

DEPARTMENT OF THE TREASURY

Reverse Auctioning



Reverse Auctions

What are they?

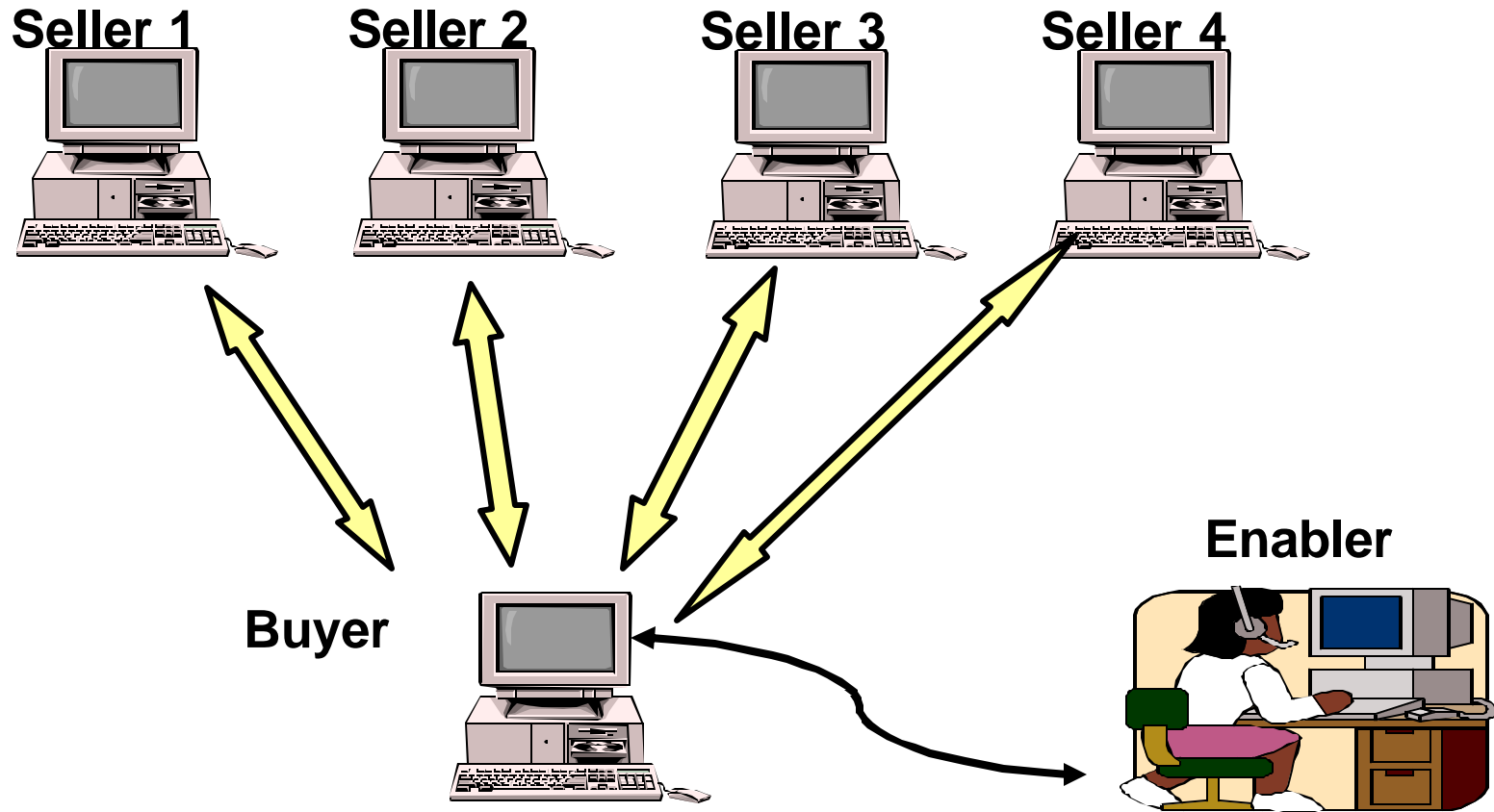
Reverse auctions are – many sellers competing for the business of a single buyer. Unlike a traditional auction, bid prices go down.

And Now We Have This
Lovely Government Contract.
We'll Start At \$100,000.
Do I Hear Less?



Reverse Auctions

How they work



Reverse Auctions

Why are they popular?

- ⇒ They help increase competition
- ⇒ Technology is robust and mature
- ⇒ Real time bidding creates a dynamic pricing marketplace
- ⇒ Sourcing data is made available

Reverse Auctions

Why bother?

Benefits for Government:

- ⇒ Reduces acquisition cycle time
- ⇒ Increases competition, leading to lower prices
- ⇒ Award can be either “Best Value” or lowest price
- ⇒ Competition is documented

Benefits for Vendors:

- ⇒ View others’ bids real time
- ⇒ If firm is unsuccessful they know immediately
- ⇒ Less resources have to be committed to win a contract
- ⇒ Money is not left on the table

Reverse Auctions

What is and is not appropriate?

Reverse Auctions are appropriate when:

- ⇒ Requirements are well defined;
- ⇒ The item or service is easily obtainable with universally accepted standards;
- ⇒ There are many suppliers;
- ⇒ The value is large enough to draw interest; and
- ⇒ An organization is forward looking and wants to cut costs

Reverse Auctions may not be appropriate when:

- ⇒ Significant servicing requirements are part of a purchase;
- ⇒ There are no industry or product standards; or
- ⇒ The requirements are very flexible or complex

Reverse Auctions

Some Common Myths

- ⇒ Contract award is based on price alone
- ⇒ Process works well for commodities but not complex goods or services
- ⇒ Process will force businesses to bid below their cost and will eventually force them to go out of business
- ⇒ Small businesses are placed at a disadvantage
- ⇒ The initial market results in savings, but “re-bids” don’t yield similar benefits

Reverse Auctions

Is the government permitted to conduct them?

- ⇒ Government regulations permit them
- ⇒ If appropriate processes and regulations are followed
- ⇒ Executive Branch agencies and Treasury Bureaus are conducting them

DoD

USPS

Treasury

State Department

ATF Mint USCS

DOJ – Bureau of Prisons

IRS BPD FinCEN

Reverse Auctions

What has been auctioned and the savings attained?

Services		Goods		Assets	
<i>Description</i>	<i>Average Savings</i>	<i>Description</i>	<i>Average Savings</i>	<i>Description</i>	<i>Average Savings</i>
Construction & Facilities	29%	Wood, Pulp & Paper	11%	Plant & Equipment	20%
Service	19%	Electronics	21%		
Freight & Logistics	8%	Plastics	26%		
Telecom/IT	35%	Energy & Fuels	3%		
Packaging	23%	Building Materials	14%		
Travel	17%	Metals	21%		
Plant & Equipment	11%	Chemicals	11%		

Reverse Auctions

What lessons have been learned?

- ⇒ The bigger the “spend” the greater the price compression and the savings
- ⇒ Competition - The more the merrier
- ⇒ Ensure the specification is “bulletproof”
- ⇒ The Contracting Officer must be in charge of the entire process, including establishing the rules prior to the auction event
- ⇒ The bidders must be anonymous to one another

Reverse Auctions

Who provides this service?

Government Sources:

US Navy - Contract available to all civilian agencies and DoD.

GSA- Multiple Award Schedule Contracts are expected to awarded by June 2002.

Commercial Sources (there are many more than listed here)

ACS

Frictionless Commerce

EDS

FreeMarkets

Oracle

Commerce One

FedBid

Reverse Auctions

Details on GSA's and Navy's Contracts

GSA:

Awarded four Government-Wide Acquisition Contracts (GWAC) (Two year base + 3 one year options)

Two Types:

Hosted Reverse Auction
Desktop Reverse Auction

Four Vendors:

CIS Global Global procure
B2eMarkets Orbis Online

Navy:

Two Competitive IDIQ Contracts Awarded (base +4 options) Solution One (Desktop)

- Awarded to Procuri.com
- Buyer does all
- Unlimited Use, Unlimited Users, Unlimited Locations

Solution Two (Full Service)

- Awarded to EDS, using eBreviate solution
- Service provider does everything

Pricing Reverse Auctions

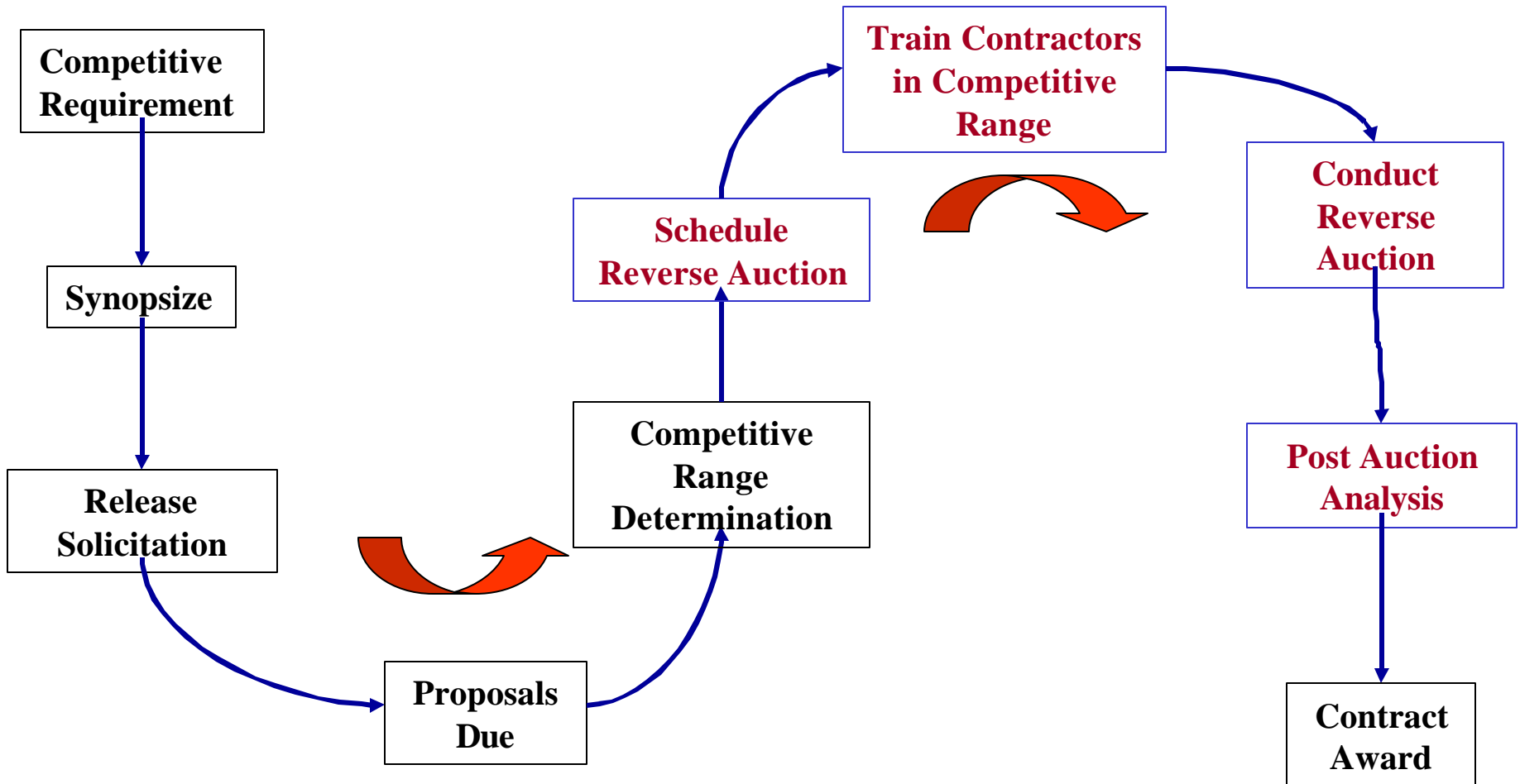
Vendors are Flexible & Pricing is Negotiable

Pricing Models

- ⇒ Share in Savings
- ⇒ Per Event
- ⇒ Licensing Agreements

Reverse Auctions

What is the process when using them?



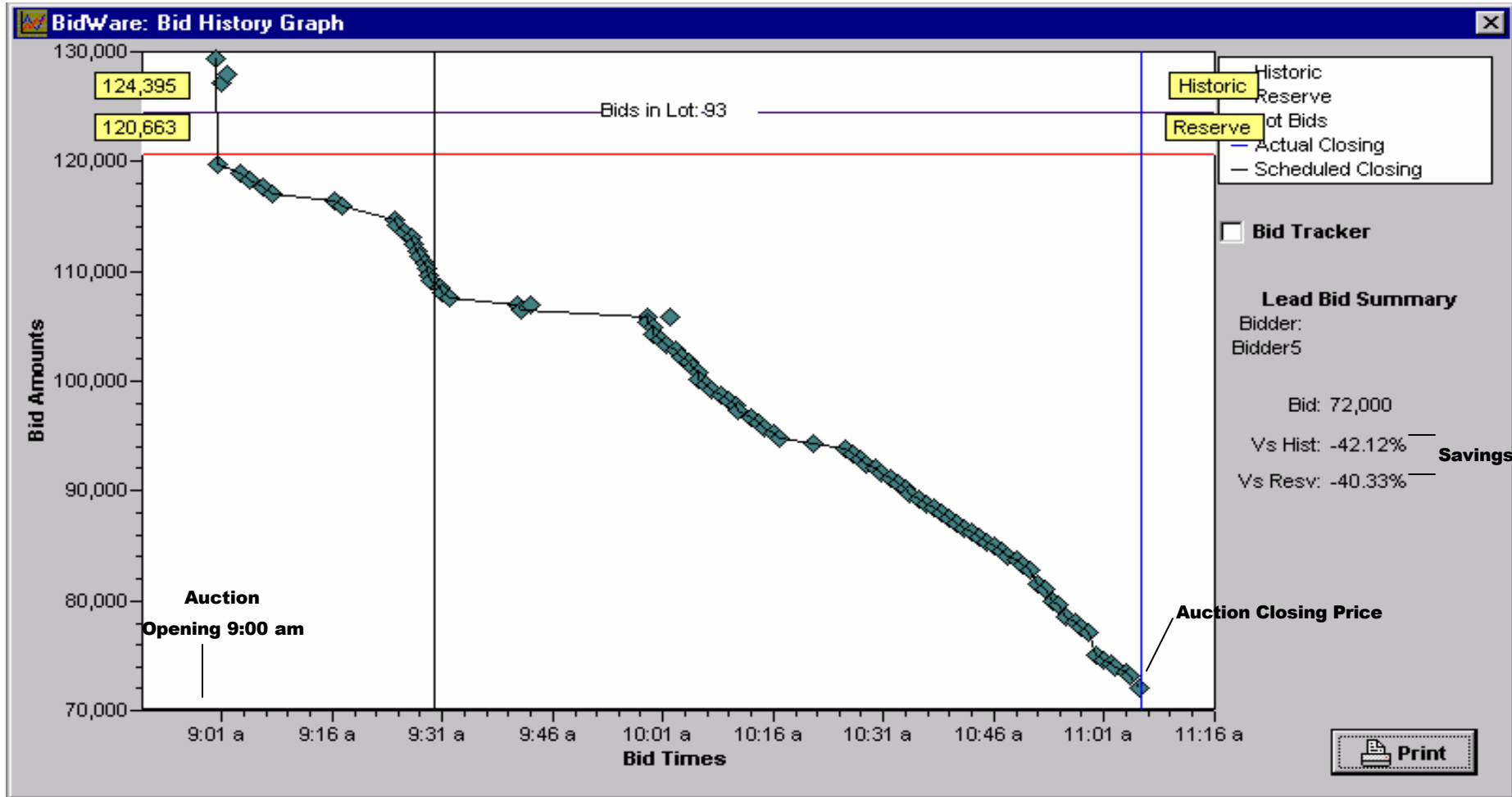
Reverse Auctions

What things must be considered

Establish parameters, including:

- ⇒ bid value increments
- ⇒ historic pricing
- ⇒ bid extension increments

Example of a Reverse Auction



Reverse Auctions

Summary

- ⇒ Reverse Auctions:
 - have gained acceptance in government
 - save time and money
- ⇒ Government's requirements are appropriate for reverse auctions
- ⇒ Reverse auctioning services are available from
 - government sources
 - many commercial sources, some via GSA schedule
- ⇒ Cost of conducting reverse auctions are recovered through savings

***For more information on Reverse Auctions,
please contact***

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or

Navy Auction Site at:

<http://www.auctions.navy.mil>

Communities of Practice Site at:

http://www.gsa.gov/Portal/content/pubs_content.jsp?contentOID=123047&contentType=1008