



## The Perfect Flaws of Internet Auctions In the Eyes of a Rep

*I believe that this article is long overdue, especially from a rep and distributor point of view. In the eyes of many, Reverse Internet Auctions are nothing more than “profit suckers.” Read on and see if you agree that numerous suppliers have been victimized by the practice of Reverse Auctions.*

**B**ecause of the enormous pressure to lower prices and increase profits, the purchasing management of many large corporations has developed creative ways to beat up suppliers for lower prices. This has been accomplished thru the ingenious use of Reverse Internet Auctions. Is this practice legal? Of course it is! Is it ethical? Some question it. Many existing suppliers are led to believe that they are competing with other approved vendors. This is not always the case! Invariably, they don't know who they are bidding/quoting against. Is this a fair tactic? Not according to many manufacturers who have gone to great expense to nurture long term engineering and business relationships. Auctions rarely factor in these valued ingredients. They live and die by the almighty buck.

Most importantly, the practice of Reverse Internet Auctions does not reflect the total cost of ownership, because of the inherent expense of finding and approving new sources that have to be tested for quality and reliability. Also, there is the critical factor of “on time delivery.”

### **You're On the Outside Looking In**

If you are a vendor longing for new business, you may think Reverse Auctions are a great revelation – wrong for many reasons. First and foremost, when you win by the sword (low price), you stand an excellent chance to lose by the same sharp, price slashing sword. Would you agree that winning on FABS (features, advantages, benefits and service) would be preferable? Of course you would, and these same factors are allegedly considered in the Auction process. However, those who participate are not told how heavily they weigh, if at all.

### **Who Are The Players?**

Many global accounts conduct their own Reverse Internet Auctions and some use a third party. Below is a list of some companies who obviously feel that Reverse Internet Auctions enhance their bottom lines:

Cisco, Danaher, Diebold, Emerson, GE, Hewlett Packard, IBM, Intel, Lucent Technologies, Microsoft, Motorola, Sun Microsystems, Symbol, Unisys and others.

### **What Do The Experts Think?**

Reverse Internet Auctions claim to save manufacturers as much as 30%, but in fact they may be costing more than they save, according to two researchers at Rensselaer Polytechnic Institute.

Reverse Auction companies, such as Ariba (formerly known as FreeMarkets), CommerceNet, HedgeHog, K2 Sourcing and others, claim that they can help their clients immediately and substantially reduce component cost. However, the experts at Rensselaer state that buyers invariably fail to take into account numerable direct and indirect losses/costs.

### **Why Are Reverse Auctions So Popular?**

Many companies view Reverse Auctions as an easy way to improve financial performance and thereby quickly increase shareholder value. These services are sold as a “quick hit” solution, strengthened by the allure of rapid price negotiation through B2B E-Commerce hype. This combination has proved irresistible to the management of many

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large companies, but many observers feel that management does not have a grasp of the total cost of ownership. In other words, it's over-hyped. Further to that point, if Reverse Internet Auctions are so good, how come the most ardent users do not want them applied to their own products? How's that for perfect hypocrisy? Companies that hold this view do not want to be "beat up" by their customers in the same way that they "beat up" their suppliers. This is clearly a duplicitous view of Reverse Auctions, and certainly it will not improve the buyer's credibility in the eyes of suppliers.

### The Best Course

Mutual respect and long term, stable relationships are the mark of strong supply chains of the best companies, especially those practicing lean techniques. The pseudo savings tend to go out the window when the parties involved get bogged down in lengthy, acrimonious negotiations and are surprised when quality problems arise. Remember the old expression – "the sweetness of low prices is quickly forgotten with the bitterness of poor quality."

### More Views

Reverse Auctions have other negative, unintended consequences. Buyers may not challenge suppliers to accept additional responsibilities to develop new value-added capabilities. Over time, these buyers may inadvertently de-skill their vendors. Paradoxically, this may hurt the buyers' own future competitiveness and result in many more rounds of heavy-handed cost-cutting. As a result, the buyer and seller may fail to develop capabilities that are needed to compete effectively in the future. Again, the frantic quest for lower prices may, in fact, turn out to be more expensive than first appearances would indicate.

Companies like Toyota and Honda work closely with partnered suppliers to reduce cost and have not resorted to quick hit solutions like many of our domestic companies. Is this another example how Japanese companies are doing things in a better way? I think so.

### Negative Feedback

Based on bad experiences, the following are some comments that I've heard from suppliers/principals:

- I won't participate in predatory pricing practices. My company deserves

a fair price and profit margin.

- I have won Auctions and never received the business. This is BS!

- I won't bid against unapproved sources. If I did, I would be competing with myself.

- Reverse Internet Auctions are a scourge to our industry.

- I sell quality products at a fair price. I won't be intimidated by Reverse Auctions and I can't afford to do business with companies who use them.

### Comments from the Field

The following is some feedback from salesmen and sales management personnel and their views of Reverse Internet Auctions:

#### Anonymous Connector Sales Exec

*"Initially they seemed to just lower the incumbents' pricing. But now that most of the big cost-reductions have been wrung out, OEM's are actually following through and re-sourcing."*

*"We have won new business, we have lost some old business, but so far, net, it has been a gain for us. A few key OEM's have decided to dump the Internet Auction and go back to tried and true face-to-face negotiations with spreadsheets."*

#### Anonymous Power Supply Exec

*"My company has participated in a few Internet Auctions but not in the last year or two. There were a few customers that made us sit through an hour of training each to learn their system of bidding. End result was that of the 6 - 10 events that we participated in, we did not win one of them, and the pricing got to the point where we were happy to have lost. The customer ended up losing as well as the low cost bidder performed to similar standards, which is why we think the program has been abolished for anything more complex than a total commodity component. Power supplies have quite a bit of 'specsmanship' to them, which is possibly why we have not seen one recently."*

#### Anonymous Switch Sales Exec

*"A pet peeve of mine... We have participated in numerous on-line auctions since coming into vogue a few years ago. We have won many of those, or so we thought. In every instance where we were not the incumbent vendor, but determined at the close of the auction to be the lowest bidder; we were not awarded the business. In contrast, for those auctions where we were the incumbent, despite our final position in the auction, in every instance we eventually maintained the business, although at a reduced price. In summary, for suppliers, a waste of time, resources, and artificially reduced margins."*

#### Anonymous Capacitor Sales Exec

*"These just suck profit. None of the*

*normal business advantages (service, delivery, design, engineering support, help previously provided) are considered These are price only discussions with the sole intent to drive price as low as possible!"*

#### Doyle Evans – Pinnacle Marketing

*"I do not believe internet auctions serve the vendor sales rep or the customer well. It is a short-term solution to getting cheap product. In the end, we all lose."*

#### Bob Albert – TSI

*"In my opinion, these have been debacles. We've seen several where the 'auction' was supposed to be for 'qualified sources only', with the result being that some unqualified manufacturer (obviously invited to participate) comes in with ridiculous pricing and walks away with the deal. In some cases, even the customer lost as their new 'lowball' source could not deliver a quality product on-time. Some of the same companies who promote these auctions also espouse 'the value of partnering' ....not much incentive to go above and beyond on a daily basis when you know that years of outstanding service can be nullified in a one hour auction!"*

#### Robert Soucy – Vette Corp.

*"The internet auctions have simply been away to suck away profits."*

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1. Usually a supplier works a long time with a customer in engineering and development, and once the part reaches production the supplier can then start to recoup those costs.

2. If the part goes to auction, then another supplier who has not invested in development can come in at a very low cost and win the business.

3. Any supplier can come in the lowest on any given day; it depends on how much the supplier wants to give up in margin.

4. A lot of companies that started to use auctions have now backed off; because they get a reputation of putting goods out on auction and the suppliers that work to develop new products with them are losing, so why should the supplier work with the customer on new programs? There is no more loyalty and relationship in business.

5. The participants in the auction are not always qualified suppliers and the customers have to spend a lot of money in qualification, etc. that they are wasting for just a very small amount of difference, in most cases, that they would have spent staying with the current supplier.”

**Bruno Schurter – Schurter, Inc.**

“I personally have a negative view on these auctions. They are completely intransigent: We don't know who the participants are, nor do we know if they are an approved source on the BOM. Unapproved suppliers are invited to participate to drive the price down. They offer the lowest bids. How do we know they offer an equivalent product? We have been so frustrated with the process that we have refused to participate in some instances. The industry should ban such auctions unless clear guidelines are established and the process is made fully transparent.”

**Anonymous Resistor Sales Exec**

“I refuse to participate in these events.

If we do our job right, there will be at least 2-3 sole source parts. By not participating, the works are gummed up and a separate agreement, under much better terms, must be arrived at with us. Honestly, in industrial, medical, military, and aerospace products, a low bid by a competitor is not going to offset the cost of requalification for our component, which is at the low end of the BOM cost. All other parts will have the profit driven down to zero and not worth winning unless your business is desperately below capacity.”

**Peter Benzinger – Electronic Salesmasters Inc.**

“. . . the negative connotation of the word ‘auction’ itself is enough to make me wince. From conversations with many salespeople who have had an ‘opportunity’ to participate in such auctions, the driving factor has overwhelmingly been price with little, if any, consideration given to the time and energy required of the original salesman to finalize a working design. Reverse Auctions provide potentially new suppliers an entrance with no investment cost. They can offer a greatly reduced price to a bottom-line driven OEM because they did not incur any sales or engineering expenses. Auctions are wonderful for predatory suppliers with a sufficient level of exposure to be invited to bid but few, if any, salespeople to minimize overhead.

Auctions remind me of buyers who put their pricing out to any and all and then watch the prices come back until they have battered the market. I, personally, avoided these types once they became known to me. My time and abilities can be much better invested dealing with purchasing professionals who value the negotiation process.”

**More Comments from Anonymous Suppliers**

“Reverse Auctions are a poor excuse

for sound negotiating skills of professional procurement people.”

“Internet Auctions are a scourge on suppliers, who are looking to earn fair profits for their stockholders and employees. In part, these Auctions are responsible for off-shoring jobs and/or the loss of health benefits. I hate Internet Auctions.”

“We’ve won and lost Internet Auctions and saw no change in procurement practices. They are a waste of time!”

“They are a pox on the ethical practices of professional buyers. I feel sorry for my reps and distributors who have to put up with this crap – I won’t.”

“The next invitation for an Internet Auction will join the others in the trash. They are garbage!”

### Lies & Misconceptions

According to some experts, Reverse Auctions are not always what they seem on the screen when the bid is taking place. Knowing these little truths can make you a much wiser bidder. Most auctions claim to pre-qualify bidders and weed out the riffraff. Pre-qualification involves reviewing lengthy forms submitted by potential suppliers. For the most part, there is no on-site inspection to catch fraudulent claims.

### Summary

In my opinion, Reverse Auctions serve to expedite the outsourcing of American jobs. These Auctions are designed to squeeze every last scintilla of profit out of their suppliers. It is perfectly legal robbery without a gun. Do you think that Reverse Auctions are necessary to get the very best price? Do they devalue the function of professional salespeople?