



## Auctions: How Many Bidders Do You Need?

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How many bidders do you need for an electronic auction? There are a variety of “expert” opinions on this question. Is it three, four, five? I have heard all of these recommendations. The correct answer is: at least two. But the actual number depends.

I have experienced circumstances where two bidders were plenty. It was a buyers’ market. There was significant over capacity, and the two bidders were hungry. They fought for the business in a bidding war, and the auction delivered significant savings. Conversely, I have heard of events where there were three, four or five bidders with little competition. It was a sellers’ market with limited available capacity. The bidders were satisfied with their market share and unmotivated to bid aggressively. In this situation, an auction might deliver little, if any, savings and sometimes even result in a premium!

A competitive market assessment is the key to determining the “right” number of bidders. This is best achieved by first doing an RFP where you collect preliminary pricing. (I always tell the prospective bidders to submit feasibility level pricing. However, I also state that I reserve the right to award based on these bids. That keeps the proposals serious.) The RFP responses allow the buyer to assess the degree of competition for all items in a sourcing event. You may have three potential bidders, but if the incumbent is low bidder at your current price and the other two aren’t even in the ballpark, you will be hard pressed to achieve a savings. I encountered this situation while coaching an event for injection-molded parts. After the RFP, we determined there was insufficient competition among the three potential bidders to proceed with an auction. Instead, we identified additional sources and collected preliminary pricing from them. Although this delayed our award by a few weeks, we ended up with a successful auction delivering a 10% savings. It was well worth the wait!

There is no magic number. You need at least two bidders and, most importantly, you need a number that will provide sufficient competition given current market conditions. This will vary from commodity to commodity and from year to year. The buyer should always assess the current market conditions and verify that there is sufficient competition before proceeding with an auction.

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