

3 MOST IMPORTANT STEPS TO PREPARE FOR A REVERSE AUCTION

Prepared by:

REVERSE AUCTION GUIDE

PROVEN ONLINE B2B AUCTION STRATEGIES

<http://www.reverseauctionguide.com>

WELCOME!

This guide is for Suppliers who have been invited to participate in an Online B2B Reverse Auction and want to know the best ways to prepare for the upcoming Live Event!

The steps below detail the most critical (*and often overlooked*) steps to prepare for the successful development of your Strategy and management of the Live Event. These steps assume you have already completed a value assessment and determined you should participate in the process.

After you have reviewed all applicable legal issues relating to the upcoming Reverse Auction, **let's get started!**

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STEP #1: Assess the True Risk / Opportunity

The driving question for both the Incumbent and Prospective bidders is this:

How likely is the Buyer to actually change suppliers at the end of the Reverse Auction Process?

The number one reason Reverse Auctions are held is to drive down the current (incumbent) supplier's price, but this is not always the case. Additionally, the buyer may receive an unexpectedly attractive offer from a new bidder (or an unexpected reluctance by the incumbent to lower pricing).

To get an initial idea, answer the 5 questions below:

(1) Would a supplier change be difficult to implement?	YES / NO
(2) Would a supplier change be costly to implement?	YES / NO
(3) Is the <i>perceived</i> risk of changing suppliers high?	YES / NO
(4) If the new material/service did not meet the customer's needs, would the results be potentially devastating?	YES / NO
(5) Does the buyer have a good, longstanding relationship with the Incumbent?	YES / NO

If 3 or more of the answers above are "Yes", the Incumbent supplier has a definite advantage going into the process. If more answers are "No," the auction will most likely be a true price shoot-out awarded to the lowest bidder.

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STEP #2: Read the Paperwork VERY CAREFULLY for Risks and Opportunities

As with all contracts, **THE DEVIL IS IN THE DETAILS!** Let's assume the business will be awarded to the supplier with the lowest bid price during the auction.

There are Two Key Questions you must answer:

Question #1: What opportunities exist to improve the profitability of this business after the Live Auction?

It is incredibly difficult for buyers to "cover every base" in this process, which will frequently provide suppliers with opportunities to increase their margins during the term of the contract.

A few examples:

- **Is there additional business you can potentially earn with the customer once you have secured a position as a supplier?** Take a close look at the customer as a whole to determine what other opportunities exist. We have seen multiple \$100,000 auctions won by suppliers that were later parleyed into a supply position for \$1,000,000 in additional business at higher margins.

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- **Are there other components of service / supply that will be required but not included in the contract terms?** This is the same scenario as buying an office printer for only \$99, then discovering later that the four proprietary ink cartridges are \$50 each. Does your product/service require parts, maintenance, or additional components that only you can supply? If so, be sure to look at the big picture before deciding what bid pricing you can afford to offer.
- **Can you increase your margins during the term of the contract?** A Guaranteed pricing term (i.e. 6 months) will almost always be listed for some portion of the agreement, but we have seen many auctions won by suppliers at very low margins in year-one that were successfully negotiated up in the second and third years of the agreement, or conversely when pricing was maintained despite falling costs to support the business.

Question #2: Are there terms in the contract that will make this business LESS profitable than it seems?

These are the built-in “got you!” terms making a contract much more difficult to support than initially thought.

Here are a few key examples to watch for. We recommend you populate the attached chart below:

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Questions	Answers
What are the payment terms?	
How easily can the buyer (or you) cancel the agreement before the term has ended?	
How long is the pricing guarantee?	
What are the required lead times and minimum order quantities?	
How many locations are you supporting?	
Is there a built-in rebate component?	
Are there any hard penalty clauses for late shipments, quality defects, etc?	
Is there a force majeure statement?	

Any one of these can be potentially devastating to the overall profitability of a contract “win.” Read carefully!

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STEP #3: Ask Questions!

Always take the opportunity to learn as much as possible from the Buyer and Auction service before the start of the Live Auction. This information will be critical to the development of a successful strategy for the Live Auction and Post Auction Negotiations.

Top Questions for the Buyer:

- a. **What made you decide to hold this auction?** Get the best feel you can for the drivers behind the process.
- b. **Will the low bidder definitely be awarded the business?**
Understanding this will determine whether or not a strategic second-place finish is an option for you.
- c. **Is there an opportunity for a partial business award?**

Top Questions for the Auction Service:

What information will I be given during the live auction?

- d. The current low bid?
- e. The total number of bidders?
- f. My rank, or just whether or not I am leading?

This information is particularly critical if you do not plan to finish as the low-bidder.

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Congratulations!

You are now well on your way to managing a successful online B2B Reverse Auction!

There is obviously **SO MUCH MORE TO LEARN**, but now that you are a subscribing member at ReverseAuctionGuide.com you have **FREE** access to current and upcoming member-only tools and guides to further help you through the process!

Thank you for joining, and don't hesitate to contact me if you have any questions:

Cheers!

Jon Bart

jonbart@reverseauctionguide.com