

Handling under the hammer



BA's Darren Mayes and Jo Harvey.

British Airways recently invited suppliers to bid for its ground handling business at several stations in France using an online auction – a valuable procurement tool used to rein in costs and add value to operations.

SINCE first introducing its eAuction procurement tool in 2001, British Airways (BA) has used the concept to buy a variety of goods and services including IT equipment, training modules and third-party fuelling contracts.

The procurement solution – designed to identify the best value for money supplier – plays an important role as part of a wider strategic sourcing policy. BA reports savings of almost £5 million since eAuctions were first introduced.

In February, BA extended the programme into ground handling for the

first time when several pre-selected ground service providers, Swissport included, entered bids online to win the carrier's business originally at three stations in France: Lyon, Tou-

executive charged with identifying opportunities and working with buyers through the preparation stages of each eAuction.

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louse and Bordeaux. However, following initial responses from prospective suppliers, the airline decided to proceed with an eAuction for services at just Lyon and Toulouse.

Ambitious

"Until now, BA had not performed anything as ambitious as an eAuction for ground handling," explains Jo Harvey, Station Operations Sourcing Executive. "Ground handling is a notoriously complex business, so it was a real challenge."

Operating as part of a central sourcing team, Harvey has a broad procurement remit that covers most on-airport goods and services. For this particular eAuction, Harvey worked closely with Darren Mayes, the BA

Understandably, ground service providers felt a little apprehensive taking part in an eAuction for the first time, reports BA. Such apprehension was based partly on the belief that this was just a way of being beaten down on price and partly the unfamiliar technology and the perceived impersonal nature of the process.

To counter this, as with all eAuctions, BA conducted a mock auction ahead of the real thing to help familiarise suppliers with the process and technology.

Harvey is quick to point out that eAuctions are just one of many sourcing tools available to BA and are only used when market conditions are right.

In the case of ground handling, three criteria must be met before an eAuction is even considered: the market has to offer sufficient ground handling competition; BA has to be able to develop a clear specification for handlers; and the airline must be able to establish a pricing model for suppliers to bid against.

If anything, says Mayes, it is a process that enhances rather than diminishes a supplier relationship. This is because of the reliance on transparency, thorough preparation and a rigorous follow-up procedure.

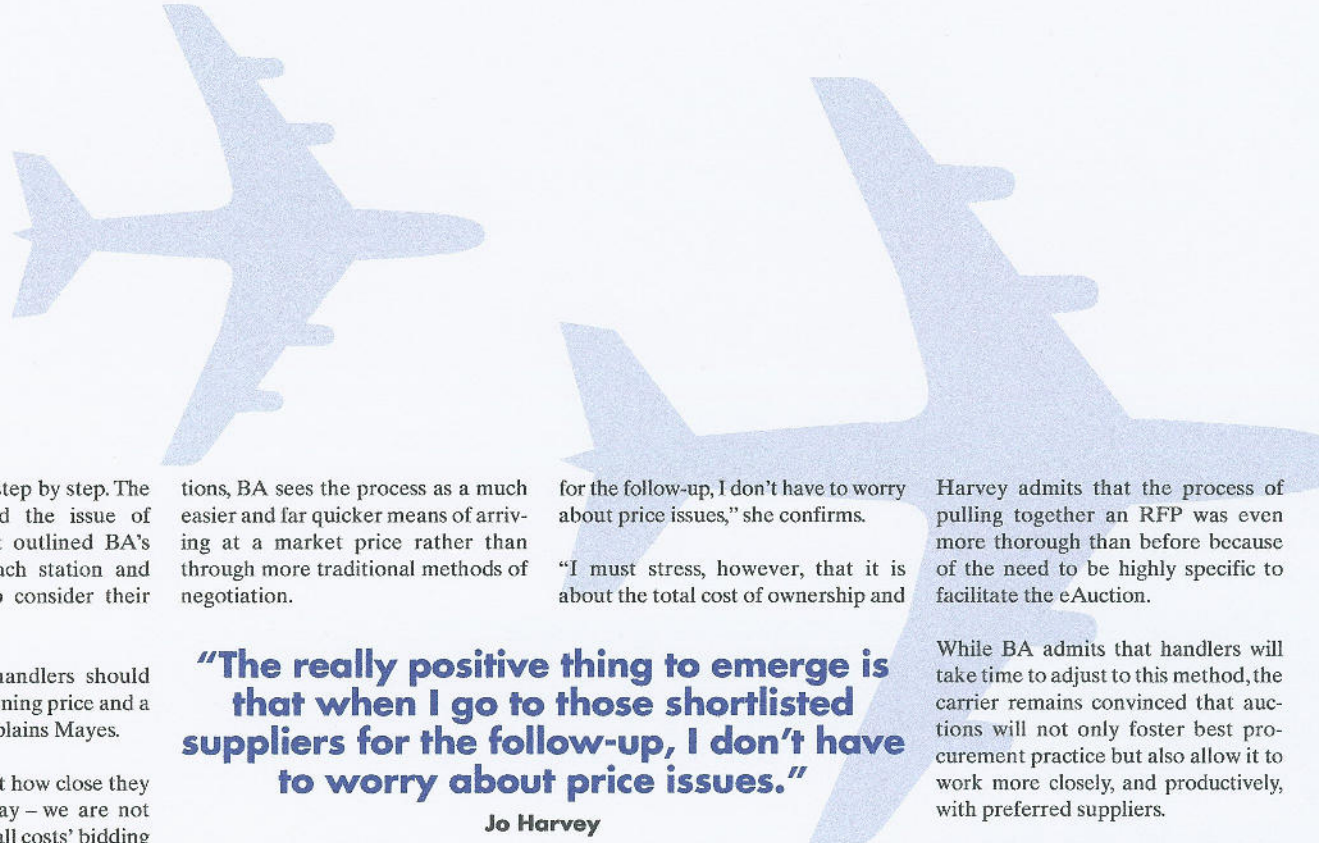
Take the recent eAuction in France, for example, which saw intensive advance preparation. Harvey worked locally with station manager, Claude Hervault, to examine the market and pinpoint BA's specific needs.

During the review, Harvey pasted specific station requirements on to BA's generic ground handling agreement to create a clear RFP for potential suppliers.

"If we can help suppliers understand what we are asking for upfront then that makes life a lot easier further down the line," explains Mayes.

As with all eAuctions, interested suppliers were contacted and taken





through the process step by step. The preparation included the issue of build-up sheets that outlined BA's specifications for each station and enabled suppliers to consider their pricing strategy.

"We stressed that handlers should think about their opening price and a walk away price," explains Mayes.

"The auction is about how close they get to that walk away – we are not looking for a 'win at all costs' bidding mentality."

Suppliers were asked to bid a per annum price for a total ground handling package over a fixed three-year period for the French stations. Those with an eye on offering services at multiple stations were also encouraged to provide details of any incentives available.

Groundwork

With all the groundwork performed beforehand, the eAuction itself only took around 30 minutes. Harvey admits it must have been a nerve-racking experience for suppliers; during the online auction, each handler sees just its own bid on screen and a rank based on the lowest price.

But with suppliers challenged to move closer to their walk away posi-

tions, BA sees the process as a much easier and far quicker means of arriving at a market price rather than through more traditional methods of negotiation.

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Once the eAuction was finished, BA examined each bid together with returned build-up sheets to identify how each handler arrived at a price.

This was followed by a thorough reassessment of BA's most important non-financial criteria – such as service quality, existing working relationships and style of local management – in advance of follow-up meetings with the shortlisted handlers.

The major benefit for Harvey at this point is that she already knows the financial position of each supplier and so can concentrate on the softer, quality issues during the follow-up stage.

"For me, the really positive thing to emerge from the eAuction is that when I go to those shortlisted suppliers

for the follow-up, I don't have to worry about price issues," she confirms.

"I must stress, however, that it is about the total cost of ownership and

not just the cheapest price – there is little point in buying the cheapest option if the quality is not there."

With discussions ongoing for the French stations, BA says it is too early to tell what cost savings have been achieved, but is confident that the eAuction process has identified "the market price".

This is a procurement approach that, by definition, favours full service suppliers. "One of our strategic goals is to reduce our number of suppliers, so we are not looking for multiple suppliers for different ground handling services," confirms Harvey.

It is also a process that focuses the mind of all parties; handlers have to do more homework up front, while

Harvey admits that the process of pulling together an RFP was even more thorough than before because of the need to be highly specific to facilitate the eAuction.

While BA admits that handlers will take time to adjust to this method, the carrier remains convinced that auctions will not only foster best procurement practice but also allow it to work more closely, and productively, with preferred suppliers.

"Holding an eAuction is just a way of achieving market price at a location rather than battling backwards and forwards on price," comments Harvey.

"I think it definitely helps in terms of building strategic partnerships."

BA plans to carefully assess the results of the inaugural ground handling eAuction before deciding on adopting a similar tact elsewhere.

"This was our first eAuction for ground handling and we need to take away the learning from that," says Harvey.

"I found it a very interesting process and hope the suppliers enjoyed it. I would definitely use it again given the same criteria."

Richard Rowe

