

# Procurement Platforms for Consumers

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E-procurement platforms have been widely used in business-to-business and business-to-government transactions for many years. More recently, such platforms have become available for consumers as well. However, the question is if such platforms will be as beneficial in a consumer context as they have been in B2B and B2G before. By summarizing recent results from empirical studies and from focus group interviews with platform users, this paper discusses benefits and risks which using e-procurement platforms brings about for the often inexperienced consumer. Current market trends are presented, key obstacles for platform acceptance are identified, and recommendations for future platform development are provided.

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Additional Key Words and Phrases: Trust, Risk-benefit-analysis.

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## 1. HISTORIC DEVELOPMENT AND CURRENT MARKET TRENDS

Procurement platforms for consumers are internet-based trading systems where consumers can publish calls for tenders online and invite potential suppliers to compete for contracts by submitting bids. Although such platforms have been available in niche markets for several years, it took until about 2004 before using them became widely popular among the general public. In the German market, this development was supported by the appearance of several new platform providers, which offered one-stop-procurement solutions for a wide range of crafts and services (such as construction and maintenance, housekeeping, gardening, nursing and web design). Most recent trends include e-procurement of dental care (strongly supported by health insurances) and online auctions for consumer credits (for the latter, see e.g. [Heng et al. 2007][Klafft 2008]). Taking a closer look at procurement mechanism design, early movers in the market applied a pure reverse auction format, where new bids had to underbid all previous ones and where the cheapest automatically won the contract. However, these early movers were soon thrust aside by platforms offering more flexibility to buyers and sellers: buyers were allowed to select their suppliers using evaluation criteria beyond price (such as reputation), and bidders could finally compete on additional factors such as quality and service. Nowadays, almost all successful platforms offer such flexibility, allow the consumer to select the winner freely among all bids and come along with features like personal web pages for suppliers, multidimensional reputation systems (with criteria such as quality, service, friendliness) and discussion forums which facilitate information exchanges between all participants. Besides flexibility and transparency, market share is the

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key factor for platform success: In the German crafts and services market, for example, the two leading platforms have a market share of more than 80 % in terms of listings and continue to grow, whereas late-comers in the market often struggle to attract any bidders. Platforms entering the market recently have only been successful if they focus on niches not yet covered by the market leaders.

## 2. E-PROCUREMENT: BENEFITS AND RISKS FOR THE CONSUMER

Platform providers claim that their tools create substantial economic benefits for the consumers. Empirical data seems to support this claim: an analysis of more than 2000 procurement processes shows that platforms were able to generate large consumer surpluses in almost all procurement categories [Klafft and Spiekermann 2006]. However, high consumer surpluses do not necessarily mean that prices are lower than in traditional procurement channels. Comparing platform prices with general market prices is a complicated task, as calls for tender usually describe bundles of heterogeneous goods that are difficult to evaluate and compare. Nevertheless, it could be demonstrated that prices for the painting of ingrain wallpapers, for example, are indeed significantly lower ( $p$  below 0.05) than in the traditional market [Klafft and Spiekermann 2006]. Average savings were about 30 %. These results are well in line with previous experiences from the B2B environment, where similar saving potentials have been reported [Tulder and Mol 2002] [Smart and Harrison 2003]. However, e-procurement does not always guarantee the cheapest bargain. In some cases, price outliers above the general market average can be observed, typically if contract sizes are very small or if the service has to be provided in remote areas. In addition to low price levels, convenience and choice were identified as important benefits for the consumers [Klafft 2007]. Convenience means that procurement platforms provide an easy and time-efficient way to obtain proposals from potential suppliers - much more efficient than in the traditional marketplace where potential bidders have to be visited in person and numerous phone calls have to be made. As a result, transaction costs and efforts are substantially reduced. Choice refers to the consumers' ability to choose between large numbers of bidders - often far more than they would have obtained traditionally. However, focus group interviews with platform users also revealed some key weaknesses of e-procurement platforms which urgently need to be addressed: suppliers frequently provide wrong and misleading information, behave aggressively towards the buyers (spam and hate mails), attempt to renegotiate prices at a later process stage or complete their work with much delay. Some suppliers lacked the necessary skills and were incompetent, some also behaved illegally, such as by refusing to issue proper invoices (illicit work). Summarizing all above, there is a deep mistrust between consumers and suppliers, which clearly is the key obstacle for more rapid platform growth. Another impediment for more widespread platform utilization is the consumers' lack of experience: consumers often do not know precisely what they need and are therefore unable to formulate their calls for tender properly, which often leads to serious disagreements between buyers and suppliers [Klafft 2007].

## 3. RECOMMENDATIONS FOR FUTURE PLATFORM DEVELOPMENT

Future platform improvement efforts should focus on the implementation of additional trust-building mechanisms. Possible approaches include certification schemes for participating suppliers, insurance services for consumers (e.g. against damages caused by sub-standard supplier performance) and mediation mechanisms in order to deal with arising disagreements swiftly and efficiently. Software-related improvements should enable

consumers to formulate well-defined task descriptions. Ideally, specification agents should be developed for all common procurement categories. Such agents would systematically gather all relevant information from the consumer and automatically translate these into well-written requirement specifications. Such assistance would be highly beneficial, because good requirement specifications will lead to more satisfied consumers, fewer disagreements and therefore increased platform growth and acceptance.

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