BUSINESS MARKETING - TECHNOLOGY FOCUS
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Lecture 26 : Electronic Auction

Hello, welcome to our next session on B2B marketing with technology focus. I am Jayanta Chatterjee from IIT Kanpur.

Selling via Auctions

- Using auctions on the sell side
  - Revenue generation
  - Cost savings
  - Increased page views
  - Member acquisition and retention

In the initial part of this course, we have looked at how technology affects the different marketing processes. So, while we have been discussing B2B marketing right from its fundamental level, we have at every stage looked at how technology dominant products and services, how technology enriched products and services change the marketing process to some extent and what particular attention we have to pay when we are dealing with tech products and services.

In this part, in the latter part of this course, we are actually also looking at how technology can be used for the marketing process. So, in a way, here the technology focus is on the marketing and sales processes. So, to some extent we are looking at how we can gain advantage with modern technologies, internet technologies, electronic

transactions to make life easier for both buyers and sellers in the B2B domain. In this session, we are going to look at auction.

Now, auction has a particular role in B2B because many of the B2B purchases and therefore many of the B2B marketing and sales processes are done through the tender enquiry, the RFP, RFQ route and the auction particularly reverse auction is the process which is today becoming popular even for small value B2B purchases because the ease that is brought to it due to internet technology and electronic transaction technologies. So auctions on the sell side help us to generate revenue better.

It saves cost. Some of those cost savings we discussed in the previous session and we will look at it even more here. And we get a much wider range of attention on the sell side if we use auction, particularly electronic auction.

Selling via Auctions (cont.)

- Selling from the company's own site
  - The company will have to pay for infrastructure and operate and maintain the auction site
  - If then company already has an electronic marketplace for selling from e-catalogs, the additional cost may not be too high

So, selling via auction can be done from the company's own website. The company will have to pay for infrastructure and operate and maintain the auction site.

Large companies often do this. So, they will use their own website with all the necessary tools built in there to do this. So, if the company already has an electronic marketplace for selling from e-catalogs, the additional cost for introducing auction may not be very high.

Selling via Auctions (cont.)

- **Using intermediaries**
  - An intermediary may conduct private auctions for a seller, either from the intermediary's or the seller's site
  - A company may choose to conduct auctions in a public marketplace, using a third-party hosting company

But in many cases, the companies will be using intermediaries and intermediary may conduct private auction for a seller either from the intermediary's website or on the seller's website.

A company may choose to conduct auctions in a public marketplace as well using a third-party hosting company.

Using Intermediaries in Auctions (cont.)

- **Benefits of using intermediaries**
  - no additional resources are required
  - auction set up to show the branding (company name) of the merchant rather than the intermediary's name
  - intermediary does the work of:
    - controlling data on Web traffic, page views, and member registration
    - setting all the auction parameters (transaction fee structure, user interface, and reports)
    - integrating the information flow and logistics

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The benefits of intermediaries are no additional resources are needed. So, it becomes like a variable cost rather than a fixed cost or you don't have to invest in equipment and hardware, software. Auction set up to show the branding that is the company's name on the merchants rather than the intermediary's name. This is a very normal process.

That means the bidding that is going on, the auction, reverse auction, all that happens in the name of the main selling company and not the intermediary. So the intermediary does the work of controlling the data on web traffic, the page views, management, the member registration and all those processes. They set all the auction parameters, the transaction fee structure, the user interface, report generation and they actually integrate the information flow and the logistics.

Sell-Side Cases

- Direct sales: Cisco Systems
  - World's leading producer of routers, switches, and network interconnection services
  - Cisco's portal began with technical support for customers and developed into one of the world's largest direct sales EC sites

A great example is the Cisco systems. They are the world's leading producer of routers, switches and network interconnection services. Cisco's portal began with the technical support for customers and developed into one of the world's largest direct sale e-commerce site.

Sell-Side Cases (cont.)

– **Customer service**
- Applications offered:
  – software downloads
  – defect tracking
  – technical advice
- 85% of customer service inquiries and 95% of software updates are delivered online

– **Online ordering by customers**
- Provides online pricing and configuration tools to customers
- 98% are now placed through Cisco Connection Online (CCO)

– **Order status**

So, Cisco provides all the facilities to their buyers to conduct that process on their site. So, customer service application offered, software downloads, defect tracking, technical advice, all these are provided.

85% of customer service inquiries and 95% of software updates are all delivered online by Cisco. And customers can order online. Online pricing and configuration tools are provided to the customers. So 98% of Cisco's business happens through this Cisco connection online.

Sell-Side Cases (cont.)

- Benefits
  – Reduced operating costs for order taking
  – Enhanced technical support and customer service
  – Reduced technical support staff cost
  – Reduced software distribution costs
  – Faster service

All the order status, everything, update on deliveries, all that are provided on Cisco site for their customers.

Benefits are obvious. It reduces the operating costs for order taking. It enhances the technical support and customer service. Reduce technical support staff costs because all that is managed by Cisco. Reduce software distribution cost and faster service.

So, Cisco being a very large marketer and they have many many buyers for many many of their items. In this kind of one to many marketplace, this methodology particularly for a very large marketer is usual and effective. On the other hand, if the buyer is a much larger company, then this whole process can actually be hosted by the buyer site rather than the buyers utilizing the Cisco site.

Sell-Side Cases (cont.)

- Sales through an intermediary: Marshall Industries (now Avnet.com)
  - large distributor of electronics components
  - known for its innovative use of information technologies and the Web

Here is another example. The famous Marshall Industries, I think it is now called Avnet.com. They are a very large, you can go and visit their site and check this out. They are a very large distributor of electronic components. They are known for innovative use of information technology and the web in their marketing sales process.

Sell-Side Cases (cont.)

- **Marshall Industries EC initiatives**
  - **MarshallNet**

    intranet that supports salespeople in the field via wireless devices and portable PCs
  - **Marshall on the Internet (portal)**

    B2B portal for customers that offers information, ordering, and tracking capabilities
  - **Strategic European Internet**

    strategic partner in Europe that offers MarshallNet in 17 languages

So, there we have this Marshallnet.com. It is a kind of an intranet that supports the sales people of Marshall in the field via wireless devices and portable PCs. So, they use various kinds of handheld devices including the mobile phone platforms through which actually they can find out the products, availability, price and all those kind of information. So, Marshall on the internet, it is a portal, it is a B2B portal for Marshall's customers that offers information, ordering and tracking capabilities. So, the Marshall site will be actually holding and displaying the data, all kinds of relevant information for all kinds of electronic components, a very large range actually. And for example, in Europe, buyers can interact with the Marshallnet through 17 languages.

These are interesting examples of how the internet technology, web technology, the electronic transaction technologies bring lot of parallel facilities and customer endearing facilities to the B2B process.

Sell-Side Cases (cont.)

- **Marshal Industries**
  - **Electronic Design Center**

    online configuration tool; provides technical specifications; offers simulation capabilities for making virtual components
  - **PartnerNet**

    customized Web pages for major customers and suppliers
  - **NetSeminar Education and News Portal**

    online training tool; brings suppliers and customers together for live interactions

So, Marshall has electronic design centers where online configuration tools are available to find technical spec. It offers simulation capabilities for virtual components. So, customers can try out in terms of sizing, in terms of different kinds of performance features and so on.

Customized web pages for major customers and suppliers are available. So, it is an excellent example of a marketplace, two-sided market created for both as well as for both buyers as well as suppliers and it even goes to the extent of providing online training tool for education. It provides a news portal for latest update on component technologies and newer ranges and so on.

Sell-Side Cases (cont.)

- B2B intermediary: Boeing's parts marketplace
  - World's largest maker of airplanes for commercial and military customers
  - Major goal of Boeing's intermediary parts market, called PART is supporting customers' maintenance needs as a customer service

And the last example that I will be bringing to you in this context is the Boeing parts marketplace. So, originally it started as a, Boeing is world's largest manufacturer of airplanes for commercial and military customers. So, originally it started with the goal of Boeing's intermediary parts marketplace. So, it was called PART. It's supporting customer's maintenance needs.

So, whatever parts are needed by customers for Boeing aircrafts, be it in the civilian or in the military application, they could actually search for the part in this Boeing website.

Sell-Side Cases (cont.)

- Online strategy is to provide a single point of online access through which airlines (buyers) and the maintenance and parts providers (suppliers) can access data about the parts they need
- Began using traditional EDI

And it provides an online strategy to provide single point of online access through which all airlines who are the buyers and the maintenance and parts providers who are the suppliers can access data about the parts they need and it was also, it also implemented the EDI, the electronic data interchange over captive networks facility here.

Sell-Side Cases (cont.)

– 1996, Boeing introduced its PART page on the Internet
– Customers around the world could
  • check parts availability and pricing
  • order parts
  • track order status
– Less than a year later, about 50 percent of Boeing's customers used PART for parts orders and customer service inquiries

So, in 1996, quite a few years back, Boeing introduced its part page on the internet and customers around the world could actually check availability of parts, pricing of parts, they could order parts, they could track the order status. All these facilities became very popular and less than a year later, about 50% of Boeing's customer, they used PART part for parts ordering and customer service inquiries.

So, the entire marketing process for Boeing spares and parts even emergency spares and parts all became highly automated in a way electronified and transacted entirely through this electronic marketplace. So, you can see here these are fine examples of how technology is changing the marketing process. It is bringing in lot of transparency, bringing in lot of pertinent information when it is required and all that is almost like automated.

So, you don't have to wait for human intervention. It can actually happen almost machine to machine. And therefore, lot of planning and particularly emergency response in case of

emergency repair requirement can happen much more efficiently and effectively due to this kind of electronic marketing techniques.

Sell-Side Cases (cont.)

- Boeing OnLine Data (BOLD) enables mechanics and technicians at the airport to access the technical manuals they need for repairs
- These manuals are now available in digital form, and mechanics and technicians can access them via wireline or wireless devices

So, there is a Boeing online data, it is very aptly called BOLD, B.O.L.D. It enables mechanics and technicians at the airport to access the technical manuals they need because aircraft parts are often very complex and their application and fitment details are quite intricate.

So, earlier all these technicians used to carry big fat volumes of manuals and most of these airport maintenance hangers had a whole library of these documents. All that now is eased and available at click because of this electronic facility. They are now available, these manuals are available in the digital form and mechanics and technicians can access them via wire line as well as wireless devices, various kind of handle devices even mobile phone platforms and so on.

One-from-Many: Buy-Side Marketplaces and E-Procurement

- *Buy-side e-marketplace:* A corporate-based acquisition site that uses reverse auctions, negotiations, group purchasing, or any other e-procurement method

So, this was actually we were looking at the sell side marketplace. Similarly, we can look at the buy side marketplace, e-procurement that is a corporate acquisition site that uses reverse auction. Reverse auction is basically the tender enquiry process where bids are invited and then bids are submitted and then the order is placed on the lowest bidder or the most suitable bidder, not always the lowest price bidder, but in combination with other technical evaluations. So, this has always been a complex process in B2B involving time and effort. All that has been quite automated and eased using the electronic techniques.

One-from-Many: Buy-Side Marketplaces and E-Procurement (cont.)

- Procurement methods
  - Buy from manufacturers, wholesalers, or retailers from their catalogs, and possibly by negotiation
  - Buy from the catalog of an intermediary that aggregates sellers' catalogs or buy at industrial malls
  - Buy from an internal buyer's catalog in which company-approved vendors' catalogs, including agreed upon prices, are aggregated

So, the e-procurement method creates opportunity to buy from manufacturers, wholesalers or retailers from their catalogs and often allows for even electronic, even machine to machine negotiation without human intervention based on certain predetermined algorithms. Particularly useful for MRO type of purchases, catalog based purchases, that means where rate contracts have been set up or many proprietary items where prices are fixed and only negotiable to some extent order to order. So, this buying from the catalog of an intermediary that aggregates the seller's catalogs is one of the approaches.

So, it kind of becomes a large industrial mall where you have the equivalence of many, many industrial product sales counters and buying happens through bids and negotiations to a large extent all automated.

One-from-Many: Buy-Side Marketplaces and E-Procurement (cont.)

- Conduct bidding or tendering (a reverse auction) in a system where suppliers compete against each other
- Buy at private or public auction sites in which the organization participates as one of the buyers
- Join a group-purchasing system that aggregates participants' demand, creating a large volume
- Collaborate with suppliers to share information about sales and inventory, so as to reduce inventory and stock-outs and enhance just-in-time delivery

This kind of buying can also happen from internal buyers catalog in which the company approved vendors host their catalogs with rate contracts or agreed upon prices and this whole system is available for people to place orders even from their desktops, in some cases even from mobile phones for regular items, for routine items like say printer paper or maybe even printer cartridge or various kinds of stationary items and so on. This buy side marketplace or e-procurement systems actually can be quite sophisticated also.

They can conduct bidding or tendering which is the reverse auction process in a system where suppliers compete against each other. So the tender publication that sending the tender to the intended vendors, chosen vendors, inviting bids from them, comparing the bids. The bids actually are provided in a predetermined format so that the whole evaluation process can be automated. Of course, it this is one of the ways it can also happen through private or public auction sites in which the organization participates as one of the buyers. So, again and again, we are highlighting that it can be a one organization, one dominant organizations play through their own website or many, many companies as they do, they use third party sites for dealing with this reverse auction or even public auction.

Sometimes companies get together and negotiate with suppliers through a group purchasing system. This is a methodology which is quite used in B2C, but in B2B also this is becoming popular where number of companies for similar items come together and present their joint requirement, attracting good quantity discounts and volume discounts and so on.

So, it is a kind of a one to many kind of a procurement situation but this aggregated demand is presented to number of possible suppliers and they all compete against each other for this aggregated demand offering the volume discounts as applicable. Again this becomes seamlessly possible because of electronic technology which helps in this aggregation across boundaries of organizations. Obviously, this kind of process helps in inventory management, in reduction of time cycle, guarding against stock outs. It helps in GIT system, just-in-time delivery system. All that becomes. So, this methodology is quite widely used by companies like automotive companies.

One-from-Many: Buy-Side Marketplaces and E-Procurement (cont.)

- Inefficiencies in traditional procurement management
  - *Procurement management:* The coordination of all the activities relating to purchasing goods and services needed to accomplish the mission of an organization
  - *Maverick buying:* Unplanned purchases of items needed quickly, often at non-pre-negotiated, higher prices

Then we have some of the points that need to be highlighted. That the inefficiencies in traditional procurement management gets eliminated due to this process and sometimes you need to purchase something very quickly due to an emergency situation called sometimes called maverick buying.

One-from-Many: Buy-Side Marketplaces and E-Procurement (cont.)

- *e-procurement:* The electronic acquisition of goods and services for organizations

Here again at this non pre-negotiated emergency purchase also these electronic procurement systems are very very helpful and it is kind of a system that goes hand in hand with e-marketing and this e-procurement and e-marketing together create all kinds of automated transparent facilities for B2B buyers and sellers.

Benefits of E-Procurement

- Benefits of e-procurement
  - Increasing the productivity of purchasing agents
  - Lowering purchase prices through product standardization and consolidation of purchases
  - Improving information flow and management

So, mainly the productivity improvement and time cycle improvement, these are the facilities that we obtain. So, we will end our this part here and we will continue with some of the other aspects of B2B e-commerce in the next session.