

TIME. MONEY. TRUST.

PROMENA



2011

Your Global Purchasing Partner

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Promena

YOUR GLOBAL PURCHASING PARTNER

EXECUTIVE SUMMARY

Organizations implementing an Enterprise Supply Management solution know the importance of strategic sourcing and the value it extends throughout the organization. There are three critical components, that combined, achieve a successful strategic sourcing process: technology, information, and expertise. Few tools demonstrate this connection like online reverse auctions and e-procurement solutions.

The rewards of reverse auctions and e-Procurement / e-Catalog technologies are widely publicized: reduced costs, faster price negotiations leading to greater productivity, and a highly visible process. But so are the risks: damaged supplier relationships, contract compliance issues, time wasted, money lost, future savings opportunities lost, and a process that is ultimately broken.

Initiatives require considerable preparation, understanding, and expertise. Most importantly, the technology and people facilitating the reverse auction platform, and each bid event, must be independent and completely autonomous from every other sourcing or supply management solution, vendor, process, and organization, in order to achieve lasting success.

This paper looks at the reverse auction and e-Procurement landscape and examines the role of reverse auctions within the strategic sourcing cycle. It explains Promena's guidelines for implementing best practices to maximize the value of a bid event, for buyers and suppliers alike.

By the end, you'll evaluate the advantages that Promena possesses in providing your business with market intelligence, customized consulting services, seamless integration, increased cost savings and greater net income, without any up-front costs and without installing a single piece of software.

INTRODUCTION

In a world of global competition, continued pressures to reduce costs, control spending and operate more efficiently are apparent more than ever. Procurement function has become the most important weapon to ensure a competitive advantage in the market place. Thus, procurement and strategic sourcing issues have moved to the board room agenda.

Reverse auctions and e-Procurement Solutions present a very effective method that enables a much more effective procurement process.

In spite of many success stories and testimonials, the number of companies that utilize reverse auctions or e-Procurement solutions remains lower than expected. Main reason for this is the fact that it is quite possible to be incorrectly executed. One common mistake, for example, is that such projects are looked at as software implementation projects and the process side is completely over-looked. Other examples include companies that start out applying reverse auctions to their non-strategic, MRO type of purchases and fail to expand the scope of the project to more significant purchase areas such as direct materials or investment items. Companies that have successfully implemented this method across their procurement activities and achieved results that directly affect their bottom line, partner with service providers (as opposed to software providers) that have process know-how, purchase category expertise, and implementation services in addition to a capable online software platform.

Industry experts agree that while the reverse auction is only one of several steps in the procurement process, it is imperative that it not be mixed with any of the others. Doing so produces dwindling results and diminishing returns. Reverse auctions are not solely software implementations, after all. To succeed at creating a fair and open process in addition to generating cost-savings, they need to be treated as change management projects and be augmented with services.

Promena has focused solely on producing income-generating reverse auctions and process-efficient e-Procurement solutions for our clients, integrating the solution into legacy and enterprise processes when required, but never straying from our core competency or trying to take on other spend management functions. Promena has averaged substantial savings in more than 10,000 reverse auctions over more than 10 years. And we've never had a client use our service just once!

We've helped the world's leading organizations—including Ford, Fiat, HSBC Bank, Enka Construction, Petkim, Tupras, and Unicredit Group—integrate reverse auctions and/or e-Procurement into their enterprise. And we continue to manage their bid events and procurement cycle on a daily basis.

REVERSE AUCTIONS

Auctions can typically be defined in one of two ways: forward or reverse. While Promena performs many successful forward (surplus) auctions for its clients, reverse auctions are the more dominant type for businesses conducting online strategic sourcing. In this scenario, a company looks to procure certain goods or services and accepts descending bids from suppliers interested in winning the business relationship.

There has been a heated debate about the value of reverse auctions. Most people describe it as a means to lower cost. Over the past several years and through many projects with clients in various industries, we have seen that reverse auctions offer other very distinct advantages in addition to cost reduction. Reverse auctions are a forum designed to spark healthy competition and help participants gain insight into true market conditions. Promena summarizes its benefits into three categories:

Time. Money. Trust.

TIME = Increased Productivity

Price negotiation itself is an important piece of the overall procurement cycle. It's ordinarily the most stressful and time-consuming obstacle to getting large projects off-the-ground. Traditional contract negotiations use traditional tools. Phone, fax, and e-mail communication takes days, weeks, sometimes months, to exchange. Face-to-face meetings also take time and increase travel costs.

Promena's reverse auctions collect more bids in less time, often reducing the price-negotiation phase of the sourcing cycle from months to minutes. By leveraging Promena's forum, buyers can extend their supply reach while streamlining the procurement process. Suppliers are given access to bid-related documentation via an intuitive, web-accessible interface, empowering them to quickly generate and send revised bids from the comfort of their office and fluency of their native language.

Removing bargaining and arguing from Procurement Managers list of duties also frees valuable time that should be spent on more strategic tasks, like improving supplier relationships or finding new ones, analyzing key procurement data that could be presented to management, and identifying internal process improvements.

MONEY = Cost Savings

It is generally accepted that the best Procurement Managers will only negotiate a maximum of three bid revisions with each supplier. Electronic auctions are more effective at delivering "the best price" than traditional negotiation processes, where suppliers are contacted individually.

Promena brings two or more suppliers together and commonly collect up to a bid per-minute, for the duration of the twenty-minute or hour-long auction—each bid lower than the last, each bid increasing your cost savings. It is important to note that the chosen bid is not always the lowest price. Promena's reverse auction platform allows suppliers to compete on both price and non-price variables.

"The 'three bids and a cloud of dust' mentality of old will not sustain us in today's global market."

*—Procurement Director
at a mid-size manufacturer*

How long would it take your staff to collect that many bids? At what point would they stop? How much would that cost your company?

TRUST = Transparency

Online reverse auctions empower participating suppliers with equal information—available to all, in real-time—leveling the playing field. Suppliers have a clear view of the event and trust a competitive process that is open and fair. At the same time, Purchasing Managers gain the ability to observe the dynamics of their suppliers competing to win their business. Seeing a negotiation in this way reveals the truth behind past, present, and future bids.

E-PROCUREMENT AND E-CATALOG SOLUTIONS

Promena e-Procurement and e-Catalog Services are designed to provide organizations with online solutions in order to transform their procurement cycle to an electronic platform.

Promena e-Procurement and e-Catalog solution is an automated system, and covers the whole procurement cycle. It creates efficiency and effectiveness in procurement operations; reduces indirect costs with shorter order cycle times and lower transaction costs, and increases total spend under management by obtaining centralized management of procurement activity, and eliminating off-contract spend.

Promena e-Procurement and e-Catalog solution, electronically, makes it possible for organizations to collect requisitions from different departments within the company, design and execute approval mechanism, collect and evaluate quotations, create and send purchase orders to designated suppliers.

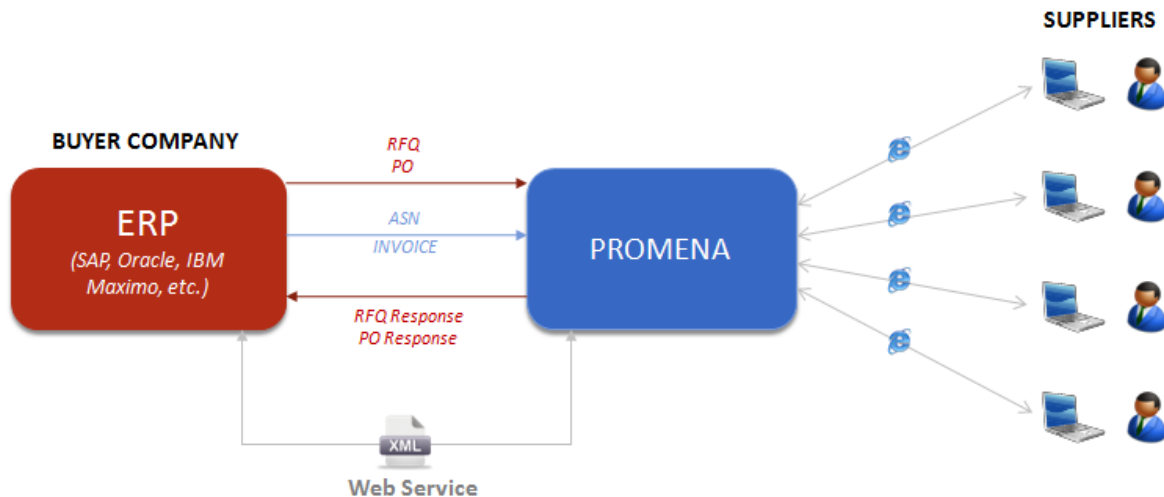
This method also enables supplier interaction in the procurement cycle. Suppliers, through the system, can respond and inform buyers of their approval, and/or details of the fulfillment, etc.



Promena's business model, SaaS (Software-as-a-Service), allows the software to be accessed through Internet with high standards of security. And, with its friendly user interface, it is implemented easily and fast.

On the other hand, in most of the huge organizations today, ERP solutions are widely used. Although ERP solutions encompass most business activities inside the organization, they do not allow access from outside

the organization. Promena's services can reliably be integrated with other ERP tools in order to increase the efficiency within the organization.



TECHNOLOGY OVERVIEW

The Future of On-Demand Software

The combination of abundant bandwidth, powerful processors, and inexpensive storage is broadening the choices for designing, deploying, and using software. On-Demand solutions are delivered as a Web-based service that users access instead of own. On-Demand leverages a multi-tenant architecture that enables rapid deployment of and creates a highly scalable economic model for end users.

- **Source Code and Delivery Model**

The ownership of the source code allows Promena to have flexibility and agility in meeting customers' requests. There is no waiting period for customer specific development projects or enhancements. Integration projects can be implemented with minimum lead-time. Promena decided to deliver its software via the Software-as-a-Service (SaaS) model. There are no license fees and there is nothing for users to install or to upgrade.

- **Secure, Reliable, Proven Technology**

All our data is secure and centralized both logically and physically. Promena employs state-of-the-art, robust and efficient technology, in order to offer our high level of service. We exclusively use products from industry leaders such as Microsoft, Oracle, Cisco, Dell, and VeriSign.

There are no third-party tools or technologies used in our development. This frees us from inconsistent and unreliable results. At the same time it opens doors for modifications, enhancements and integration subprojects.

- **Unique Aspects**

With Promena's adoption of the latest AJAX technology, we are one of the few 'real-time' applications on the Internet. This is crucial in an online bidding event. Suppliers need to be presented with one single screen where they have access to all the relevant, up-to-date data within the current bidding event. Real-time communication is always open between the Buyer and Promena's Operation Center during the event.

The bidding platform is independent of location, time zone, language and currency. Both suppliers and the Buyer participate in the bidding event in their own language. Critical information, such as dates and times, are presented in the user's own time zone.

Promena has overcome the technical challenges of globalization, such as worldwide platform deployment, bandwidth, and hardware restrictions. Promena's platform is a 'Zero-Footprint' client, meaning there are no installations required, and it is optimized for minimum hardware and network bandwidth. The result is maximized net income through cost savings that flow directly to your bottom-line.

- **Global Model**

Another critical advantage our model provides your enterprise is the ability to expand globally, allowing participation in bid events by vendors in any nation and their native language. Promena's Global Model includes Buyers and Suppliers in more countries than any other electronic auction vendor: UK, USA, Russia, France, Germany, Finland, Netherlands, Austria, Australia, Romania, Greece, Italy, Spain, Bahrain, Ukraine, Kazakhstan, Sakhalin, China and Taiwan. Our solution supports all languages and cultures and already has localization for Arabic built-in. Localization is a core function of our solution; connecting you with an expanded vendor-base, eliminating the learning-curve, and getting all parties down to the business of the bid.