

Reverse Auction Abuses

By Barbara Ardell, **Paladin Associates Inc.**
www.PaladinAssociatesInc.com

September 2th, 2009

In a recent Friday Rant entitled “**Reverse Auctions Have Become the Aero-Bars of Sourcing**”, SpendMatters’ Jason Busch describes the all too frequent abuse of Reverse Auctions. He quotes David Clevenger, formerly of FreeMarkets, who notes that “the problem with reverse auctions may be the same as with any powerful weapon in the wrong hands”. A knife can be used for murder or for life-saving surgery.

I believe there are at least two factors that contribute to abuse. I recall Stephen Covey’s leadership example which describes the importance of both skill and integrity. A skilled surgeon lacking integrity might perform an unnecessary operation. (Think Michael Jackson’s repeated cosmetic surgeries.) An unskilled surgeon with integrity would botch the job. You need both skill and integrity!

Clevenger describes abuses such as pre and post bid negotiations and the inclusion of unqualified competitors to drive market behavior. I would add to the list Phantom Bids (i.e. no intention of moving business but merely driving the incumbent’s pricing down via a competitive exercise). Note that none of these tactics rely on Reverse Auctions. They can all be wielded with equal abuse using a paper sealed bid. These are issues of integrity that soil Sourcing’s reputation regardless of the medium. In this instance, Reverse Auctions merely automate an unethical practice.

Skill is a different issue. As a former eSourcing trainer, I was often frustrated at companies’ unwillingness to provide adequate training. There are a number of important differences with the eSourcing process and tactics. Our company always recommended both training and mentoring as buyers geared up. I must respectfully disagree with Jason regarding software vendor responsibility. We didn’t tell unskilled buyers to “go tear it up”! Conversely, we often argued strongly in favor of a

thorough implementation process. Unfortunately there were far too many shortcuts with the ultimate outcome being, among other things, unintended supplier abuses.

Anyone employing Reverse Auctions must have both skill and integrity or there will be abuse. However, we shouldn't blame the tool. Neither we nor suppliers should generalize that Reverse Auctions are bad. It is correct that Reverse Auctions in the hands of buyers who are unskilled or who lack integrity are bad.

However, not all sourcing professionals lack skill and/or integrity. I am not denying abuse. But I'm concerned that suppliers' claims become another excuse to resist a legitimate tool that, when used properly, helps buyers achieve best value. Let's not abandon a fair and effective tool because of the abuse of some.

Barbara Ardell - **Paladin Associates Inc.**

Vice President

www.PaladinAssociatesInc.com

Paladin Associates Inc. is an Atlanta-based management-consulting firm led by a team of former GE executives with over 500 years of financial and operating experience in a variety of industries, specializing in productivity and profitability improvement. Paladin offers Strategic Sourcing, Telecommunications Sourcing, Marketing & Sales Productivity, Financial Management, Six Sigma Quality Management, Mergers & Acquisitions Support, HR Productivity, and Interim C-level Management.

For more complete information, visit: <http://www.PaladinAssociatesInc.com>