

## Chapter 2.17

# A Reverse Auction–Based E–Business Model for B2C Service Markets<sup>1</sup>

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### ABSTRACT

LetsWorkIt.de is a German B2C platform for different kinds of service and handcraft orders. Based on the concept of reverse auctions, demanders compose descriptions of the required services to place orders on the platform. The supplier bidding lowest at the end of the auction obtains the right to carry out the order. Drawing upon and widely confirming existing theories on e-marketplaces, this chapter examines the underlying e-business model and the competitive strategy of LetsWorkIt. The case provides evidence

that the reverse auction-based intermediation of handcraft and service orders is suitable to form the basis of an e-marketplace and points out that for such ventures, a combination of public relations, performance marketing, and cooperation, represents an ideal strategy to increase the number of demanders and suppliers. Moreover, the case suggests that, depending on the business model, it may be feasible to concentrate marketing activities on one of these two customer groups, since LetsWorkIt has managed to achieve a significant number of successful, high-quality auctions by primarily aligning its competitive strategy with the demand side.

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## COMPANY OVERVIEW AND HISTORY

In early 2004, Alexander Bugge, Carsten Seel and Jörg Holtmann were wondering whether, in spite of the burst of the dot com bubble, an Internet-based business could become the center of their professional life. At that time, the idea of LetsWorkIt.de, a German business-to-consumer (B2C) auction platform for different kinds of service and handcraft orders, was born. Service auctions to be placed on the platform would include, for instance, gardening, wallpapering a flat, repairing a car, or printing advertising brochures. Although there was already a first-mover offering such auctions, the corresponding market was hardly existent and the publicity for placing service and handcraft orders on the web was still low. Bearing in mind the success of *eBay* and the fact that the target group of craftsmen was becoming increasingly affine to the World Wide Web, the three entrepreneurs began to develop their business idea and formulated their mission: “to become the leading electronic marketplace for service and handcraft orders and to provide our customers a high level of quality at a fair price.”

According to their respective competencies, Bugge, holding a degree in business administration, took over the areas of finance and marketing, whereas Seel, an experienced web developer with a degree in communication science, was responsible for the technical implementation issues and content management. Holtmann, also holding a degree in communication science, would focus on customer relations and PR work. However, having these highly complementary skills would not guarantee LetsWorkIt’s activities from a liquidity point of view. On the one hand, there was a significant need for investing in technology and in establishing the company; whereby, on the other hand, the free-cash-flow could not be too negatively influenced. Consequently, the founders decided to manage without salary in the beginning phase, and each of them subscribed a limited amount of capital. Moreover, they were

supported by a business angel, an external expert on e-marketplaces who helped them from both a financial and a professional point of view.

In order to minimize development costs, Seel went for conducting the technical implementation of LetsWorkIt.de and the underlying database on his own, while his two colleagues carefully designed the electronic business processes to be implemented. For the server-side programming of the platform, Seel applied Microsoft’s ASP technology. “Concerning hardware, we decided to fall back on a quality service provider ensuring that the platform would be available twenty-four-seven”, Seel remembers.

After less than half a year of exhaustive work, LetsWorkIt.de went online on July 1<sup>st</sup>, 2004. The main concept is as follows: demanders position orders in form of reverse auctions and compose descriptions of the required services. The duration of an auction can be between one day and six weeks. Suppliers then bid on these orders. The supplier bidding lowest at the end of the auction obtains the right to carry out the order – and is legally obliged to do so since there is a legally binding contract (i.e. a work or services contract) between demander and supplier. This contract is based on the description of the demander and the price of the supplier. Demanders include private persons, enterprises and tradesmen. Suppliers, however, are required to be enterprises or registered craftsmen and have to verify their accreditation.

“LetsWorkIt provides some obvious advantages for both demanders and suppliers”, Holtmann states. For the demander, these advantages include:

- Saving money when placing handcraft and service orders,
- Being sure to pay the lowest price,
- Finding a service provider or craftsman very easily and quickly,
- Avoidance of unpleasant negotiations, and
- Reaching a wider range of service providers or craftsmen.

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