



ARIBA @ WORK

“Cleveland-Cliffs selected the Ariba B2B Commerce Platform to help us interact electronically with our preferred suppliers and significantly reduce costs and time for sourcing. For example, by using Ariba Dynamic Trade to run a reverse auction, we purchased equipment for mining operations at an excellent price and in a much shorter time period than with traditional procurement methods.”

*James A. Tretheway
Senior Vice President of Operations, Cleveland-Cliffs Inc.*

A company-wide initiative to significantly reduce purchasing costs throughout its iron ore mining operations propelled Cleveland-Cliffs, a company founded in 1847, into the age of Internet auctions. “Cliffs,” as the company is commonly known, is the largest supplier of iron ore products to the North American steel industry. In addition, subsidiaries of the company manage six iron ore mines in North America with equity interests in five.



In spite of its size, Cliffs was not gaining the benefits of large-scale purchasing power when it came to procurement. According to Senior Vice President of Operations James A. Tretheway, “To support our mining operations, we purchase commodities and services that range from low to high transaction value, and from frequent to infrequent purchases. Previously the sourcing process was time consuming with lots of manual, one-to-one negotiations. We needed to improve the procurement process and reduce costs at the same time.”

Cliffs set out to reengineer and streamline its procurement practices with the goal of reducing the costs of purchased goods and services by 20 percent. To meet its savings objectives, Cliffs decided that embracing eCommerce was part of the answer. The company chose to use reverse auctions in which Cliffs places an electronic RFQ on the Internet and suppliers bid on the business. “We decided that reverse auctioning and electronic RFQs were the way to go,” explains Tretheway.

LOOKING FOR A SOLUTION

To reach its goal, Cliffs needed a secure, highly configurable, reverse auction application that could handle such B2B trading situations as price and bidder confidentiality, time sensitivity, and differing quality or support levels. After considering a number of competing solutions, Cliffs selected Ariba Dynamic Trade as its reverse auction solution.

SOLUTION OVERVIEW

BUSINESS PROFILE

Founded in the mid-1800s, Cleveland-Cliffs is the largest supplier of iron ore products to the North American steel industry. The company is also the largest producer of iron ore pellets in the world and is developing a significant ferrous metallics business.

HARDWARE AND SOFTWARE

Hardware:	HP
Database:	Oracle
Networking:	Windows NT
Storage:	ARCServe and HP DLT Tape
Application Server:	Windows NT

BUSINESS BENEFIT

With a goal of reducing the overall costs of purchased goods and services by more than 20 percent, Cleveland-Cliffs uses the Ariba B2B Commerce Platform™ as the foundation of its eCommerce strategy. A component of the platform, Ariba Dynamic Trade™, allows Cleveland-Cliffs to conduct reverse auctions and electronic requests for quotes (RFQs) for the procurement of goods and contract services used in its six managed iron ore mining operations. The results have been outstanding. Cleveland-Cliffs has not only reduced its costs of goods and services, but it has also improved the sourcing process by leveraging the Internet to collaborate more efficiently with suppliers.

Ariba Dynamic Trade allows Cliffs to select vendors based on a broad range of factors, not just price. According to Tretheway, "We needed a solution that was flexible enough to handle complex purchasing needs, but easy to use so that anyone could design and run a reverse auction. We needed flexibility and scalability to control our costs. Most solutions on the market either did not have the technology to scale or lacked the flexibility to be deployed across a wide range of spend categories."

Through the use of the flexible pricing, online auction mechanisms in Ariba Dynamic Trade, Cliffs is able to focus the forces of supply and demand, helping the company quickly find the best prices on the market for the goods and services it requires. "Because of the competition for our business among our suppliers, we were able to save more than we originally expected – even on our first reverse auction," says Tretheway.

GETTING STARTED

For its initial reverse auction, Cliffs used Ariba Dynamic Trade to request bids on the purchase of a fleet of small trucks for its mines. When the auction quickly resulted in a significant saving over the prices Cliffs previously paid for trucks, the company decided to stage a more ambitious event. "We wanted to get bids on a long-term contract to construct a tailings basin for a mine in Minnesota," says Tretheway.

Tailings, the waste from mining operations, are handled in an expansive, fully-enclosed outdoor facility referred to as a basin. Generally, vendors bid on a project of this magnitude on an annual basis for an entire year's worth of construction activities. These construction bids are extensive, with up to

30 line items of detail, typically containing information such as labor rates, equipment mobilization rates, equipment rental rates, and many other items.

In preparation for the auction, 11 bidders came to the mine site to review the site itself, as well as construction drawings and technical specifications. The company used Ariba Dynamic Trade to stage a week-long reverse auction, designed to get at a single best-bid total figure. Cliffs was pleased when the results came in below the low range it had defined. Tretheway comments, "Through our online reverse auction, we achieved a cost significantly below our lowest estimate."

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The result of the tailings basin reverse auction enabled Cliffs to expand its thinking about the kinds of purchases that could be made using Ariba Dynamic Trade in the future. "Initially we planned to use reverse auctions for commodity purchases, including coal or natural gas. We had not thought of construction projects, which involve a lot of technical interface and long-term relationships, as suitable for reverse auctions," says Tretheway.

POSITIVE RESPONSE FROM SUPPLIERS

To date, most of the bidders in Cliffs' reverse auctions have been new to the process of using the Internet to bid on an RFQ. To encourage supplier participation and ensure good supplier response, Cliffs divided its reverse auctions into an explanation phase and a negotiation phase, providing extensive information tailored to the needs of potential suppliers during both phases. As a result,

many suppliers have participated in the reverse auctions, and Cliffs has been able to shorten the time to agree on a winning bid. Suppliers are enthusiastic about the process. Tretheway comments, "Suppliers now have online access to bid for more business and the reverse auctions allow them to more clearly differentiate themselves on many factors, not just price. They are also seeing a faster turnaround in Cliffs' evaluation of their bids, resulting in a quicker, lower-cost sales cycle for them."

SPEEDING THE PROCESS

Based on its experiences with the first two events, Cliffs is convinced that online auctioning speeds the RFQ process and lowers costs for all parties. With Ariba Dynamic Trade, Cliffs is reducing transaction costs, automating quote request and bid handling, lowering vendor search costs, and accelerating purchasing cycles. According to

Tretheway, "On the tailings basin bid, we were able to compress a previously paper-based bidding process into a single week – and in the process we got an excellent bid on a complicated contract."

Based on its positive experience with Ariba Dynamic Trade, Cliffs plans to look for more ways to speed the process for complex RFQs by putting more documents online. "In the future, we will automate more of the process and better collaborate with suppliers online. I'm sure this will help us to even further reduce procurement time," comments Tretheway.



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