



E-AUCTIONS IN SOURCING & PROCUREMENT

Abstract

Reverse e-auctions are a tactical tool within the strategic sourcing cycle that can help organizations achieve cost reductions, price discovery, and better supply-market insight when applied to the right categories. While suppliers may view them as either transparent and fair or as margin-squeezing mechanisms, well-planned and well-administered events can create value for both parties and improve business outcomes. This POV summarizes what reverse e-auctions are, where they fit in the sourcing process, and the key considerations and success factors buying organizations should assess before launching an event—emphasizing that e-auctions complement, not replace, robust strategic sourcing.



Organizations of all sizes, ranging from small enterprises to large global corporations—have adopted reverse e-auctions within the strategic sourcing cycle with mixed results. While some buyers use reverse e-auctions to achieve significant cost reductions, others rely on them primarily for price discovery and to gain deeper insights into supplier market dynamics.

From the supplier perspective, reverse e-auctions often evoke diverse and

sometimes conflicting opinions. Some suppliers view them as objective and transparent mechanisms, whereas others feel that such events disproportionately benefit buyers by exerting pressure on supplier margins. However, when reverse e-auctions are designed and executed thoughtfully, they can deliver meaningful value to both buyers and suppliers by fostering competitive fairness, transparency, and improved commercial outcomes.

This PoV examines the reverse e-auction process and identifies key factors for developing a strong business case. It outlines the important considerations organizations should assess before adopting reverse e-auctions. When used effectively, reverse e-auctions can be a powerful tactical sourcing approach that enhances negotiations, but they require careful planning, robust governance, and disciplined execution to deliver successful outcomes.

Reverse e-auction overview

This is a type of online auction where suppliers compete by submitting bids. In reverse e-auction, the buyer makes a request for products or services and suppliers bid on the business. The bidding starts at the highest price and decreases until the lowest bid wins. The seller who accepts the lowest price receives the contract. Reverse e-auctions reduce cost, drive value, and support strategic sourcing innovation. This is useful for both large and low-value contracts for both public sector and private commercial organizations.

Reverse e-auctions promote transparency and fairness, allowing suppliers to

compete on an equal footing when bidding for goods or services. These events are typically conducted through dedicated online platforms where buyers and suppliers interact in real time. In such environments, suppliers compete by continuously lowering their bids for clearly defined requirements related to quality, quantity, and terms. The bidding process usually takes place within a fixed timeframe, often around an hour, with suppliers submitting progressively competitive price offers to secure the contract.

Organizations should recognize reverse

e-auctions as a key enabler of online negotiations within the sourcing process, offering an efficient alternative to traditional one-to-one supplier discussions. Their effectiveness depends on thorough upfront analysis, a well-defined sourcing strategy, clear RFP and tender documentation, and a competitive supplier base. However, reverse e-auctions are not universally applicable and may not be suitable for all spend categories.

More importantly, it does not replace the strategic sourcing process. It just complements the negotiation process.

Select your e-sourcing strategy carefully

This process has many variations. Typically, the process includes the following 7 steps.

- Evaluate product categories, their business applications, spending trends, and the stakeholders involved.
- Formulate a sourcing strategy aligned with overall business objectives.
- Analyze the supplier landscape and build a qualified supplier pool.
- Establish clear RFP guidelines and standardized templates.
- Negotiate terms and finalize the selection of preferred suppliers.
- Onboard new suppliers and integrate them into existing operating processes.
- Monitor performance metrics and continuously refine sourcing strategies and workflows.

Approaches to reverse e-auctions

- Sealed bid: Suppliers submit their most competitive proposals, which are assessed based on a combination of pricing, qualitative factors, and overall value.
- Dutch reverse e-auction: The process begins with a high starting price that gradually decreases until a supplier agrees to accept the bid.
- Best-value reverse e-auction: Suppliers present solutions focused on overall value, evaluated using both cost and non-cost parameters.

Types of reverse e-auction

A reverse e-auction can take several forms, including Japanese, Dutch, open, and ranked formats, each supporting competitive supplier participation. These auctions are known for their speed and efficiency, enabling quick comparisons

and driving competitive pricing through participation from multiple suppliers.

Location: Traditional auctions are conducted at a physical venue, whereas reverse e-auctions are typically hosted online, allowing participants to engage

remotely.

Convenience: Online auctions provide greater flexibility, as participants can join from any location, making it easier for suppliers and buyers to take part.



Set supplier expectations early

Supplier familiarity with reverse e-auctions varies by category. While some suppliers are experienced and comfortable with the

process, others may be new to it. Educating suppliers upfront helps manage concerns and ensures better participation. Many

suppliers eventually recognize the value these auctions bring.

Evaluate when to skip the auction

Existing or incumbent suppliers may resist participating and instead offer an upfront discount, often because they expect the

auction to push prices even lower. If the spend size is significant and additional savings can meaningfully impact costs,

proceeding with the auction is usually worthwhile.

Highlight the benefits to suppliers

Reverse e-auctions are not only beneficial for buyers. They allow suppliers

to benchmark themselves against competitors, understand market pricing,

and identify how competitive their offerings are within the supplier landscape.

Conduct a pre-bid phase

A pre-bid stage benefits suppliers by giving them time to review requirements, seek

clarifications, and prepare competitive bids. This step helps avoid confusion

during the live auction and improves overall efficiency.

Plan auction logistics carefully

Once suppliers are onboarded and the pre-bid is completed, clearly communicate the auction process and expectations.

Typically, a short auction duration of 10–20 minutes works well. Conducting a webinar or sharing a recorded training session can

help suppliers understand the platform, bidding rules, and timelines.

Enable time extensions

Time extension mechanisms are critical best practice in reverse e-auctions. They prevent last-second bids from ending

the auction prematurely and allow fair competition by giving other suppliers

a chance to respond, ultimately driving better value for the buyer.

Award business to a participating supplier

Suppliers invest considerable time and effort in preparing for and participating in reverse e-auctions. To maintain credibility

and long-term supplier engagement, the awarded business must go to one of the auction participants. While the lowest

bidder does not always have to win, the selected supplier must be from the reverse e-auction pool.



Conclusion

In the ever-evolving area of procurement organizations are always evolving to enhance efficiency, reduce costs and drive

strategic value. One such area is the use of reverse e-auctions. With time they have evolved into a powerful tool that can

fundamentally change the way companies engage with suppliers and procure goods and services.

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