

---

## ON Semiconductor Switches to Reverse Auction for Telco Services

### **Executive Summary**

ON Semiconductor is a \$1 billion supplier of semiconductors for electronic consumer and industrial products worldwide. In particular, the company focuses on designing and manufacturing devices that deliver effective and reliable power supply, power management, power conversion, and power component protection.

ON itself leveraged the power of technology in its latest round of telecommunications service contract renegotiations and saw superior rate reduction results. Using an online reverse auction solution from Avotus Corp., the company doubled its typical strategic sourcing savings and gained a clear understanding of its telecommunications infrastructure as an additional benefit.

### **Business Challenges**

Phoenix-based ON typically engages in three-year contract agreements for large telecommunications service orders like information technology (IT) network support. It also relies on one-year agreements for most other smaller telecommunications services like conferencing. At any given time, ON generally has 10 to 12 contracts in place with five to six telecommunications service providers in a diversified strategy to support its operations globally.

According to Colleen Guhin, strategic sourcing manager in the Supply Management group at ON, in mid-2002 the company initiated a request for proposal (RFP) for wide area network (WAN) services. However, internal turnover was temporarily draining ON of telecommunications sourcing expertise internally.

### **Selection Process**

At the time, an ON manager familiar with Avotus' Intelligent Communications Management (ICM) e-Procurement offering (formerly Applied Research Technologies Inc.'s ARTOOLS solution) suggested the possibility of using Avotus' unique reverse auction platform and sourcing services to support the RFP endeavor. Avotus ICM e-Procurement provides an electronic sourcing solution for automated telecommunications contract bidding pre-populated with best-in-class pricing terms to help drive down costs in an online competitive environment.

## Deployment and Results

Following its customary due diligence on a supplier, ON engaged with Avotus ICM e-Procurement in October 2003 to support not only the WAN contract negotiation but also a renegotiation of the majority of the firm's telecommunications services. The exceptions were cell phones and pagers, both of which ON did not use enough of in volume to warrant a reverse auction sourcing environment, according to Guhin.

The Avotus ICM e-Procurement group ran a reverse auction for ON over a period of 10 days in November 2003, collecting bids from its vendors. Through the use of the ICM e-Procurement solution, ON's contract-pricing terms improvement was 40% to 43% across services.

In the past, the strategic sourcing manager responsible for telecom had been able to garner RFP savings of 20% to 25% in renegotiations typically, Guhin said. Thus, she concluded that Avotus ICM e-Procurement effectively doubled ON's own success at sourcing savings.

## Lessons Learned

Guhin noted that preparing for the ICM e-Procurement engagement required a lot of effort on the team's part to rationalize what services they required worldwide. However, she acknowledged that the discipline necessary to comprehensively identify services to ask for all-inclusive bids put the firm in a position to understand its own operations much better.

"[Engaging with Avotus ICM e-Procurement] was a great exercise to get our act together to understand what we wanted to have for services globally and what we would have moving forward," Guhin said. "It was a lot of work, but it was well worth it — now we know exactly what our services look like — we didn't have those details before."

## Future Outlook

Because pricing for telecom services is very complicated, especially with a global program, ON is keeping its eye on its suppliers. Once the new contracts are in place from the auction, ON will be focusing on invoice analysis and dispute to ensure that it is receiving the rates it contracted.

## Aberdeen Conclusions

ON is a perfect example of the trend in supply management today of a firm that does not want to reinvest in developing the expertise required to effectively source a non-core commodity like telecommunications, but knows the benefits of having an expert do the job from its prior telecom sourcing performance. By turning to an outsourced provider with superior technology and expertise, the firm was able to effectively double its savings with Avotus ICM e-Procurement. Furthermore, the discipline that Avotus' process helped facilitate improved its internal perspective of its telecommunications investments and processes moving forward.



To provide us with your feedback on this research, please go to [www.aberdeen.com/feedback](http://www.aberdeen.com/feedback).

*Aberdeen Group, Inc.  
260 Franklin Street  
Boston, Massachusetts  
02110-3112  
USA*

*Telephone: 617 723 7890  
Fax: 617 723 7897  
[www.aberdeen.com](http://www.aberdeen.com)*

*© 2005 Aberdeen Group, Inc.  
All rights reserved  
March 2004*

Aberdeen Group is a computer and communications research and consulting organization closely monitoring enterprise-user needs, technological changes, and market developments.

Based on a comprehensive analytical framework, Aberdeen provides fresh insights into the future of computing and networking and the implications for users and the industry.

Aberdeen Group performs projects for a select group of domestic and international clients requiring strategic and tactical advice and hard answers on how to manage computer and communications technology. This document is the result of research performed by Aberdeen Group that was underwritten by Applied Research Technologies. Aberdeen Group believes its findings are objective and represent the best analysis available at the time of publication.