

Can the web catch everything?

by

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Why hasn't the Internet, revolutionised the business tender industry in the same way it has revolutionised the second hand market for smaller, consumer traders? After all, the chief benefit of the Internet has been to bring together many buyers and many sellers and allow them to interact in a way that really saves on the costs of transacting. Organised markets like eBay do this by (1) making it easier to find each other, (2) making it easier for them to agree on a price and, (3) what is less emphasised, making it much easier for them to work out how to get transactions settled. Surely, the same would be true for the business tender industry.

But the same attraction hasn't occurred. While there was initial promise from B2B e-commerce, in particular, the lure of billions in wholesale transactions, change hasn't really arisen in the same way. That is not to say there haven't been any inroads in this industry. It is just that when you look at the tender pages of, say, this newspaper, the pages are as full as they ever were. Moreover, governments and large firms still generally procure in traditional ways.

So let's consider what is different between the consumer and business markets. When it comes down to it, the first two benefits would surely benefit the business tender industry. First, by attracting suppliers with the lure of the variety of tenders to apply for and, in turn, giving procurement officers a greater chance of a wide number of bids, an Internet market is a route to profitable liquidity.

Second, Internet markets offer the possibility of a richer array of tender devices. From straight sealed bid tenders to protracting auctions to the much mooted reverse auctions, procurement officers will have many more options. This will make it easier for them to extract the appropriate price from the market.

However, it is on the third and less emphasised benefit of Internet markets that the business tender industry may come up short. In consumer markets, you run an auction and bid on one and the highest bidder and seller have an automated agreement to transact at that price. But, in many business situations, a supply contract itself is an agreement to produce a product or complete project. This is in contrast to consumer level Internet transactions that involve already existing objects, and maybe already used objects.

The difference is important. If supply contracts will be inherently longer-lived then one cannot realise the advantage of an Internet deals: that is, an automatic contract and a quick settlement. The time taken to complete tasks, as well as verifying the tasks are

actually completed creates an order of magnitude higher level of complexity. It is for this reason that payments are often staged.

So an organised Internet market would have to be tailored to deal with many different situations and settlement options. The sheer complexity of this would significantly reduce the transparency and simplicity that operates in consumer Internet markets. And without that, the possibility of automation is low.

Put simply, without any benefit from utilising computers to assist in transaction automation and settlement, the Internet does not appear to confer a significant advantage over traditional 'meeting places' like this newspaper. It just goes to show that massive technological advance can revolutionise one market while leaving a related and very similar market virtually untouched.

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