



# Forward Auction Overview

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## 1.0 Introduction

Whilst the technology for Forward Auctions has been available for several years, their application has been relatively limited. This is in contrast to Reverse auctions which are used by Supply Chain functions to reduce the cost of their purchases through suppliers bidding to supply a product /goods by providing the lowest price.

Reverse Auctions have been a major success and are now being used by almost all large corporates and many medium sized businesses.

Forward auctions have gained in popularity recently as the usage of on-line market places, such as e-Bay, has risen dramatically and people have become much more familiar with the concepts and technology. Forward Auctions do, however, differ in two ways from on-line market places such as e-Bay:

- Potential buyers of your product or service have to be invited to the event
- The seller also has a greater degree of control over how the event is structured and in how they influence the potential buyer's behaviour

## 2.0 Process explained

**Step 1:** Prior to being invited to a Forward Auction event the potential Buyers are usually invited to submit a bid/quotation for some goods or services on offer. All material/specifications etc can be sent manually or via the on-line tool and bids can also be received in the same way. All bids are then assessed with other qualitative information and the seller then decides which potential Buyers are to be invited to the Forward Auction event.

**Step 2:** Once the list of potential buyers has been confirmed they will each receive an invitation, via email, to join the Forward auction at a set date and time. In the meantime, the potential Buyers will be trained, over the phone, in how to use the software and to enter bids.

**Step 3:** Set the Auction bidding rules and event structure. As there is a relatively high degree of functionality within these type of applications, the seller needs to ensure that they structured the event to ensure they will obtain maximum commercial advantage.

For example, the Seller may restrict the potential Buyer's view so that they only see their own rank position and that of their competitor who is in the number one position. All price information can be hidden. This often creates the impression that the event is more competitive than it is in reality. It also tends to force potential Buyers to place higher bid values as they have to guess what price will achieve the number one bid position.

The Seller is also able to control how much the potential Buyers can bid. The Seller may prohibit potential Buyers from bidding anything which is less than a percentage or a value above the lead price. For example, bids which are less than 1% (or £100) above the lead price can be rejected.

The way in which bidding controls are used will determine how well the event is managed. Forward auctions can be set up to sell single items or multiple items simultaneously.

**Step 4:** Watching the event. When the event has opened there is usually very little for the Seller to do apart from observing buyer behaviour. Each event usually has an initial time of approximately 30-45 minutes and the event usually extends until no bids are received in the final two or three minutes.

**Step 5:** Once the event has closed and all bids are received the Seller then must decide to whom they wish to sell the goods to. In most circumstances, the seller will wish to sell the goods to the highest bidder, but they are not legally bound to do so.

### 3.0 What can be eAuctioned?

Almost any good or service can be sold via a Forward Auction. Providing that competition exists and there is an interest in what you are selling then there is no reason why almost anything cannot be sold using this method. Listed below are examples of categories/items that have been sold via Forward Auctions:

- Advertising space
- Sports contracts & sponsorship
- Excess stock
- Property
- Valuable arts and collectable items
- Publishing contracts

### 4.0 Benefits of Forward Auctions

Whilst we are not aware of any specific research into the benefits of Forward Auctions we do make reference to the most common finding of Reverse Auctions. The key benefits are:

- **Increased Selling prices.** Although Reverse Auctions achieve on average an 18% saving (confirmed by our own experiences and that of The Chartered Institute of Purchasing & Supply) we believe that forward auctions will have a similar effect. Our experiences to date confirm this.
- **Time saved.** There is a considerable time saving during this process as there is no need for personal negotiation. The process is also very quick and is usually managed all within a three to four weeks. They can often be performed in a shorter time span.

- **A transparent process.** The whole process from inviting potential Buyers to receiving their initial bids, capturing the messages sent and received and the on-line bidding in the auction is all totally transparent. For many organisations this can be a significant benefit.

## 5.0 Range of Solutions

There are a range of potential solutions currently on the market each offering different functionality and scope to manage other activities such as issuing tenders and managing contracts.

Payment options also differ in that some companies only sell annual licenses whilst others will permit individual events (Pay-as you-go) with different support options.

eSourcing Solutions can help companies/individuals make more informed choices based on an understanding of their requirements.

## 6.0 Summary

Forward Auctions are very powerful selling tools that will allow Sellers to sell almost any goods or services provided that competition exists. The list of items that can be sold is almost endless ranging from advertising space, sponsorship opportunities, excess stock and even property.

Based on evidence from Reverse Auctions (which Buyers use to purchase goods) there is a significant commercial advantage in using this method to sell goods/services. There is also a significant time saving benefit which can save considerable manpower and reduce the time it takes to sell. Some organisations may find that the increased transparency also brings additional commercial benefits.

There are numerous potential IT providers in the marketplace who each provide different bidding functionality and commercial propositions ranging from annual license fees to pay as you go.

**For further information on getting started, suitable software, demonstrations, payment options then please contact Adrian Finn on 0207-100-5365 or via email [adrian.finn@esourcingsolutions.co.uk](mailto:adrian.finn@esourcingsolutions.co.uk).**