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## Supplier Selection at Casturn Systems (A)

### Introduction

Miguel Haro, director of Control Systems in Casturn's Transmission Division, had just returned to his desk after witnessing an online reverse auction for O-rings<sup>i</sup> (see **Appendix A** for an online reverse auction definition). Casturn Drivetrain Systems, a global automotive supplier, designs and manufactures products requiring rubber O-rings as a simple and effective seal between adjacent mechanical parts. Although supplier training for the auction event had been rushed, Haro's Global Commodity Manager (GCM), Mary Konchesky, was confident that the event would yield significant cost savings. She had found five suppliers with excess capacity who were eager to bid on a five-year contract to supply all of Casturn's O-rings.

As the auction had begun, the sourcing team watched as the suppliers reduced their bids to battle for the business. One bid, however, stuck out from the rest: the incumbent supplier had placed a bid that was 70% less than the current price they were charging Casturn for O-rings. Haro knew this seemed too good to be true; however, the auction service provider's sales representative had been confident that this was possible and had even confirmed the incumbent's bid over the phone during the auction event.

**GCM:** Global Commodity Manager  
**e-RFQ:** electronic request for quotations  
**GSM:** Global Supply Management Group  
**GCM:** Global Commodity Managers  
**OEM:** Original Equipment Manufacturers  
**SDE:** Supplier Development Engineers  
**LM:** Launch Management Group  
**PPAP:** Production Part Approval Process

"That's the thing with auctions," said the auction vendor's sales representative to the Casturn sourcing team. "It's not uncommon for our clients to discover price improvements in excess of 60% or 70%!"

Jeff Blake, another GCM, had been circumspect as he watched the event, "Are such savings even feasible for the supplier? If so, are auctions really the 'silver bullet' sourcing tool that we've all been waiting for?"

<sup>i</sup> O-rings are used as a gasket between adjacent mechanical parts to create a simple and effective seal against oil, air, and other substances.

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