Online Reverse Auctions = Reverse Progress

What Sellers Should Know About Online Reverse Auctions

Principally for buyer-designed custom components. There will be exceptions to the statements contained in this presentation.

Source: Automotive Industries
The Facts About Online Reverse Auctions

• It’s a Zero-Sum Game
  - Another Form of Power Based Bargaining

• Contract Terms and Conditions Heavily Favor the Buyer’s Interests
  - No Commitment to Purchase, Extend Payment Terms, Inventory Consigned at Supplier’s Expense, etc.

• Online Reverse Auctions Do Not Promote Long-Term Stable Supplier Relationships
The Facts About Online Reverse Auctions

• Neither Buyers or Sellers Learn Collaborative Cost Management Techniques

• Perpetuates Transactional Buyer-Seller Relationships

• Results in Long-Term Erosion of Supplier Capabilities

• Buyers Often Use Online Reverse Auctions to Lower Incumbent Supplier’s Price (coercion)

• Online Reverse Auctions are Inconsistent with Ethical Business Practices


The Facts About Online Reverse Auctions

Why Do They Want You to Participate?

• Win New Customers
  - You Will Win Some Bad Customers

• Increase Sales
  - Lower Margin Sales

• Cut Your Costs
  - Demand to See the Data

• Access New Markets
  - Less Profitable Markets

• Reduce Bid Cycle Time
  - Depends

• Level Playing Field
  - Depends

The Value Proposition for Suppliers is Not Compelling!


Some Important Contradictions

• Companies that Provide Online Reverse Auction Services Want Long-Term Stable Relationships With Their Customers!

• Companies that Use Online Reverse Auction Services Want Long-Term Stable Relationships With Their Customers!

• Buyers that Use Online Reverse Auctions Don’t Want Their Customers to Use Online Reverse Auctions on Their Products or Services!

What Does That Tell You?
Our Recommendations

Don’t Participate!

• If You Decide to Participate, *Be Very Careful*
  - Know When to Stop Bidding (walk-away price)
  - Select a Few Lots Carefully

• Understand the Award Decision Criteria
  - Net Present Value, Upfront Savings, etc.

• Make Sure Implementation Support is Forthcoming
It’s Your Decision

No Matter What You Decide to Do, There are Consequences/Risks

For More Information, Contact David Stec or Bob Emiliani