Executive Summary: The Adoption and Utilization of Online Auctions by Supply Chain Managers

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The Rise of Online Auctions for the Supply Chain

Online auctions are being used by more and more companies in the procurement process. This study contributes by empirically examining the differences across three groups (current users, past users, and nonusers) in terms of their emphasis on supplier collaboration, cost management, and sales revenue and profit enhancement. Study findings indicate significant differences between users and non-users. The paper further compares the online auction usages for maintenance/repair/operations (MRO) and shipping and transportation services for constructs such as supplier collaboration and cost management.

Study Demographics

The researchers obtained 4280 supply chain professionals’ email addresses via two locales: the Council for Supply Chain Management Professionals (CSCMP) and the Institute for Supply Management (ISM) website. A pilot sample of 100 emails was sent and resulted in the addition of one question. Overall, after removing returned and undeliverable emails, recipients returned 213 questionnaires, for a response rate of 9.2%.

Major Study Findings

Respondents:
1) were a seasoned group with an average of more than 10 years work experience.
2) mostly worked for firms that had yearly revenues of over $1 billion in revenues and procurement expenditures of over $100 million dollars a year.
3) appeared very familiar with online auctions themselves and the extent of their firm’s use of auctions.
4) appeared to have moderate trust regarding auctions and use of auctions.
5) reported that maintenance/repair/operations (MRO) and capital equipment are the two areas using online auctions most frequently.
6) who were not utilizing online auctions valued supplier collaboration more than current and past online auction users.
7) who were currently utilizing online auction valued cost management more than past online auction users who related this to their distrust of online auction from prior experiences.

Managerial Implications

This study provides a number of important managerial implications:

1) It appears that firms that rely on online auctions to obtain required materials tend to have a stronger lowest cost per unit focus than firms that do not use auctions.

   If this is true, managers who use auctions are advised to look at how these purchases impact total firm profitability because lowest purchase price rarely results in the lowest cost of ownership.

2) It is advised that those supply chain managers who use auctions regularly develop alternative sources of domestic supply, based on collaborative relationships with potential suppliers to protect against supply chain disruptions.

   Historically, during times of reduced supply or when supply chains have been disrupted suppliers will attempt to take care of their most loyal customers at the expense of less loyal customers who are strictly motivated by price.

3) It is advised that supply chain managers develop programs that will protect their firms from financial risks associated with price movements.

   Examples could possibly include hedging, commodities analysis, and/or not single sourcing materials.