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Moving ahead with reverse auctions

Local businesses save with online vendor bids

By MARY STONE

Two former Eastman Kodak Co. executives are lifting the corporate veil on reverse online auctioning to help small businesses save by leveraging their buying power.

The duo founded Pittsford-based Advanced Purchasing Technology LLC, one of the many companies facilitating the auction process for small to midsize companies, enabling them to buy and sell larger quantities at proportionately lower prices. The firm helps companies maximize savings—averaging 18 percent to 23 percent—and streamline purchasing at the same time.

APT has even gone as far as Pennsylvania's Amish country, where the firm showed Amish suppliers how to bid on wooden pallets. APT trained them at the local library.

Prior to starting APT, Daniel Orzell, 38, managed the design and implementation of Kodak's e-Marketplace program for its worldwide purchasing organization. Orzell implemented several e-commerce tools at Kodak, including reverse auction technology: an electronic auction where suppliers bid against each other for contracts under pre-established criteria.

Jerold Lighthouse, 57, joined Orzell at APT shortly before his retirement from Kodak, where he had spent more than three decades in strategic sourcing and worldwide purchasing. In one of his last assignments at the company he conducted more than 100 online bidding events.

Since APT was formed in October 2002, Orzell says the company has run close to 400 online bidding events. It has some 15 to 20 clients, including Birds Eye Foods Inc., the University of Rochester, Anthony J. Costello & Son Development LLC and the University of Pennsylvania—the last of which Orzell says has made more than \$2 million in purchasing savings in the two years the school has worked with APT.

APT conducts online events for com-



Photo by Kim McKinzie

Daniel Orzell: "It is important for companies to try different suppliers."

modity items like office supplies, copy paper and packaging materials, but found that there are plenty of other types of items that work too.

"What we found is that the main item to determine if an item is suitable for an online bid—or really any type of bid—is competition," Orzell says. "If there is a competitive supplier base for what you are planning on purchasing, then it is very likely you can bid it out."

APT has a long list of bids that are not considered commodity purchases. They include wastewater and sludge removal, card access system implementation, tomatoes, roofing services, hybrid vehicles, machined parts for weapons programs and courier services.

What Orzell and Lighthouse do is not open bidding. Only the suppliers from whom a company wants to buy are chosen

to participate in the auction. APT helps determine the specifications for the deal, including details like delivery requirements, before bidding begins.

A typical bid is posted for 20 minutes, but with extensions—it can last 40 minutes to an hour—and the number of bidders can range from two to 10, Orzell says.

He is quick to warn that the process is not just a way to put the squeeze on suppliers. In fact, Orzell says APT works to standardize the purchasing process up front.

"We think it's more ethical than a paper bid," he says.

The question is not always about price, Orzell says; sales are not made solely on cost. Often other aspects of the transaction like delivery terms or a company's proven track record are important factors that can tip the balance.

But it is important for companies to try different suppliers, Orzell says.

"If you haven't tested the market every three or four years, you're doing a disservice (to your company)," he says.

APT's fees are based on the savings made. APT earns 10 percent of the savings it achieves for a client. The company, however, also offers fixed fees of 1 percent to 2 percent of the auction value, depending on the complexity of the event, with a minimum event fee of \$500. Customers also can opt for a negotiated fixed fee for an agreed upon number of auctions.

The company logged roughly \$250,000 in 2004 revenues and is growing at a rapid rate, Orzell says.

Within the next year, Orzell says he wants to hire an employee so he can work on developing other business ideas. An example is aggregating volume to increase the purchasing power of a group of companies to procure common commodities.

"For companies that are too small to post a bid package on their own, we are currently working with a number of smaller local companies to pool their spending together for some common items ... leveraging this larger volume to help these companies achieve better pricing than they could on their own," Orzell says.

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