



Reverse Auctions Ready for Prime Time

REVERSE AUCTIONS FIRST APPEARED AS AN OPTION FOR government buyers about a decade ago, but until recently had not been available in a user-friendly form with a large number of available vendors or with multiple, sophisticated procurement options. Current versions of online reverse auctions have turned this good idea into a practical implementation, making this an attractive alternative for buying commodities and simple services.

Reverse auctions enable registered buyers to post requirements online for bids, where a large number of vendors can submit decreasing bids, with the sale going to the bidder that meets or exceeds the buyer's best value requirements, usually based on aggressive pricing. This online procurement tool provides dynamic, real-time competition among vendors, resulting in significant cost savings, auditable transaction data, and improved process efficiency.

So what makes reverse auctions so useful? As the number of procurement personnel continues to shrink, buyers are required to satisfy increasing government purchase needs with fewer human resources. As a result, contracting specialists are looking to innovative solutions to help improve process efficiency and increase cost savings for commodity buys.

At the same time, reverse auction engines have become far more user-friendly in recent years, making this one solution many government organizations have turned to for gaining greater productivity from a smaller workforce—and the aggressive pricing gained from reverse auctions makes it a real budget stretcher. Further, more small businesses are brought into the bidding process, which can be very useful for agencies as they struggle to meet small business goals.

With the advent of online reverse auction services, contract specialists have

found they can discard many time-consuming manual processes in favor of Web-based automation when buying commodities and simple services, enabling them to spend more time managing more high-value complex services contracts. Among the more significant process efficiencies gained through reverse auctions are those involving notification, competition, and documentation.

Notification

Traditionally, contract specialists provided notification of government procurement opportunities by sending announcements via phone, fax, e-mail or publication, depending on procurement size and type. With the introduction of FedBizOpps, contract specialists have been able to provide more widespread notification; however, it is primarily used for open market opportunities exceeding \$25,000 and is a very static process.

In contrast, online reverse auctions enable a wide range of commodity procurements in a dynamic environment. In many ways, reverse auctions are like a microwave oven—the buyer posts the requirement and lets it “cook,” and an award is made at minimum pricing without all the mess. The reverse auction system automatically notifies thousands of vendors of the potential opportunity, streamlining the administrative burden on the contract specialist and enabling them to focus on other procurement activities. Try that with a telephone. It also helps maximize competition in accordance with *FAR* requirements and Section 803 of the 2002 National Defense Authorization Act.

Competition

Probably the best known aspect of reverse auction tools is their ability to automate the competition process by enabling vendors to bid



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In fiscal 2002, the State Department began a yearlong trial program using FedBid's reverse auction Web site. The goal was to see whether State could purchase commercial information technology and other goods at significant savings compared with retail or contract prices. Based on the results of the tests, the State Department chose to continue the program.

Here are the results of the program:

	Fiscal 2002	Fiscal 2006
Number of transactions	583	1,615
Average number of firms bidding	6.3	6.4
Average number of bids per transaction	15	15
Independent government estimate of cost	\$41,027,531	\$92,294,336
Final awarded price	\$36,894,011	\$82,950,063
Net savings	\$4,133,519	\$9,344,273
Net savings as percent of estimated costs	10.0%	10.2%
Percent of dollars to small businesses	52.36%	76.59%
Average number of sellers notified	336	1,201
Average number of no bids	49.8	57.6

Source: FedBid, Inc.

Figure 1.

online, processing and reporting that data to the contract specialist in an efficient, organized, and paper-free manner. Contract specialists no longer need to wade through pages of faxes or sort through e-mails clogging their inbox. Instead, they can access complete competition information in a central location, often from anywhere in the world, day or night.

In addition, by providing vendors the ability to submit multiple bids, online reverse auctions encourage active, dynamic competition, thereby ensuring that the government receives aggressive pricing. Considering the fluctuation of commodity pricing and the trend, particularly in IT commodities, of price decreases over time, reverse auctions help agencies avoid paying more than necessary for their purchases.

Documentation

One of the great values of online reverse auction tools to the contracting specialist is its ability to automatically create a comprehensive record of a procurement transaction from notification to award. In the traditional manual documentation process, the contract specialist was required to create a bid abstract, which included a collection of bids in various formats and verification that the invoice provided cage codes, the DUNS number, and relevant contact information. The contract specialist also was required to create a list of all vendors notified of the solicitation and provide detailed back-up documentation of all bids. With the

manual process, if a contract file is misplaced, there is no way to retrieve the documented information, requiring the contract specialist to manually recreate the file.

Online reverse auctions make this a dynamic process, automatically detailing and recording the entire transaction and making the information available at the click of a mouse. This type of documentation ensures fair and open competition and enables agencies to better manage their procurement activities without increasing the workload of the contracting specialist. It also serves to make a procurement virtually audit-proof. Take that, inspector general.

Today, more and more federal organizations are turning to reverse auction services to help ease the strain on their overly taxed workforce. And as purchasers continue to be challenged to not only be creative in their procurement methods, but also to execute procurements in an efficient manner, reverse auctions will continue to provide the path forward. **CM**

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