

Guidebook

Beginner's Guide to Reverse Auctions

How to save time & money on
your tenders without ruining supplier
relationships



Introduction

New to reverse auctions? This handy 'Beginner's Guide to Reverse Auctions' covers everything from a brief history of the reverse auction to a 6-step process for creating an event with best practice tips and tricks.

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According to Hackett Group research, Digital World Class® procurement organisations have a 7x higher usage of eAuctions.

Results show that eAuctions have the potential to win savings of 15% to 20% more than traditional bidding methods which makes a compelling case for all sourcing teams.

What is a reverse auction?

In a reverse auction, sellers compete for a contract to supply goods or services and the price *decreases* over time.

Another way to think about it is the opposite of a typical auction scenario where buyers compete to purchase assets and the price *increases* over time... this is actually known as a forward auction.

Whereas forward auctions are from the seller's perspective in that you're finding interested and capable bidders for the product or service you are selling; reverse auctions are from the buyer's perspective.

Reverse auctions are used to negotiate on price, although the lowest bidder does not always win the business. Often a reverse auction is carried out on 'buyers choice' or a 'weighted' basis. This allows the buyer the freedom to award to any supplier based on factors such as service levels and quality.

In procurement, reverse auctions are also called eAuctions or online tenders.

The screenshot displays the MarketDojo eAuction platform interface. At the top, there is a navigation bar with the MarketDojo logo and a 'Modules & Links' dropdown menu. Below this, there are tabs for 'Home' and 'My Records'. The main content area features a 'Live auction feed' section with a list of recent bids, each with a 'New bid' button, a timestamp, and a description of the bid. Below the feed is an 'Expand Participants' button. At the bottom, there is a table summarizing the current auction items.

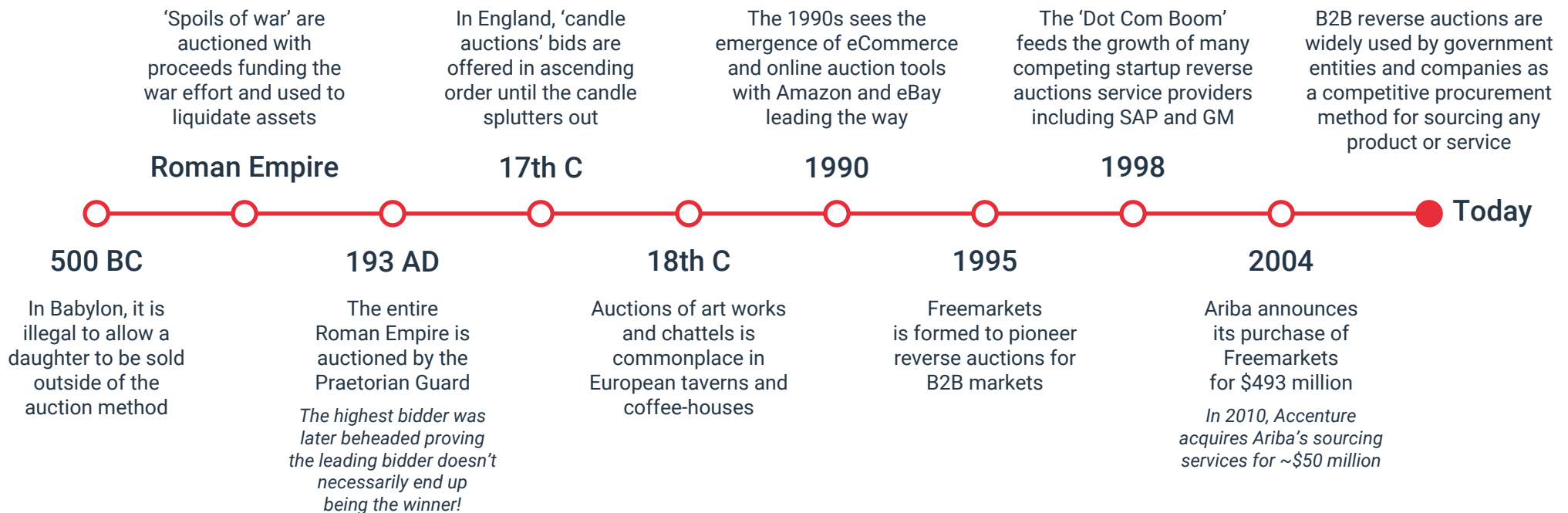
	CURRENT VALUE	# BIDS
1. Paper	£750,000.00	35
2. Tables	£820,000.00	23
3. Ink Cartridges	£760,000.00	27
4. Stationery	£650,000.00	43
Totals	£2,980,000.00	128

History of the reverse auction

Reverse auctions have long been a critical tool in Procurement's toolbox.

The first online e-sourcing reverse auction was run in 1995 with the vision to "make suppliers compete for manufacturers' orders in live, open, electronic auctions." (CNN Money)

However, both forward and reverse auctions can be traced back to as early as 500 BC as this timeline shows.



Why use a reverse auction

Whether you love or loathe them (or are somewhere in between), there are a number of compelling business drivers for using reverse auctions as part of your sourcing strategy.

Economic pressures

The volatile economy is forcing all businesses to focus on being more streamlined, and for procurement this means cost savings are back on the sourcing agenda.

Competition

Ensuring competitiveness has many facets but if your competitors are able to reduce their cost base, reverse auctions are a powerful counter-response.

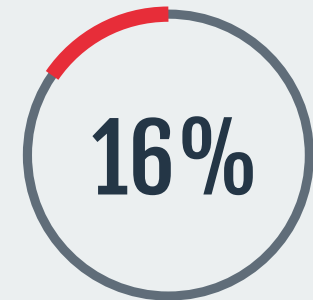
Optimisation and efficiency

For procurement teams experiencing supplier rationalisation, volume aggregation, or process efficiencies, existing supplier contracts will need to be reviewed—reverse auctions can facilitate any future negotiations.

To increase profits

When profit margins are tight, having the ability to reduce costs by 1% could result in a 10% increase in profits. Market Dojo Sourcing's on-demand pricing model has a low barrier to entry, yet high return on investment (ROI) as our customer stories prove on the next page.

Customer results using Market Dojo Sourcing



Average **cost savings** from reverse auctions



Average **time saved** compared to using emails & spreadsheets

Market Dojo Sourcing

Customer Success

Here's a run down of some of the most successful reverse auctions that our customers have experienced.



An OEM manufacturer invested £500 on a single user licence and saved **£40 million over a 5 year contract** for non-metallic fasteners for the automotive industry.



A premium property developer in Dubai ran over 30 eAuctions over one month and **saved £1.5 million in total**.



A consultancy company ran a 60 minute auction and **saved 60% on their annual stationery spend, equating to over £200,000**.



US-based for-profit, global thrift retailer Savers has run 120 eSourcing events including 54 reverse auctions with an **average saving of 18.8%**.



And not forgetting the homeless charity that **saved an incredible 60% on the first ever eAuction**.



Or Cancer Research that averaged an **annual saving of 28%** that they re-directed to valuable research.



Benefits of eAuctions for...

The Host

More efficient

Ability to negotiate with multiple participants over rapid timescales (a typical reverse auction duration is 30 minutes).

No geographical constraints

Easily involve participants from around the globe.

Intensity of social interactions

It is a highly interactive process with instant feedback.

Find the best price

Online negotiation is the fastest way to find true market value.

Transparent process

All steps in this process are open, giving confidence and visibility to both buyers and participants.

The Supplier

Lower sales cost

Communication is handled online, documentation is stored centrally, less administration tasks, time savings, paperless benefits and savings.

Instant market feedback

eAuctions are interactive so with a careful strategy, much more competitive insight can be gained than from standard negotiations.

Efficiency and transparency

eAuctions are more successful with clear specifications and sourcing terms. This avoids wasted time clarifying tender requests and ensures more professionalism and transparency throughout the process.

“There is simply no more efficient way to claw back cost savings and find the right market level than e-auctions.”

Jacob Gorm Larsen

Founder and CEO
Moneyball CPH

RFQs versus eAuctions

For those familiar with running a Request for Quotation (RFQ), there is no significant change when running an eAuction however, the division of time between tasks will differ, as shown in the graphic below. The eAuction process is typically shorter, with additional time savings being realised as experience and repetition increase.

TRADITIONAL RFQ PROCESS



TYPICAL eAUCTION PROCESS



PREPARATION

Preparation for an eAuction is generally longer than for a RFQ or face-to-face negotiation but will save time in the long term.

eAuctions encourage tight, detailed specifications so suppliers can negotiate 'like for like' specifications and SLAs.

eAuctions facilitate negotiations with many more suppliers so, for new tenders, you may need additional time to onboard new participants. However, subsequent eAuctions normally require less time.

NEGOTIATE

eAuctions allow for extremely efficient negotiations.

Price can be negotiated with multiple suppliers in a rapid timescale. Typical reverse auctions are set to 30 minutes duration.

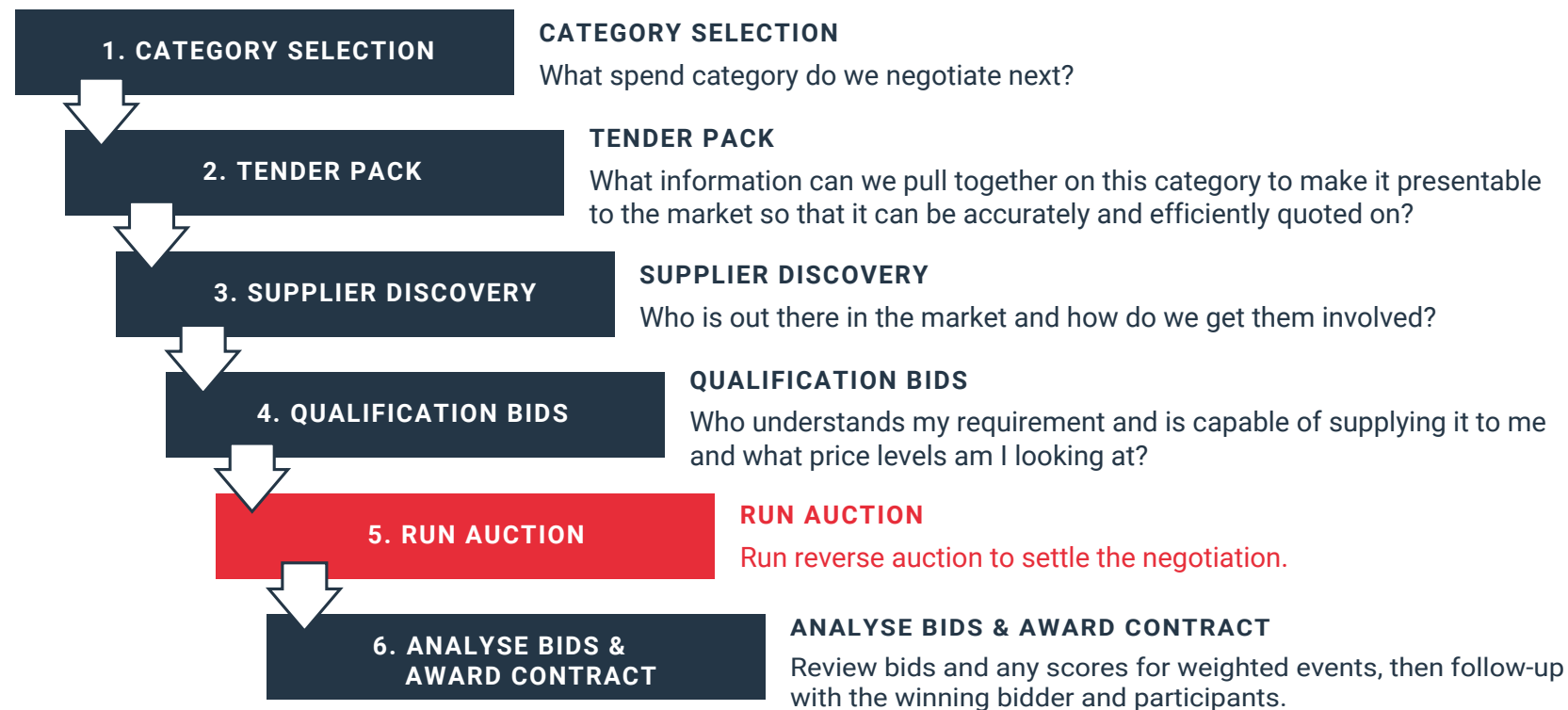
IMPLEMENT

The upfront preparation and tightness of the specifications and SLAs for an eAuction means that the implementation should be more straightforward.

The reverse auction process

The reverse auction process has six stages as shown in the graphic below. Variants on this could be the addition of a pre-qualification questionnaire, invitation to tender, RfX and so on.

At times, you may not be 100% certain that you wish to run a reverse auction however, it's good practice to follow this process up until the point you decide how to conclude the negotiation, be it reverse auction or otherwise.



01

Category selection



Definition

The first step of any negotiation is to know what you're buying. To do this, you have to go through the detail, analyse the spend data and align into categories that are recognised by the supply market. The question to ask is, *"Will my suppliers clearly and easily understand what I need and be able to give me an accurate price?"*



Savings potential

This helps you answer the concerns over whether you will be able to receive a return on investment (ROI) on both your time and money. To maximise ROI, you must interrogate your categories with questions like, *"Are my specifications easily available?", "How much of my category actually consists of non-negotiable content?", "When did I last carry out a negotiation on this category and what approach did I take?"*



Liquidity

Liquidity describes the sufficient number of capable and interested suppliers in the market. It is affected by factors such as the base number of suppliers in the market, the attractiveness of the tender on offer, and the difficulty, complexity and time it will take them to try and win your business.

Good liquidity is likely to result in a highly successful reverse auction however, even reverse auctions with a small number of participants can work well.



Scheduling

This refers to timescales and potential barriers for running the auction process. For example, *"Am I locked in a contract?", "How easy is it for me to switch suppliers?", "How long will it take me to gather specifications, or for my suppliers to submit their offers, or for me to process those offers?"*

02

Tender pack



Spend value

Spend value relates to how much value (and profit) the suppliers are likely to gain by winning the business from you so they can make an early decision on allocating suitable resource and time.



Specifications

Before going to tender, you need accurate and readily available specifications. These can include engineering drawings for manufactured goods, delivery profiles for logistics and freight, or raw material grades for purchase of raw materials.



Lot structure

Create a structure that both encourages maximum participation and reflects how you intend to offer the business. You can do this by segmenting the lots into market-facing groups, for example separating out the broad category of 'office supplies' into printer paper, IT consumables, office furniture and business stationery. This will increase your liquidity and chances of finding the market price for the lot.

Selecting and grouping the items in the reverse auction is critical to get the best price for the lot. All participants must be able to provide *all* items in the lot or their quotes won't be viable. Buyers cannot selectively purchase individual parts from different suppliers. The winning supplier of the lot provides all the items, and the discount is calculated based on the total aggregated spend.



Service levels

The final part is similar to a RFQ Overview or Contract Overview which contains the process instructions, the contract information, the bid terms and conditions, the cost breakdown requirements and so on. You may also choose to provide this or combine it with a Service Level Agreement (SLA), defining the terms and conditions to ensure the required goods and services meet your expectations.

03

Supplier discovery



Define criteria

First, you must define the supplier criteria. What are you looking for? What does a great supplier look like? Turnover, geography, accreditations, ESG policies and supplier diversity, facilities, employees, machinery—all these may come into your list.



Ask your team

Ask your team about who they know and what they know about the market. You may be surprised at the insights they can offer.



Web search / specialists

Using sites and associations such as, Alibaba, Applegate, Chambers of Commerce, G2, Hotfrog, KellySearch, Kompass, TradeIndia... the list goes on. You can also enlist the help of industry experts to point you in the right direction. Market Dojo collaborates with a number of leading supplier discovery partners to help you find the right supplier, fast.



Referrals

Don't forget referrals. Any company that you speak to, even if it's a supplier turning down the business, may be able to provide a recommendation. Ask them!

04 Qualification bids



Understanding of tender

Have the suppliers understood my requirements? Any bid that looks either much lower or much higher when compared to your current prices, or to the other bids you receive, would indicate an error. Similarly if you haven't received any bids at all, that would be an even stronger indicator that something is wrong!



Lot structure

How is my liquidity in each lot? Should I consolidate any lots if the supplier overlap is very strong? Should I remove a lot if I don't have any bids for it? Qualification Bids can really help you justify your lot structure.



Initial savings

Simply, do I have any savings yet?



Strategy

All these point decide what strategy is best. It is important to know where the incumbent suppliers are positioned in each lot in case you inadvertently strengthen their negotiating position by giving them the ability to be unchallenged in an auction.

Evaluating how close the bids are will help determine which type of auction to use.

You can also confirm the lots, clear up any anomalies and be confident that all is ready for the eAuction.

05

Run auction



Contingencies

As auctions are fast-paced, it is a good practice to have your contingencies in place such as, proxy bidding, clear phone lines, and any specific provision for offshore suppliers to bid.



Keep it short

Typical auctions are set for a 30 minute duration, with optional automatic extension periods should bids be placed in the last couple of minutes (allowing participants to counter-bid).



Communication

Communication is really important during the auction, not just from a contingency point of view, but to answer any questions that come in during the process. Online messaging boards and live chat are always a good way to ensure everyone gets the same information during the auction. This fosters a feeling of trust and transparency between the buyer and participants.



Price compression

One interesting characteristic to watch during the auction is price compression. This is where the bids reach a general convergence around the same price level. This is known as 'market price' where the supply market has dictated that this is the price level at which they are willing to go, and no further.

One of the major benefits of eAuctions is this ability to find the market price and the number of suppliers from whom you can order business, knowing that price is no longer part of the award decision.

Analyse bids & award contract



Analyse bids

Review the bids including scores for weighted events. The winning bid isn't always the lowest price. Focus on the right supplier fit and suppliers that are best suited to supply the required goods/services.



Feedback

It is important to give feedback to the supply market, thanking them for the time and resource spent, and being very clear on what is to happen next and how they will be involved. Any feedback on why they have or have not been awarded the business is always a good idea for continuous improvement.

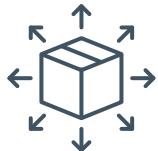


Signed bids

It can be very useful to get a signed copy of the final bids placed in the auction for future records.

Signed contracts

A signed contract is also important should any complications occur on price debates.



Implementation

Lastly, outside of the auction process you have the implementation with the chosen supplier or suppliers. This bit is over to you. Tips would be to run trials, request samples, or whatever else is appropriate.

How to handle objections

For companies or procurement teams new to reverse auctions, there are often a number of objections rooted from perceived challenges. Here are the most common.

Reverse auctions are too price focused

This is not an issue if the specifications are correct, or you can make the event a 'weighted auction' so price is not the only deciding factor.

To help you decide on the best eAuction for your needs, have a look at our [**Which Reverse Auction Should I Use?**](#) infographic.

eAuctions hurt supplier relationships

We get it. Good relationships can take years to establish and eAuctions can be seen as aggressive and signal a lack of trust.

But times have changed. An inflationary market requires different tactics. Can you be 100% certain you're getting the best market price from your existing suppliers? Are your suppliers putting up their prices without just cause? Could you be getting better prices or contract terms elsewhere? Can you spread the risk by using more suppliers?

eAuctions often strengthen ties between the buyer and supplier due to their open and transparent approach.

To help your existing suppliers over any potential fears of participating in an eAuction, communication is invaluable. Be open about why you are using this tactic and explain the benefits.

We don't know how to run an eAuction

If you're sending out tenders to potential suppliers via emails and spreadsheets, we'd argue that it's just as easy to set up an eAuction... and you'll get a better result.

Provided you have fully scoped and prepared your requirements, and have a list of suppliers to invite to the eAuction, you could be up and running with an eAuction in less than 24 hours. In fact, we have many customers who have done this and saved millions, [**read customer stories**](#).

Market Dojo Sourcing has automated features that manage the entire process at the click of a button—from automatic lot selection, building questionnaires, to supplier selection. The future possibilities are endless.

If you're nervous about going it alone then Market Dojo has an extensive template library, AI supported questionnaires and award-winning customer success team that will help you with every step of how to set up and run a live eAuction. [**Book a demo**](#) with our team today.

eAuction software is expensive

[**Market Dojo lists prices**](#) on its website and is the only provider of eAuctions that offers a completely on-demand service so, for users looking to try eAuctions for the first time, you can pay on a per auction basis (and we're confident that you will see such a good ROI after just one event that you'll want to do more).

Save more money & time with Market Dojo

Our accessible eSourcing software leverages AI and automation to enable procurement teams of all sizes to effectively run RFX and negotiate via on-demand auctions.

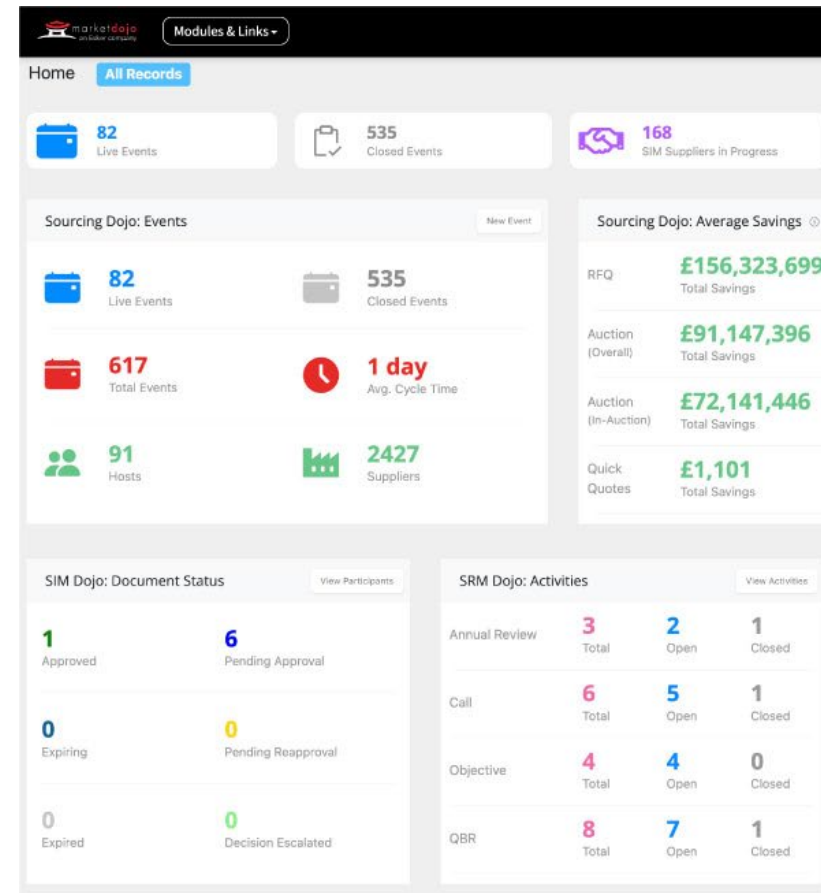
Identify the most suitable suppliers in the market, saving both time and money whilst building resilience and diversity.

Easy integration, accessibility and world-class support mean businesses are rapidly up and running and achieving a positive ROI within weeks.

Visit marketdojo.com/sourcing now to learn more about our eSourcing software (and register for our free Sandpit test environment), or **book a demo** with one of Market Dojo's Sourcing Specialists.

Trusted by the world's leading brands

From small businesses to multinational conglomerates and everything in between, the most innovative organisations trust and grow with Market Dojo.



logitech®

aggreko

Metroline



IMPERIAL BRANDS

Our Sourcing features



Advanced sourcing functionality

Perform all tender activities in one simple-to-use platform. Run RFIs, RFPs and RFQs, event weighting, document uploads and advanced pricing tables. Capture everything you would have done in a traditional spreadsheet and more whilst transforming static, siloed information into centralised, compliant, collaborative, decision-ready data.



Auctions with automation

One of the most easy-to-use auction tools on the market, from simple lots to entire bill of materials, run Open, Ranked or Japanese forward and reverse auctions with our AI, automated features and guided support be confident in securing the best possible performance.



Multi-stage RFX & multisourcing

Easy to configure participant inclusion and bid deadlines for every round, with optional visibility for real-time bid ranking. Run complex weighted events with multi scoring, simply automate the process or allow users and groups to score for enhanced, collaborative outcomes.



Event cloning & templates

The simple template system avoids lengthy set-up times and allows consistent formats throughout all events. Replicate part, or the entirety of, a previous event for rapid deployment.



Excel import & export

Enable participants to bid through spreadsheets thanks to Excel integration for event creation. Hosts are also able to export detailed summaries to produce post-event reports or import to other systems.



AI powered questionnaires

Specifying requirements and requesting supplier information has never been easier. Create weighted questionnaires with different question types, tables and document uploads powered by generative AI. Automatic and manual scoring ensures a robust sourcing process, consistently formatted answers and centralised data.



Single source of truth

Capture all supplier information and tender activities within one platform. The centralised data is fully auditable and can be easily exported as a spreadsheet for reporting and post-event reviews.



Transformational reporting

The powerful analytics solution and tailored dashboards help businesses transform raw spend data into actionable insights to enable better business decisions for Procurement, Finance and beyond.

Why choose us



Save cost & accelerate process

16% average saving & 40% time saving. Streamline traditional Sourcing methods with easy competitive pricing and online negotiation.



Control risk

Enforce procurement and company wide compliance whilst building supplier resilience, diversity and ESG success.



Ensure adoption

Easy to use, with world class support. Transparently engage, collaborate and innovate with stakeholders and suppliers.



On demand

Accessible & scalable. On-demand model enables you to only pay for what you need. We help you scale in line with your procurement maturity and success.



Gain insight

Automate sourcing, continuous updates, AI and predictive analytics providing decision ready data.



Empower procurement

Evolve your Procurement team from a reactive back office function to a proactive, strategic resource.

Take Sourcing to the next level

8 simple steps to connected, automated strategic sourcing

Step 1 – Evaluate your sourcing strategy to define market risk and opportunity with **MD Opportunity Analysis**

Step 2 – Access competitive markets with MD's integrated best-of-breed partner marketplace for **Supplier Discovery**

Step 3 – Rapidly Go-To-Market, ensure the best price and drive adoption. Leverage intuitive AI driven tenders, **eAuctions and Quick Quotes with MD Sourcing**

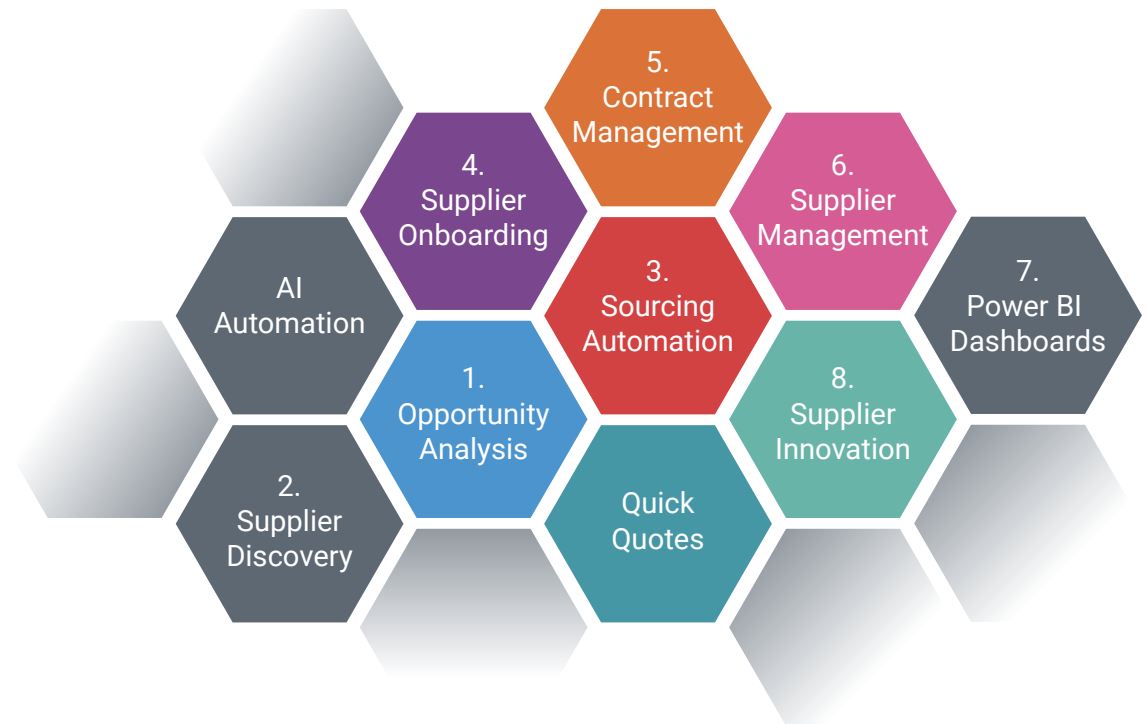
Step 4 – Seamlessly onboard suppliers fast to accelerate time to value and robustly screen for compliance and ESG with **MD Supplier Onboarding**

Step 5 – Effortlessly manage your contract lifecycles, align policy and ensure opportunity value is not missed with **MD Contract Management**

Step 6 – Centralise and maintain data integrity. Track supplier performance and risk whilst ensuring resilience, diversity and ESG success with **MD Supplier Management**

Step 7 – Evaluate savings and performance - leverage predictive analytics and powerful actionable data to make smarter, faster decisions

Step 8 – Collaborate to innovate. Refine, enhance and respond to the ever-changing markets with **MD Supplier Innovation**



Take the Next Step

About Market Dojo

Market Dojo is a global procurement software provider built to solve inefficient sourcing and supplier management processes by digitising and automating activities quickly and easily to unlock strategic value for Procurement and Finance professionals.

Its on demand, best-of-breed solutions incorporate technologies like Artificial Intelligence (AI) to control costs, drive increased productivity, enhance visibility, reduce risk, and improve collaboration with customers, suppliers and internally.

Market Dojo operates worldwide with headquarters in Stonehouse, UK and is 51% owned by Esker a global cloud platform with headquarters in Lyon, France.

Transforming Procurement.
On Demand.

Start today

FAVOURABLE REVIEW

Gartner
Peer Insights™

5.0 ★★★★★

Market Dojo: Simplifying sourcing with intuitive tools and outstanding customer support

“Having used, deployed and administered Market Dojo Sourcing at several organisations, it is by far the best e-sourcing tool that I’ve come across so far, especially for small to medium sized enterprises.

It not only offers a range of sourcing methods (Request for Quotes, auctions and quick quotes) but is also easy to use (for non-procurement users, too) and easy to deploy, which leads to user adoption and makes for a good return on investment.

To top it off, the Market Dojo team are outstanding, from onboarding to troubleshooting, they are quick to provide support and are genuinely open to feedback.”

Gartner
Peer Insights™
★★★★★ 4.7

Capterra 4.7
★★★★★





marketdojo.com

