

E-Auctions and Reverse Auctions, Do They Make Sense?

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Introduction

The first e-auctions and reverse auctions caused some commotion in the printing industry. Many printers saw these new tools as another attempt to shrink their margins, to a level close to or below zero. Print buyers, on the other hand, welcomed these new, automated tools to help them choose a preferred supplier.

To get a better insight in this matter VIGC, the Flemish Innovation Center for Graphic Communication, organized a survey amongst its contacts. The group consisted of both printers and print buyers. For both groups there was a separate survey. Next to that, also some print buyers and printers were interviewed.

In total we had about 100 useable results, two thirds were printers, one third print buyers.

Internet Auctions

We can distinguish two kinds of 'Internet' auctions. First there are the websites where print buyers can place their RFQ's (request for quotes) online and printers can make an offer. Next to that there is the complete e-sourcing of the buying process. This e-sourcing is much more complex and consists of different steps, with the online reverse auction as the last but one.

Based on a first selection, usually 4 or 5 printers can join the online auction. The printers can see how the offer they made, based upon specifications given by the print buyer, is positioned in relation to the other offers. They can make changes online, downwards of course. There is a limited timeframe, e.g. one hour. Usually nothing happens, until the last minutes. The auction is closed after the fixed period and when there haven't been new offers during 3 minutes.

In some cases, it ends there: the lowest bidder gets it. In other cases, this is the last but one round: the auction is the basis for further negotiation, in which other factors can also be important, e.g. reliability. Also in the positioning during the auction, other factors than price can be taken into account.

How important is...

In the first part of the survey we tried to find out what makes a print buyer choose a certain printer. We asked the printers what they *thought* was important for their customers.

The question on the importance was asked in two ways. First we asked to value different factors, on a scale from 1 (not important at all) to 5 (extremely important). The factors were: price, quality, service, creativity, flexibility, on time delivery, financial stability, stability workforce, thinking along with customers, personal contacts, expert knowledge, IT skills.

If we look at the results from the printers on this, we see that on time delivery (4,44), flexibility (4,40) and service (4,31) are the top 3. Price and quality have lower scores (resp. 3,94 and 4,11). Why is this? Do printers think that it is obvious that they offer excellent price and quality? Can't they differentiate themselves anymore with these?

The second way we looked at these factors, was to ask what was the most decisive factor, the second most decisive and the third most decisive. And then we see something different...

Where price only had the 8th place in the ranking of the previous question, it is the most decisive factor according to most printers (42%), followed by service (23%) and flexibility (16%) and quality (10%). If we look at the number of times factors were mentioned as most, second most or third most decisive, we see once again price at the first place (96%), quality on second (54%), service on third (48%) and flexibility on fourth (43%).

In the survey for the print buyers, we asked the same question. If we compare these results to the results of the printers, we have a good idea how well printers know their customers.

If we look at the first question, we see a result more or less similar to what printers think about their customers. On time delivery has the highest score (4,78), followed by quality (4,56), flexibility (4,47), expert knowledge (4,38), service (4,34) and thinking along with customers (4,16).

Looking at the second question reveals something interesting. The obvious first place is also here for price (97%), 76% of the print buyers also mentioned quality. But the third one is rather surprising: financial stability. This was mentioned by 39% of the print buyers. For two print buyers this was even the most important factor!

Internet auctions

Now let's look at the Internet auction (reverse auctions itself). Nearly 40% of the printers have been asked to participate in an online auction. And they don't feel that happy with it... Half of them (48%) was very negative, over one third (38%) was negative, 10% neutral, only one guy was positive on it.

In about two third of the cases (63%), the auction was organized by an existing customer. Most of them (62%) hadn't been contacted before by their customers to discuss cost reductions.

Nearly half of the printers said they didn't have enough time to prepare the dossier (42%). In half the cases (52%) the specifications weren't clear enough. However, this is essential for a good quote! In nearly two thirds of the cases (62%) there were no printed samples, although most agreed that they would have been necessary (81%).

Six out of 25 companies were awarded jobs as a result of the auction. Only one of them got extra jobs compared to the situation before the auction. But 3 out of 6 did get more jobs than the ones that were auctioned.

From these six companies, five have already delivered some jobs. And then we see something interesting... (we are aware that our sample was becoming extremely thin, so from a statistical point of view, these results are not that reliable... but they are interesting).

In all 5 cases, the jobs executed were not according to the initial specifications. In all cases these changes had an effect on the costs. Three of them could charge for these extra costs, two couldn't...

One third of the print buyers already thought about online auctions (10 out of 33). The print buyers that have, are the ones with the highest budget. The strongest argument why some haven't done it yet, is that they don't believe in a good relationship with the printer afterwards.

All of the print buyers that have organized online auctions, want to do this again in the future. Their primary goals were: cutting costs (100%), better knowledge of 'market prices' (86%) and time savings (43%). In most cases, not all the printers ended the complete process (83%). The result of the online auction was in 2 out of 5 cases that the cheapest would get a job. In the 3 other cases, a shortlist was created to conduct further negotiations.

When asked what they would do better next time, the personal approach and better information to their suppliers are key.

Two cases

Next to the survey, we also had several interviews. There are two interesting ones. The first is a big pharmaceutical company that had an online auction. They did it for all of their promotional material, but, surprisingly, not for 'standard' stuff like letterheads, envelopes, name cards... Why not? Because their printer – a very bright one – had set up a complete online ordering system and guarantees a hassle free delivery to the desk of the person that orders something. This system took a lot of work out of the hands of the print buyers, because every individual of the company can order standard print jobs himself.

The next case is a big financial company. As a result of their auctions, they had a 30% savings on a particular print job. What really happened, we don't know. Neither whether the printer could deliver the job for the suggested price. But this reveals the risk of online auctions: the risk of losing your head during the auction. In almost all interviews (both our own and in the press), printers acknowledge that they went a bit below their 'final' price level that they agreed upon upfront.

Conclusion

Online auctions can be interesting from the point of view of streamlining the buying process and reducing the number of preferred suppliers. However, in many cases print jobs aren't standard products like paper clips, and during the creative and production process, many changes are made to the specifications. This certainly needs to be taken into account during the process.

Interesting was also the fact that some print buyers value financial stability as very important. In many cases they want to sign contracts for 1,5 or 2 years and then they need to be sure that the printers will survive and are able to invest in their own future.

Biography

Eddy Hagen (born 9 October 1965) has a degree in Photography and one in Communication Management. He has been active in the graphic arts industry for more than 16 years. First he worked for the Belgian Federation for the Graphic Arts Industry. Afterwards he worked as a prepress manager for a small editor and publicity agency. He has been involved with VIGC, the Flemish Innovation Center for Graphic Communications, from its start in 1998. He is responsible for training and trend watching.