

An Experimental Investigation of Buyer Determined Procurement Auctions

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We present a laboratory study of buyer determined auctions in a setting in which non-monetary attributes are exogenous and influence buyer surplus. In buyer determined reverse auctions, the buyer does not commit to awarding a contract to the supplier who submits the lowest bid, but is instead free to select a winner based on the buyer surplus generated. We find that generally the sealed-bid auction format generates higher buyer surplus levels than the dynamic auction format. We also find that when the value of suppliers' non-monetary attributes is public information, dynamic auctions perform particularly poorly. A useful practical implication from our study is that buyers would prefer sealed bid auctions for procurement applications, especially when they have reasons to believe suppliers are aware of how much one another's non-monetary attributes are worth to the buyer.