

## Chapter 6.14

# The Purchasing Agent's View of Online Reverse Auctions

**Peggy D. Lee**

*The Pennsylvania State University—Great Valley, USA*

### **ABSTRACT**

This chapter views online reverse auctions from the purchasing agent's perspective. I found that purchasing agents with a high level of buying experience will perceive that online reverse auctions have a negative impact on the trust and cooperation in supplier relationships. Purchasing agents did not see a negative impact of online reverse auctions on long term viability of suppliers. The chapter discusses the evolution of the buyer-supplier relationship, emphasizing the critical success factors in supplier selection. Further, it discusses the role of the online reverse auction in the buyer-supplier relationship. By understanding the lens through which purchasing agents view online reverse auctions, managers can do a better job of managing the procurement function through improved training programs for purchasing agents that incorporate the appropriateness of online reverse auctions vs. other sourcing strategies. In addition, they will be able to better manage online reverse auctions,

minimizing any negative impact of the auction on existing supplier relationships.

### **INTRODUCTION**

Auctions have been used to buy and sell goods and services throughout the centuries (Smeltzer & Carr, 2003). However, technological innovation, improvements in communications, and the Internet have made online auctions more popular in business-to-business purchasing as well as in consumer sales. The online reverse auction (ORA) is one of the latest tools to improve purchasing costs by giving buyers access to a broader range of suppliers and allowing suppliers to bid on items that they might not have had the chance to bid on in the past. Online reverse auctions have saved buyers and sellers millions of dollars in the last decade and estimates are that this can only continue. Academics and practitioners alike have extolled the benefits of online reverse auctions, primarily in the form of reductions in the costs to procure goods and services as well as to bid.

The research in this area has focused on the decision to implement an ORA (Parente, Venkataraman, Fizel, & Millet, 2004; Stein, Hawking, & Wyld, 2003) how to structure an ORA (Nair, 2005); how to determine the suppliers to invite to bid (Talluri & Ragatz, 2004) and the impact of the auction on the suppliers (Gattiker, Huang, & Schwarz, 2007; Jap, 2007). The success of ORAs usually is measured by how much purchasers' and sellers' costs are reduced, estimated to be about 10% (Griffiths, 2003). Few researchers have studied the purchasing agent's perceptions on the success of the auction, despite the fact that an online reverse auction is one of the many methods that purchasing agents use to procure goods for their companies (Emiliani & Stec, 2001). Consequently, the purpose of this chapter is to view online auctions from the purchasing agent's perspective. The next two sections discuss the evolution of the buyer-supplier relationships, emphasizing the success factors in supplier selection; and ORAs in the buyer-supplier relationships. The second section ends with the hypotheses derived from prior research in supplier relationship and online reverse auctions. The last sections describe the study methodology, followed by survey results, a discussion of my findings, limitations of the study and thoughts on the direction of future research.

## **SUPPLIER RELATIONSHIPS: EVOLUTION AND SUCCESS FACTORS**

Strategic sourcing involves creating a plan to discover, evaluate, select, develop, and manage a viable supply base (Burt, Dobler, & Starling, 2003; Kumar, Bragg, & Creinin, 2003). This systematic approach to sourcing positively affects a firm's performance (Chen, Paulraj, & Lado, 2004; Paulraj & Chen, 2005). Of the activities involved in strategic sourcing, supplier management is perhaps one of the most important tasks of the purchasing

agent since the cost of externally procured goods can account for nearly 50% of total costs (De-graeve & Roodhooft, 1999). The buyer-supplier relationship is a crucial component in strategic sourcing (Leenders & Fearon, 1997). Buyer-supplier relationships are characterized by a high level of communication and information sharing between the partners, often including their cost structures and production plans (Burt et al., 2003). Thus, researchers have identified trust, quality, delivery reliability, economic performance of the supplier and the supplier's financial stability as important decision factors in selecting a supplier (Choi, 1996; Ellram, 1990; Kannan & Tan, 2002; Kumar et al., 2003; Min, 1994).

The buyer-supplier relationship is a dyadic relationship formed for the purpose of purchasing goods and/or services and it has evolved over the years from an adversarial one to one characterized by partnerships, strategic alliances, and collaborative relationships (Burt et al., 2003; Hoyt & Huq, 2000). In the early years of the purchasing profession, supplier management meant that the purchasing agent's job was to negotiate the best price, quality and delivery terms with his or her vendors and suppliers, once the decision was made to buy vs. make a component used in the manufacturing process. Grounded in transaction cost theory (Williamson, 1979), procurement activities were basically arms' length transactions with no relational content and were governed by a contractual arrangement. Burt, Dobler, and Starling (2003) refer to this as reactive purchasing, where the buyer-seller relationship is transactional rather than being collaborative. They describe transactional relationships as having "an absence of concern by both parties about the other party's well being" (p. 81). Each transaction is an independent deal. Costs, production schedules, and demand forecasts are not shared. Transactional relationships are arm's-length transactions where if one party "wins", the other "loses". The role of the purchasing agent was to manage (i.e., reduce) risk and transaction costs (Hoyt & Huq, 2000).

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