppliers and running an RFQ, just to be ready for the market opening.

COST FACTORS

In some instances, a quick assessment of a category's economics will make a competitive bid ineffective. For example, consider the cost of switching suppliers: If you estimate the total costs of moving to a new supplier to be higher than the potential savings from a new supplier, then a bidding event might not make sense.

On a macroeconomic level, market pricing might also be a reason to forego a competitive bid. One instance: when market pricing has been high but is expected to go lower, perhaps due to a new technology that drives efficiency or a decrease in the underlying commodity cost. A competitive bid might not make sense because you don't want to lock in current pricing with your supplier. Instead, you want to keep pricing flexible, perhaps through spot buying (getting pricing every time you buy) and running an RFQ when prices drop, taking advantage of a more attractive market position.

BETTER TOOLS

At times, another negotiation tool might be more effective than competitive bidding. For example, you give a supplier additional volume or spend, but the supplier doesn't lower the price as a result. If you're satisfied with the supplier's performance, then the right tool might be renegotiating for lower pricing or costs. In this instance, the supplier might take a lower margin, once it understands that you're willing to forego the RFP process and extend the contract term.

RELATIONSHIP VALUE

In rare instances, the relationship with a strategic supplier may be the cause for not running a competitive bid. Let's say a supplier has expert resources — such as a leading-edge technology application — that could drive value for your company. Running an RFQ could dampen the relationship, leading the supplier to not share resources that can help your company innovate new products or services.

Competitive bidding can and should be frequently used by sourcing professionals. It's an effective tool when there's plenty of competition for the service or product you need to source, and for when you want to gain leverage with a current supplier. However, better outcomes can be achieved by not bidding during certain situations: when there (1) are few approved supply options, (2) are time constraints, (3) are pertinent economic and market conditions, (4) are other tools that can be more effective and (5) is the potential of losing a long-term supplier relationship.

It's important to know when stepping away from the tried and-true RFX is not only OK, but a better approach for your business.

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