

How to Win Reverse Auctions

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Reverse auctions are defined as a process where a buyer puts a product and/or service out for bid and sellers make offers to see who provides the lowest price. Internet-based Reverse auctions are having a significant impact on purchases made by major corporate and government buying organizations.

Small, minority- and women-owned businesses (M/WBEs) need to understand reverse auctions for the following reasons:

1. They are becoming widely used. In fact, it's estimated large firms are doing at least 35% of the purchases using reverse auctions.
2. They can help get you new business, either with the corporation or their prime suppliers (as a subcontractor).
3. They can help you sharpen your business model (value proposition) and competitive position.
4. They can help you identify you all your actual costs, which helps you develop a better bid strategy.
5. Not participating can leave you out of the mainstream.

M/WBEs can prepare by reverse auctions in several ways. First, develop a Web site that allows buyers to pre-qualify your firm as potential bidder. Second, review your processes to make sure you identify all your costs. Third, find out which reverse auction e-markets your customers use and then register with them. Fourth, make sure you have a strong list of differentiators since price isn't the only criteria used to decide who wins the reverse auction. Examples of non-price differentiators are foreign language capacity, special licenses / experience, delivery history, capacity, and ISO certifications. Differentiators are important since buyers increasingly regard high quality and low prices as givens. Fifth, take a training class on how to do reverse auctions. This allows you to learn during practice, rather than a live event.

Buyers like Web-based reverse auctions because they result in cost savings, save on procurement leadtimes, and allow them to source (find) suppliers from their desktop computer. In fact, the average estimated savings from reverse auctions is 15%. Reverse auctions are becoming more of a factor as corporations downsize their purchasing staffs since buyers have to be more productive. Buyers on the average have less experience and reverse auctions help by reducing the skill levels required.

Some practical tips for M/WBEs to succeed with reverse auctions are:

- Strive to become an indispensable supplier
- Continue to improve your product / service
- Deliver total best value (price & quality)
- Understand the rules of the reverse auction process
- Develop an overall bidding strategy before the auction
- [Do your homework before the auction (e.g., determine differentiators and set a starting & walk-away bid)
- Determine if the contract will be bid as a whole or in segments (lots). If lots, determine which lots you want to bid on.
- Don't bluff about not participating
- Try and find the names of the other bidders (competitors)

Also remember, that even in the Internet era, people-to-people relationships still count. This means you must build relationships with buying organizations before the bidding process starts.

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