

Surviving Reverse Internet Auctions

Tips for Small, Minority- and Women-Owned Businesses

By Richard J. Hernández, CPCM
July 2004

REVERSE AUCTIONS. One of the features of business-to-business e-commerce marketplaces is the use of online auctions. There are essentially two types of auctions. The first is a forward auction, where a price is set and the bidding goes up. The second is a reverse auction where a buyer submits a requested price to prospective sellers who bid the price down in order to get the business.

Online auctions are becoming increasingly popular with major corporations and government agencies for four major reasons. First, they use the power of the Internet to aggregate buyers and sellers. Second, they save money. Third, it gives them a way to quickly determine the market price for a particular product and/or service. Fourth, the Internet shifts control of the sales process to the buyer. Consider the following example:

Since 1997, Quaker Oats has saved \$8.5 million by purchasing via reverse online auction, according to Carl Curry, vice president of integrated purchasing and logistics. And SmithKline Beecham, a pharmaceutical and consumer healthcare company, recently announced \$3 million in savings through online auctions.

(SOURCE: Online Auctions Save Millions for Quaker Oats and SmithKline Beecham, PURCHASING, March 23, 2000)

Online auctions are also growing in other areas such as consumer-to-consumer, where eBay is the leader. Overall auctions are proving to be an efficient Web business model with such leaders as FreeMarkets.com.

Implications for Small and Minority Businesses

Online auctions are a relatively new experience for small and minority-owned businesses. Learning the rules of the game can make the difference between success and failure.

Reverse auctions can be for products and/or services. This is good news for most minority-owned businesses since a majority of them sell services. Examples of the types of services that can be auctioned online are printing, audits, tax preparation, legal, call center, custodial, travel, and hotel room rates.

There are two major concerns associated with reverse auctions. First, losing money by bidding too low, which can happen if you don't understand your costs. Second, having your company's product(s) evaluated on price only, without considering value added services you offer (this is known as "commoditization").

Online auctions are also introducing a “dynamic pricing model” to the marketplace. This gives the buyer more control and puts more pressure on suppliers to lower their prices.

Suppliers should try and join several online auction exchanges. This provides them with access to more opportunities to sell online.

AUCTION STRATEGIES. Small and minority-owned businesses can maximize their chances of success with online auctions by understanding the rules of the game and developing strategies to succeed in various situations.

- **Bidding Rules.** Make sure you understand all the bidding rules for the online auction site. This should be done before you start bidding. There are three key things to understand. The first is to determine the timing of the bidding cycle so you know how much time you have to respond. The second is to understand how the lots of items and/or services are broken out. This information can be used to determine what lots you want to bid on. The third is to determine the basis of the award. Will it be strictly on price or will value-added services be considered?
- **Product / Service Descriptions.** Be very descriptive about your company’s capabilities. Make sure they clearly differentiate you from other companies. This information needs to be included in your “profile” form for the particular online auction site you’re using. You can ask the auction site to help you with this.
- **Supplier Diversity.** Make sure the “profile” form reflects your company’s status as a minority-, woman-owned, or disabled veteran-owned business.
- **E-Mail.** Get e-mail capability. This will allow you to communicate real-time with the auction site. It also works well with customers and clients for regular business.
- **Costs.** Make sure you know all your costs of producing, distribution, marketing, etc. This will help you with the bid scenarios. This can be done using benchmarks and by comparing past bids.
- **Fees.** Make sure you know all the fees you must pay to the auction host. These fees can impact your profit, and that makes them important.
- **Training.** Take any training classes that explain how the exchange’s online auctions work. Make sure you do a few practice exercises. Take an online training auctions training course.
- **Volume.** Make sure the auction site has volume. This helps maximize your exposure to potential buyers.

The above is not an all-inclusive list. Additional auction strategies may need to be developed based on the particular situation.

FINAL THOUGHTS. Online auctions are evolving. Auctions are becoming more industry and commodity area specific. Other changes coming are multilingual auctions and software robots who bid against humans and each other. Most laws on auctions have not yet caught up with e-commerce technology, so expect more changes in this area. International laws are also a factor to consider with online auctions since many countries impose local restrictions.

Online reverse auctions are becoming a mainstream process, with about 1/3 to 1/2 of major buying organizations using them as of mid-2004. They offer an easy and cost-effective way to sell products and/or services. Given the new reality, small and minority-owned businesses must understand that preparation is the key to success in surviving reverse auctions, as well as e-commerce in general.

FOR ADDITIONAL INFORMATION. Please contact the author at:

Richard J. Hernández, CPCM
E-MBE.net
P.O. Box 617995
Chicago, IL 60661
312-404-2224
rhernandez@e-mbe.net
www.e-mbe.net

Copyright 2004 Richard J. Hernández