The effect of business to business online reverse auctions on buyer supplier relationships

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The Effect of Business to Business Online Reverse Auctions on Buyer-Supplier Relationships

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Abstract
In the last two decades there has been a perceptible move towards closer business relationships between buyers and suppliers. More recently, the use of online auctions to gain substantial cost savings has attracted organisations. This research examines the risk to a long-established, buyer-supplier relationship resulting from the buyer’s use of online auctions. It was found that while the close relationship had been put at risk, some negative results had been mitigated by the actions of the buying organisation in supporting the supplier to new opportunities. Implications for other organisations are identified and discussed.

Keywords
Business to business relationships, online auctions, e-procurement, buyer/seller relationships

INTRODUCTION

Much has been written on the extraordinary developments in information technology (IT) in the last twenty years. The advent of the affordable personal computer and the adoption of the Internet, and particularly the World Wide Web, have radically changed the business landscape in a few years. Electronic commerce is now a viable option for businesses of all sizes leading to enormous changes in the way that companies interact and communicate (Downes & Mui, 1998; Raisch, 2001).

The electronic environment has facilitated the use of online buying and selling of goods and services in both the consumer and the business-to-business (B2B) environment. However, despite the high profile that online consumer sales have achieved in recent years, it is in the latter environment that turnover is expected to rise exponentially (Afshar & Tucci, 2001). The development of electronic marketplaces offering a number of different transaction mechanisms has facilitated the move to online B2B procurement. The e-marketplaces support the bringing together of buyers and sellers and allows for the identification and selection of potential trading partners, and in some cases allows for full execution of a transaction including logistic and financial services (Bakos, 1998; Brunn, Jensen, & Skovgaard, 2002).

The online auction is one mechanism that e-marketplaces are offering, either as a primary service (as in the case of FreeMarket or as one of a number of transaction mechanisms (for example Qdread). Online auctions originally developed in the pre-Web newsgroups of the early Internet years. The advent of the Web enabled commercial auction companies such as eBay and Onsale to develop in the consumer market and they have been very effective in encouraging the sale of collectables, consumables and memorabilia (Lucking-Reiley, 2000). FreeMarket was an early entrant to the B2B market in 1995 and has been a leading proponent of the use of online auctions for sourcing a wide variety of direct and indirect goods and services. The turnover of goods through B2B auctions is now estimated in the billions of dollars with organisations such as General Electric putting billions of dollars worth of contracts up for online bids (Kwak, 2002).

The enthusiasm of large organisations for online reverse auctions appears to run counter to prevailing management policies of building and maintaining close business relationships with a small number of suppliers (Dwyer, Schurr, & Oh, 1987; Naude & Holland, 1996; Speckman, 1988). Even with IT reducing coordination costs, the logic of a buyer maintaining a small, tight network of suppliers has been widely accepted (Bakos & Brynjolfsson, 1993; Clemenson, Reddi, & Row, 1993). Emiliari (2003) argues that the need to maximise shareholder value is a driving force behind senior managements' decisions to adopt apparently cost saving strategies such as the use of online reverse auctions. This accords with a world market 'pre-occupied with short-termism' (Lever, 2002) that encourages actions which demonstrate savings and contribute to perceived shareholder value. Auctions are not perceived to be suited to the maintenance of close relationships and raises
the question of how using online auctions for purchasing a wide variety of goods is affecting the relationships firms have built up over many years with small groups of trusted suppliers.

This research contributes to an understanding of the use of auctions by organisations and the effect this has on long-term relationships with suppliers. We examine the literature to gain an understanding of B2B relationships and online reverse auctions. We then use a case study to examine the effects this use is having on a long-term relationship between a large Australian mining organisation and one of its suppliers. Implications for other organisations are then discussed.

BUYER-SUPPLIER RELATIONSHIPS

Information technology has transformed business in the last two decades. It has facilitated access to markets beyond national boundaries, changed production methods and costs, shortened product lifecycles, enhanced communications, reduced transaction costs and brought a more competitive edge to business. This has altered the nature of buyer-seller relationships and encouraged buyers to form closer relationships to enhance competitiveness (Spekman, 1988). The depth of the relationship is dependent on the nature of the goods and services being purchased, ranging across a wide spectrum from discrete transactions that require little interaction to relational exchanges that benefit from close collaboration (Dwyer et al., 1987). The level of collaboration and information interchange varies considerably according to the purchasing requirements, the firms themselves and the environment in which they function (Cannon & Perreault Jr, 2002). Research into business-to-business relationships largely centres on relational exchanges where there is greater need for interaction.

The 1980s and 1990s were characterised by a shift away from the adversarial model of procurement where the buyer attempts to minimise price by using a large supplier base and using short-term contracts. There has been a surge of interest in Japanese models of purchasing (Kanban) where long-term strategic partnerships, built on trust and collaboration, enabled mutually beneficial relationships to flourish (Spekman, 1988). These long-term relationships have been supported by developments in IT that have improved the ability of firms to communicate and reduced coordination costs.

The impact of IT-led changes has generated many discussions on the advantages of electronic markets over hierarchies. Malone, Yates and Benjamin (1987) anticipated that the development of IT would lead to lower transaction costs and therefore encourage greater use of electronic markets and a larger supplier base. The advantages of a larger supplier base were reported in earlier work by Porter (1980) who argued that a large number of suppliers improves the bargaining position of the buyer. However, the 'move to the middle hypothesis' (Clemons et al., 1993) challenged the assumption of Malone et al., arguing that the significant costs of establishing a relationship, transactional economies of scale and the human factors involved leads to more benefits being gained from establishing close interorganisational relationships. Further arguments in favour of this hypothesis suggest that the cost of technology investment in a relationship hinders an increase in the number of suppliers (Bakos & Brynjolfsson, 1993). In addition, there are several benefits to be gained from maintaining a close network of suppliers such as innovation, adoption of new technology, quality, information exchange, trust, flexibility, responsiveness and social satisfaction from the association (Bakos, 1991; Dwyer et al., 1987; Naude & Holland, 1996; Parsons, 2002; Spekman, 1988).

In a close relationship the buyer concedes bargaining power to gain more intangible benefits, while the supplier feels safer in offering more noncontractible investments to a buyer that shows commitment to the partnership (Bakos & Brynjolfsson, 1993). There are benefits to be gained from both sides of the partnership, although there is usually a degree of asymmetry in dependence on the relationship with suppliers often exhibiting a greater need for continuity (Bakos & Brynjolfsson, 1993; Cannon & Perreault Jr, 2002; Heide & John, 1990). Buyers tend to pursue a course of self-interest to maximise profits and will form partnerships of varying degrees of closeness according to their procurement requirements and the quality of supplier performance (Cannon & Perreault Jr, 2002). If, however, the buyer attempts to rule the relationship and dictate performance the supplier will not develop trust in the partnership and collaboration cannot exist (Spekman, 1988). Suppliers are dependent on the goodwill of the buyer to gain a share of the benefits, but if given signals of trust they will contribute noncontractibles that are irrevocable to the buyer.

There has been a widespread, although not universal, acceptance by large organisations of the benefits of closer, smaller supplier networks, particularly for direct goods and services (Cannon & Perreault Jr, 2002). It is therefore somewhat surprising that many organisations are prepared to jeopardise relationships that they have spent many years developing by turning to online auctions for procurement purposes. Auctions have traditionally had limited but specialised use in business to business procurement, but the online environment has extended their use to sourcing a wide range of goods and services and added an unexpected element to trading partnerships. Initial indications are that there is little understanding of how online auctions are affecting
relationships and indeed, there is little understanding of the auctions themselves. The next section therefore examines the use of online auctions in the procurement process.

BUSINESS TO BUSINESS ONLINE AUCTIONS

Conventional auctions traditionally carry significant coordination costs and usually require the physical presence of prospective buyers at a given place and time. The potential of using information technology to create virtual auctions was recognised by online user groups over a decade ago. Group members began auctioning collectables and memorabilia and the success of such auctions, along with the development of the World Wide Web and greater use of the Internet encouraged the creation of commercially-owned consumer auction companies such as eBay and Onsale (Lucking-Reiley, 2000). Consumer activity was closely followed by the launch of business to business online auctions, such as FreeMarkets in 1995, and the adoption of the Web as a business tool further enhanced the development of these auctions (Chui & Zwick, 1999; Daripa & Kapur, 2001).

Although there are numerous different auction formats, they essential run on two lines (see Lucking-Reiley (2000) and Jap (2002; 2003) for an in-depth look at auction models and formats). The English auction follows the conventional method of bidding-up to the highest price a bidder is prepared to pay. A Dutch or reverse auction follows a bidding-down format where suppliers compete to their lowest price. The latter format, the more common format for business to business, is favoured by FreeMarkets, an e-marketplace specialising in reverse auctions for large multinational organisations. Their auctions are either open cry or sealed bid; the advantages of the transparency of the former needs to be weighed against the greater security against collusion of the latter (Daripa & Kapur: 2001).

The financial savings advertised as attainable from such auctions has proved very attractive to large organisations, with estimated savings of between 5 and 40% on historic cost (Emiliani, 2000). FreeMarkets promotes a return on investment of more than 20 to 1 and additional savings of up to 25% through efficiencies (FreeMarkets, 2003), while auction providers such as Ariba and CommerceOne claim savings ranging from 10-50% (Emiliani & Ster, 2002b).

Empirical evidence of the long-term effects of these auctions on buyer-supplier relationships is not yet available. There are concerns that cost savings cannot be sustainable and that some auction formats are detrimental to collaborative relationships (Emiliani & Ster, 2002b; Jap, 2002). However, in the short-term benefits for the buyer, in addition to cost savings, are anticipated to be a wider potential supplier base (Bakos & Brynjolfsson, 1993) unhindered by geographical considerations (Daripa et al. 2001), identification of market price (Emiliani 2000) and ability to aggregate or disaggregate tenders to meet supplier considerations.

In contrast the benefits for suppliers appear to be few. Despite the long list of purported benefits described by market makers, suppliers have yet to realise key benefits from the auction process (Emiliani & Ster, 2002a). Realised benefits are restricted to identification of market prices, validation of a supplier's own competitiveness against other suppliers (Emiliani & Ster, 2002a) and the ability to gain entry to previously inaccessible supplier bases (Moser, 2002). If the suppliers are not gaining substantial benefits from the auction process then their incentive to take part in such auctions is low, unless motivated by the auction activities of their customers.

For discrete transactions where the lack of a relationship means low switching costs, no relational rents, non-specific asset investment, minimal information exchange and low transaction costs (Dyer & Singh, 1998) the auction process may have many advantages. However, organisations are using auctions across many procurement categories and would appear to be risking long-term relationships in the process. The next section examines the effect of the auction process on a long-term relationship built up over two decades between a multinational mining organisation and a medium-sized engineering company.

THE CASE STUDY

The two case study organisations are situated in Western Australia (WA) where mining is the dominant industry, accounting for more than 60% of commodity exports (Subhabrata, 2000). The buying organisation (eBuyer) is a multinational mining company employing over 100,000 people in 32 countries. The Australian headquarters and several remote mining and refinery sites are situated in WA, where the organisation is a major employer.

The supplier organisation (eSupplier) is a local engineering company employing over 200 people and supplying custom-made values and gauges, mainly to the mining industry. The company acknowledges that its successful growth over the last two decades has been linked to its relationship with eBuyer. The relationship between the two firms can be characterised as a cooperative system (Cannon & Perreault Jr, 2002) which is in the 'highest mean range on both operational linkages and cooperation', but 'among the lowest with respect to legal bonds and buyer adaptation'. More importantly, Cannon and Perreault found the highest level of trust in the supplier.
for this type of relationship. The relationship of the two firms is centred firmly in the operational needs of the buyer with few structural commitments.

The decision to adopt the reverse auction mechanism in the procurement process was taken at eBuyer Board level in the US, with the primary reason given as cost savings. The board selected FreeMarkets as the most appropriate electronic marketplace for their purposes. FreeMarkets specialises in reverse auctions for large multinational organisations seeking to reduce their procurement spend, although they project themselves as a ‘leading supplier of global supply management solutions’ (FreeMarkets 2003).

THE RESEARCH STUDY

The use of interpretive research in Information Systems still remains a divisive issue with few academics yet willing to cross the epistemological front lines. However, the argument for the validity of interpretive research, including case studies, has been strengthened by the development of principles for the conducting of such research studies and by addressing questions regarding evaluation of these studies (Klein & Myers, 1999; Lee, Liebenau, & DeGross, 1997; Myers, 1997; Trauth, 2001; Walsham, 1995). In this research the need to understand the relationship between employees of two companies requires a holistic approach to collecting and analysing the data. There are many social and political implications in discussing relationships including attraction, communication, expectations, power and justice, commitment and trust (Dwyer et al. 1987). An interpretive approach allows for differences in the meanings that people assign to events and focuses on the complexity of human sense making as the situation emerges. The use of an interpretive case study approach will enable rich insights into the effects on business relationships of the auction process to be gained. It will also enable specific implications for the case study organisation to be drawn that may be valuable in other contexts and organisations (Klein & Myers, 1999; Walsham, 1995; Yin, 1994).

Data Collection

The primary data sources were interviews. In the buying organisation (eBuyer) we interviewed both the purchasing manager and the procurement manager twice. The first interviews were conducted at the commencement of the auction process and the second time was after 18 months of operation. Supporting interviews with purchasing officers in the buying organisation were also conducted. Interviews also took place with the Australian CEO of a vertical electronic marketplace in the mining industry and with the CEO and contracts manager of the supplier (eSupplier) after 18 months of the introduction of the auction process. The current CEO of eSupplier is the original founder of the company and is on the verge of retirement.

This research carries a degree of asymmetry in the research design in that we spent considerably more time with the buying organisation than the supplier. This we believed to be justifiable given the complexity of introducing the auction process in a major multinational organisation relative to the level of participation required from the supplier’s firm. We studied e-Buyer over an 18 month period as they engaged with the auction process and widened its application to a broader range of products and services than was initially envisaged. We then researched eSupplier’s perspective of nearly 12 months participation in auctions.

An open interview style was used (Kvale, 1996) in all instances and interview duration was between one and three hours. Interviews were taped and transcribed verbatim. The interviews were supported with additional data sources including email correspondence, business reports, attendance at meetings with e-marketplace representatives and training sessions. Additional material to inform the wider societal context (Scott & Walsham, 1998; Trauth, 2000) was found through newspapers, company brochures and the business press.

Data Analysis

The analysis was conducted with regard to the principles of dialogical reasoning, multiple interpretations and suspicion as defined by Klein and Myers (1999). Dialogical reasoning allows for the inherent prejudices of the researcher to be recognised and used to improve understanding through the interpretation. The ordering of the data was carried out by coding texts, including the interview transcripts, using themes as a unit of analysis. The themes were determined by using the benefits identified in the literature and testing against texts and redefining emerging themes.

Multiple interpretations are possible from the data and this requires drawing out the meanings by comparing and examining conflicts and contradictions within the data. The final principle of suspicion allows for recognition ‘of the social world behind the world of the actors’ and requires an appreciation of the conflicts and loyalties that may cause distortions in the interviewees’ statements.
RELATIONSHIPS IN THE AUCTION PROCESS

In the course of this study, we examined the nature of the relationship between eBuyer and eSupplier, previously identified as a ‘cooperative system’ (Cannon & Perreault Jr., 2002). There was evidence of the high level of trust on the part of eSupplier, characteristic of this type of relationship and the commitment to operational linkages and cooperation. Collaboration between the two companies has been extensive with engineers from both discussing and re-designing values and gauges to meet the requirements of eBuyer’s industrial sites. Communication has been consistently good (e-mails, telephone calls and meetings) with frequent discussions and on-site visits by engineers from both companies. Personal contact between the management of eSupplier and eBuyer’s purchasing and procurement managers has been friendly and productive. Despite the asymmetry of the relationship, with the power lying with eBuyer, each sees the relationship as mutually supportive:

“it is a bit of a Jekyll and Hyde relationship, we do need eBuyer for the amount of turnover we get, but they need us to continue their assurance of quality.” (Contracts Manager, eSupplier)

Indeed, it is the level of service quality that has significantly contributed to the success of the relationship. eSupplier’s commitment to providing support for a myriad of intangibles and customising each product to high specifications has caused eBuyer to maintain trust in them despite competition from suppliers in Europe and America. eSupplier also takes great pride in troubleshooting maintenance and repair engineering problems where downtime in a mine or refinery is very costly.

The advent of the auction process has evoked a wide range of, sometimes contradictory, reactions from both parties. From eBuyer’s perspective there are economic drivers, particularly the downturn in industry prices, directing the organisation towards cost saving strategies. The use of auctions is one such strategy, adopted at board level after initial trials in the US. This decision has conflicting implications for the procurement staff presenting them with the need to maintain professional competence by achieving savings targets through the auction process and the requirement to manage relationships in a buying environment where there are no established guidelines. In addition, the procurement staff must consider the supply requirements of internal customers working the mines and refineries.

From eSupplier’s perspective the situation was seen as a betrayal of trust where the ubiquitous ‘level playing field’ has been presented to a range of competing suppliers with no regard for previous service to eBuyer. The CEO believed that the relationship has been destroyed and eBuyer, as a multinational organisation, was ‘abusing the system’. The same level of trust could never be re-established, although he recognised that “the people who are writing the rules are not those we deal with in eBuyer”. Nevertheless, eSupplier still retain two long-term contracts (that are unlikely to be auctioned in the future) and maintain the same level of relationship with eBuyer’s staff in those contract areas. Indeed, the contracts manager believes that eBuyer staff in WA are enduring more stress and job dissatisfaction from the auction process than eSupplier staff.

Three main issues that impacted on relationships were identified as arising from the auction process: specifying the product, pricing the bids and interpersonal aspects (the human factor):

Specifications

From the eBuyer perspective specification of goods and services for the auction process has proved to be a difficult task, but one that is perceived by procurement staff to be a gain. With the development of long-term relationships specifications have become less formal as incumbent suppliers have negotiated variations with eBuyer over the contract period. Suppliers have become ‘virtually part of the workforce’ and eBuyer has ceded a degree of governance to them. The auction process has required detailed specifications to be drawn up, sometimes with voluntary help from incumbent suppliers, to enable auction participants to bid on an equal footing. The advantages to eBuyer have been a regaining of control and the opportunity to reassess procurement needs.

From eSupplier’s viewpoint, the loss of trust has led to their determination to quote only against the specification presented to auction participants. Previously, they would discuss any identified problems in the specification with the procurement staff and eBuyer’s project teams. They foresee that quoting to specification will lead to extra costs being added during the contract period, but they are not prepared to lose contracts by bidding a more realistic price based on intimate knowledge of eBuyer’s requirements. The procurement and purchasing managers at eBuyer are fully aware of this and recognise that it may take some time to get specifications written to an acceptable standard to overcome such problems.

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The Bidding Process

eBuyer's motivation for the auction process is to achieve cost savings. The e-marketplace hosting their auctions advertises substantial cost savings across a wide spectrum of goods and services and eBuyer has achieved these in many areas leading them to extend use of the auction mechanism to a wider range of contracts.

eSupplier believes that for 'product manufacture online bidding is fine', but argue that their business involves a high level of research and development that requires a close relationship. For less specialised project work the contracts manager believed that they had lost 'at least half of the first dozen online bids', because there was more competition from suppliers capable of this type of work. The problem lay in the demand and supply for short-term engineering projects and bids were won by the company that had the least work at the time. These companies (including eSupplier) were prepared to lower their bids to cover costs during slack periods and raise them to profitable levels when the workflow improved. Although this is nothing new for suppliers, the auction process allows for transparency in competitors' pricing and therefore encourages more dynamic pricing. eBuyer is taking advantage of this and at the same time gaining experience of a wider group of suppliers. However, for longer-term contracts they do not always accept the lowest bid and balance end price against other organisational requirements including the perceived ability of the supplier to fulfill the contract requirements.

Price transparency can also lead to higher prices where the supplier base is small and bidding is more restrained as the incentive to downward price is lost and the buyer pays a higher price than they may have done offline.

The Social Context

Introducing the auction process for a wide range of procurement requirements has affected all the people involved in the relationship. High levels of personal contact have developed in the somewhat isolated region of Western Australia and many of the people have worked in both supplier and buyer organisations within the State. The effect of this is perhaps felt more deeply within eBuyer where procurement staff have been tasked with introducing the auction process to many areas where close relationships have flourished over years. In many cases they have experienced intense antagonism from suppliers, particularly where the loss of eBuyer contracts may put a business at risk. Not all procurement staff were unhappy with the changes however, with two purchasing officers favouring the break from what they saw as claustrophobic, intense relationships to achieve a more clinical, effective approach.

The dilemma of being seen as efficient within the organisation by achieving cost savings while disturbing the status quo in established relationships has caused stress for many purchasing officers. They have worked hard to mitigate some of the effects of online auctions. In the case of eSupplier they encouraged the company to bid for business in an auction for an overseas refinery that has traditionally sourced its valves and gauges from the US. The purchasing office in WA lobbied for an ex-works specification to enable eSupplier to bid effectively, despite its geographical distance, and win the contract.

The management at eSupplier is able to retain good personal relations with eBuyer in Australia, while maintaining that the loss of trust in the organisation will be enduring. At the same time they have had to review their relationships with their own suppliers and find cost savings downstream to enable them to bid more cost effectively for eBuyer contracts. The company has considered joining a vertical e-marketplace to increase their work from other mining organisations. They have gained many of the skills they will require to participate in such a marketplace whether for the use of auctions or other forms of transaction. eSupplier has also moved to a new alliance with a competing supplier where they have bid for and won a contract with the intention of splitting the work between the two companies. This has proved effective and they plan to extend this strategy.

SUMMARY

The online auction process has affected the relationship between eBuyer and eSupplier and led to a loss of trust at least on the supplier side. However, the process has not been entirely negative for either firm and the situation cannot be said to have degenerated into the adversarial relationships described by Spekman (1988) and Dwyer et al. (1987). The advantages and disadvantages for both eBuyer and eSupplier are summarised in Table 1. The table shows that the advantages gained by eBuyer need to be offset against the list of disadvantages made evident in the research. Conversely, eSupplier can show some gains to partially counter what they see as an abuse of their relationship and a betrayal of trust.

On the supplier side the situation has certainly altered the way the company will approach future business with eBuyer. They intend to work closely to specifications and will price every extra requirement placed on the contract. Knowledge will effectively have a price and will not be a contribution to the relationship. In this sense the relationship will have an adversarial flavour, although whether this is sustainable through employees on both sides who have collaborated for many years is questionable.
In contrast to this loss of trust eSupplier is careful to acknowledge that they have learned from the auction experience. They have gained overseas contracts through the support of their local eBuyer contacts and hope to gain more. They have reviewed their own supply lines with the intention of gaining greater efficiencies and formed new alliances with previously competitive companies to improve their competitiveness in the auction process. eSupplier has also gained valuable experience in online transactions despite the current CEO’s resistance to many forms of electronic commerce.

The learning curve for procurement staff in eBuyer has been very steep. They have learned how to run online auctions for a huge variety of goods and services and they are learning how to address the problems arising from the use of such auctions. Relationships have been damaged by the full-on approach taken by the organisation although some measures have been taken to shield some smaller local companies from the online auction. The good relationships they have previously established has protected them from much personal blame for the corporate decision making, which has mitigated some of the stress. On the positive side, eBuyer has achieved cost savings (although it is not yet possible to ascertain how sustainable these are) and has identified new suppliers in some procurement areas, which has led to ‘new eyes assessing the work mode and bring us savings from new products’. On the negative side, they may incur additional costs down the line from contracts where the specification has not adequately covered the contract requirements. More importantly, the loss of trust felt by companies such as eSupplier will result in more formal, and time consuming, processes for customised work that has the potential to impact on important areas such as maintenance and repair.

<table>
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<th>Advantages</th>
<th>eBuyer</th>
<th>eSupplier</th>
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<td></td>
<td>• Cost savings on historic cost</td>
<td>• Winning some short term contracts to fill excess production capacity</td>
</tr>
<tr>
<td></td>
<td>• Rewriting of specifications has led to regaining of governance from suppliers</td>
<td>• Extension of market - gaining of overseas contract through good offices of eBuyer</td>
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<td></td>
<td>• Increased supplier base leading to identification of new products</td>
<td>• High levels of e-commerce/e-procurement skills</td>
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<td></td>
<td>• High levels of e-commerce/e-procurement skills amongst procurement staff</td>
<td>• New alliances with formally competitive suppliers</td>
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<td></td>
<td></td>
<td>• Reassessment of own supply chain</td>
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<tr>
<td>Disadvantages</td>
<td>• Need to be seen as achieving cost savings (issue of professional competence as defined by senior management)</td>
<td>• Betrayal of trust has strong emotional impact</td>
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<td></td>
<td>• Learning to manage relationships in a new environment</td>
<td>• No perceived recompense for previous relationship evident in auction process</td>
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<td>• High levels of stress</td>
<td>• Loss of contracts due to increased competition</td>
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<td>• Rewriting of specifications with a lack of knowledge within eBuyer</td>
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<td>• Suppliers bidding below sustainable costs introduces risk</td>
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<td>• Price transparency can lead to higher prices for some products where there are few suppliers</td>
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<td></td>
<td>• Extra costs can be incurred where supplier knowledge becomes a priced commodity rather than a collaborative input</td>
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Table 1: Identified advantages and disadvantages of the online auction process

IMPLICATIONS FOR OTHER ORGANISATIONS

The issues that have been identified in examining the relationship between eBuyer and eSupplier are not new to interorganisational relationships, but the dynamism of the electronic environment and the auction process have altered the balance of the recognised benefits of close relationships. These are discussed with reference to the case study and its environment to identify potential implications for other organisations.

Search costs have been dramatically reduced in the online environment and therefore can no longer be seen as a benefit of close relationships. However, the same does not apply to transaction costs, at least in the initial phases of the auction process. The costs of re-specifying products and services before going to auction have been extensive in both time and money for eBuyer. Eventually, these costs should be reduced as eBuyer gains experience and builds up its databases. Online transaction and administration facilities then have the potential to greatly improve the efficiency of the procurement process. Conversely, the efficiencies may be offset by
increased costs brought about by greater formality in dealing with the contract by suppliers who have either lost trust, as evidenced by eSupplier, or by the uncertainties of new suppliers.

The element of risk in turning to new suppliers has to some extent been addressed by the role of intermediaries in the electronic marketplace (Ordanini & Pol, 2001; Sarkar, Butler, & Steinfield, 1995). For example, FreeMarkets has a supplier database that is made available to buyers under their FullSource facility (FreeMarkets 2003) and which contributes to the market maker’s reputation. This, of course, only partially mitigates the risk inherent in a changing supplier base especially where suppliers are using the auction process to fill slack time in their workshops at below profitable prices. eSupplier has previously reduced this risk for their business partners through their policy of self-funded growth and through their established reputation for quality.

It is in the benefit identified as social satisfaction (Parsons 2002; Spekman 1988) or human factors (Clemmons et al. 1993) that the greatest changes are to be seen. These are not all negative as evidenced by the concern of eBuyer to support eSupplier in their expansion overseas, even though this cannot be seen as completely altruistic. Aiding a valued supplier to broaden their market potentially benefits both parties if it results in growth and stability for the supplier, and provides a viable local supplier base for the buyer. Indeed, it is in the interest of the dominant organisation to fully support the learning and development of their traditional partners in the auction process to maintain a strong and vigorous trading base. Auctions are more effective when there are more participants in the bidding.

Nevertheless, eSupplier is only one of many suppliers displaying considerable disquiet and loss of trust in eBuyer. While this has been partially offset by the enthusiasm of new suppliers, procurement staff have had to deal with the break-up of long-term relationships with known and trusted suppliers. The effects of relationship breakdowns are under researched in businesses, but Dwyer et al. (1987) contend that terminations result in significant sources of psychological, emotional and physical stress. While eBuyer has endeavoured to reduce the effects of the auction process on their business partners, the effects may be seen to be more long-term than anticipated. Despite this, eBuyer is extending the use of auctions to a broader range of goods and services indicating that they are prepared to forego many of the benefits of long term relationships in favour of cost savings that may be short-term. The case study relationship has clearly been more desirable to the supplier than the buyer reflecting Heide and John’s (1990) argument that the commitment to relationships is often asymmetrical.

CONCLUSION:

The long-term relationship between a supplier and a buyer were examined after the introduction of online reverse auctions to the procurement process. Although a loss of trust and some antagonism from the supplier was evident as a result of the auction process the relationship cannot be seen as degenerating to an adversarial one, although it is a long way from the Kanban model of mutually beneficial strategic partnership. The supplier retained some contracts and was regularly bidding for short-term project work. The buyer had gone to some lengths to mitigate the effects of the auction process on the relationship, supporting the supplier in bids for business overseas and encouraging e-procurement learning and development. The situation is perhaps best described as a ‘favoured supplier’ relationship where a buyer endeavours to maintain suppliers in its supplier base but restricts the level of relationship in favour of greater flexibility in supply methods. This may be seen as the procurement department making the best sense of a business decision imposed on them by senior management.

Several inferences can be drawn from this case for other organisations considering the auction process for B2B procurement. Loss of trust may lead to higher costs through a withdrawal or costing of collaborative knowledge and less willingness to be flexible in, for example, maintenance and repair situations. A greater element of risk is present where suppliers are competing in a dynamic environment, both from unknown suppliers and from overly-competitive pricing that may affect a supplier’s ability to fulfil the contract.

It is possible for an organisation to alleviate some of the adverse reactions from long-term partners with a supportive approach to learning and by encouraging new strategies. In the case of eSupplier, they were able to extend their customer base through overseas auctions, form new alliances with former competitors and review their own supply lines to identify greater efficiencies. These actions were all a direct result of being involved in eBuyer’s auction process.

For the buying organisation, the greatest impact was evident on the procurement staff who have endured steep learning curves and antagonistic working relationships. Where decisions to risk relationships by the use of online auctions are made at senior level, the impact on employee within the organisation is often overlooked. Relationships are put at risk by organisations using online auctions for a wide range of procurement needs. If the organisation pursues the potential benefits of the auction process, the degree of damage to the relationship
can be alleviated by the buying organisation developing strategies for their own company and by supporting the learning and development of new strategies in the supplier’s company.

LIMITATIONS AND FUTURE RESEARCH

This research only begins to address the implications for buyer/supplier relationships from the use of online auctions and further empirical evidence of the impact of auctions is required. Our case study examines one multinational organisation and one of its long-term suppliers. Although this study allows for some implications to be drawn, these need to be tested against other organisations in other industries. Smaller firms supplying eBuyer were, perhaps understandably, reluctant to be interviewed and further research from the suppliers’ perspectives needs to be undertaken, again across different industries and range of products. Additionally, the extent of relational exchanges varies widely and the identification of a possible correlation between the degree of relationship and the use of online auctions would be beneficial to firms. Finally the use of online auctions is relatively new for many firms in the business to business sector and a longer term study of their use and the more lasting impact this has on relationships would make a significant contribution to understanding the auction process.

REFERENCES:


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