Chapter IV

Internet Reverse Auctions: Listening to the Voices of Non-Adopters

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ABSTRACT

Once a company implements an Internet reverse auction platform, buyers often have considerable discretion as to whether or not to utilize it. This chapter discusses many reasons for non-adoption of Internet reverse auctions. The focus is on factors that impact the fit between the Internet reverse auction technology and the characteristics of the particular purchasing task that the buyer must carry out (i.e., characteristics of the material or service to be purchased, the market from which it is to be purchased). Data (qualitative comments) were collected from buyers within one firm. The comments detail the reasons that buyers have not used reverse auctions for particular commodities. Of the 9 factors identified in the literature review, 4 were actually cited by buyers. These are: specifiability, level of competition for the buyer’s business, importance of non-price factors, and dollar volume.

INTRODUCTION

An important question for companies is what characteristics make an item a good candidate for reverse auctioning. When items that are not appropriate are auctioned, the results are typically undesirable. For example, sellers deliver materials or services that do not meet buyer’s needs because the buyer and the seller did not develop an adequate mutual understanding of the product and service requirements. Or an insufficient amount of competition is generated and the low bid turns out to be higher than existing contract price.

The academic literature has a lot to say on this topic. Scholarly articles on Internet reverse auctions have identified a number of conditions when auctions are a good and bad fit to the purchasing task. Much of the focus has been on characteristics of the material to be purchased and the market from which it is sourced.

The objectives of this chapter are to review the existing literature on reverse auction fit and then
to validate and extend this body of knowledge using an approach that is somewhat different from approaches used in other studies. The findings of this and other studies are interpreted for buyers and managers who desire a deeper understanding of (1) factors that contribute to and inhibit reverse auction fit-to-task and (2) of how to increase the utilization and effectiveness of auctions when they are appropriate.

**BACKGROUND**

When organizations adopt a new technology, they have an interest in their employees using it. In order to understand what makes employees use and not use a technology, it is useful to listen to the voices of non adopters.

The level of fit between the information system and the task at hand increases both information systems utilization and IS benefits. The fit of reverse auction to a particular sourcing decision is influenced by characteristics of the commodity (item) being sourced, the supply base for that commodity and the buying firm (Mabert & Skeels, 2002).

The following factors may influence the fit of reverse auction to the purchasing task:

**Importance of non-price factors (as compared to part price):** Reverse auctions may fit best with items for which price is the most important attribute in the vendor selection decision. Jap (2002) finds that when price is the dominant factor in the supplier selection decision then reverse auctions are more likely to be successful than when other factors (such as quality, delivery, design assistance and other types of support) are as important as price. Similarly Kaufmann and Carter (2004, p. 20) state that buyers using eRA’s should be willing to pursue a “satisficing (Simon, 1955) or ‘ticket to the game’ strategy” on factors that, unlike price, cannot be easily quantified. Other reverse auction papers (e.g., Smeltzer & Carr, 2003) echo this finding, as do the widely accepted prescriptions for when to adopt and avoid competitive bidding (e.g., Burt, Dobler, & Starling, 2003; Leenders, Fearn, Flynn, & Johnson, 2002; Monczka, Trent, & Handfield, 2005).

**Specifiability:** Specifiability refers to the buyer’s ability to provide a clear specification in advance of bidding. Low specifiability exists when the buyer cannot fully enumerate the material or service characteristics in advance. Often in these cases, the buyer and seller may work together to determine the final design after supplier selection. Or sellers submit design proposals (or other types of proposals) along with or prior to their bids or pricing proposals. In this latter case, the buyer may only allow potential suppliers with adequate design proposals to participate in the competitive bidding or reverse auction. The lower the specifiability, the more difficult it becomes to make “apples to apples” comparisons among competing bids. Thus the reverse auction literature holds that the lower the specifiability, the lower the fit of Internet reverse auctions to the purchasing task (Beall et al., 2003; Jap, 2002; Mabert & Schoenherr, 2001; Mabert & Skeels, 2002; Parente, Venkataraman, Fizel, & Millet, 2004; Smeltzer & Carr, 2003).

**Standardization:** Standardized materials are made to meet the requirements of many buying firms. By contrast non-standard commodities are designed to the unique requirements of a particular buyer. These items are “made to order,” “made to print” or “engineered to order.” Researchers (Jap, 2002; Parente et al., 2004) have suggested that the more standardized the item, the greater the fit of reverse auction to the sourcing task. A survey by Emiliani and Stec (2004) of suppliers of make-to-print parts in the aerospace industry found a great deal of dissatisfaction with reverse auction. (However, a later survey on standardized items was not positive either).
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