Chapter II
Reverse Auctions and Supplier Consortia

Peter B. Southard
The Pennsylvania State University, USA

ABSTRACT

Competition between supply chains has resulted in firms carefully examining the relationships that they have, or are contemplating having, with other links in their chain. While the main focus of this book is on a specific type of relationship, that of the reverse auction, other forms of buyer-supplier relationships exist. In order to better understand the implications of the reverse-auction relationship, managers should also analyze the alternatives and the environment of relationships in which reverse auctions operate. The focus of this chapter is on an alternative buyer-supplier relationship, that of the supplier consortia. Within the six dimensions of the framework proposed by Parente, Venkataraman, Fizel, and Millet (2004), this chapter examines this little-studied collaborative group and proposes a spectrum to begin to understand some aspects of buyer-supplier relationships. The chapter includes a theoretical classification framework for supplier consortia. It then compares and contrasts supplier consortia to the reverse auction concluding with a prescriptive decision process that can help managers better analyze the most appropriate form of buyer-supplier relationship for their firm and their supply chain.

INTRODUCTION

Recently, Parente et al. (2004) proposed a conceptual framework for analyzing certain types of business-to-business transactions classified as reverse auctions. In their framework, they identified six dimensions on which to perform this analysis, namely supplier characteristics, the dyad or relationship characteristics, buyer characteristics, product characteristics, the auction process and the auction outcome. In order to better analyze and understand these transactions, a manager needs to also understand the environment in which reverse auctions exist. To do this, it is
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useful to analyze other comparable or competitive types of buyer-supplier relationships. This chapter facilitates that analysis by examining one type of entity, supplier consortia, which could impact several dimensions, including supplier characteristics, dyad or relationship characteristics, and outcomes. The information gleaned from such analysis can be useful to the managers of both supplier and buyer organizations.

Most research in buyer-supplier relationships has been focused on the downstream side of the supply chain, that of the buyer’s perspective. Even more specifically, it has been focused on the buyer’s interaction with, or selection of, a single supplier. Studies have been conducted on buyers banding together to accomplish various objectives, the most common one being to achieve economies of scale in their purchases in order to lower their overall costs of purchasing. Research on buyers’ consortia has been documented from the characteristics of the buyers that are doing it (Huber, Sweeney, & Smyth, 2004) as well as their rationale (Tella & Virolainen, 2005). Other ways of reducing purchasing costs have also been studied. In particular, and in reference to this edited series, much has been written on the use and benefits to buyers of reverse auctions to reduce the costs of purchases. On the other hand, nearly as much information has been provided on the disadvantages to buyers (and, accordingly, to the end customer) of these same reverse auctions.

Little attention has been paid to the perspective and activities of the upstream, or supplier, side of the supply chain equation. In many cases, however, this link, or set of supply chain links, not only possesses considerable market power, but in some cases has learned (or is learning) how to exercise it. In other cases, smaller, less powerful suppliers have been banding together to form consortia to gain both visibility and market power. The intent is that such an association would allow them to survive and prosper. These situations depend on basic objectives of both the buyer and supplier; those of reducing costs and/or building relationships. Companies in the role of suppliers need to understand not only the implications of a reverse auction relationship with a buyer but also what other relationship alternatives exist and their implications. One objective of this chapter is to provide that perspective and information.

This chapter specifically looks at various supplier consortia from the perspective of what their role is in the technology-enabled marketplace, the relationship they have to reverse auctions, the new paradigm of buyer-supplier relationships with which they compete and, finally, the managerial actions the managers of both suppliers and buyers can or should take to rationalize or improve their relationships with their respective supply chain links. This discussion is preceded by a brief definition of terms and a review of frameworks for classifying supplier consortia. The basis of some of the material presented here, including the supplier consortia framework, comes from an article by Southard and Parente (2007).

SCOPE

One of the primary reasons for the rise in use of e-marketplaces has been both the evolution of Internet technology and the increase in competition that it has generated. This competition either exists currently between suppliers or, in more fragmented industries and markets, is created by buyers through the use of technology. The e-marketplace environment, therefore, is primarily of interest to the supplier that operates in a medium-to-highly competitive environment. There are those situations in which the market consists of one, or just a few, suppliers, as in the case of a monopoly or an oligopoly. Suppliers in this market have little need for e-marketplaces, or consortia, as the buyers are well aware of the actual suppliers. Most relationships in this market are of a strategic nature since the products are usually highly technical or specialized. This article, therefore, does not directly address that type of market.