



DEPARTMENT OF VETERANS AFFAIRS
DEPUTY ASSISTANT SECRETARY FOR ACQUISITION AND MATERIEL MANAGEMENT
WASHINGTON, DC 20420

IL 049-03-11
June 9, 2003

OFFICE OF ACQUISITION AND MATERIEL MANAGEMENT INFORMATION LETTER

TO: Under Secretaries for Health, Benefits, and Memorial Affairs; Assistant Secretary for Management; Chief Facilities Management Officer, Office of Facilities Management; Veterans Integrated Service Network Directors; Directors, VA Medical Center Activities, Domiciliary, Outpatient Clinics, Medical and Regional Office Centers, and Regional Offices; Directors, Denver Distribution Center, Austin Automation Center, Records Management Center, VBA Benefits Delivery Centers, and VA Health Administration Center; and Executive Director and Chief Operating Officer, VA National Acquisition Center.

ATTN: Head of the Contracting Activity
All VA Contracting Officers, Including All Purchase Cardholders

SUBJECT: Using Reverse Auctions to Acquire Goods and Services

1. Using reverse auctioning techniques to obtain bid prices from vendors can prove beneficial and cost-effective. Reverse auctions are Web-based transactions where vendors bid down prices for the goods or services that the Government wishes to buy. Contracting officers are encouraged to consider using reverse auctions where appropriate, and the following guidance is provided.
2. When using reverse auction techniques, offerors must be advised that, by agreeing to participate in the reverse auction, they agree to allow their bid prices, but not their identities, to be revealed to other offerors. In addition, if you intend to restrict offers to those received via a reverse auction Web site, you must notify potential offerors of that fact and provide guidance on how to participate in the reverse auction. You should not be restricting competition only to vendors who agree to sign up with, or are members of, a particular Web site unless you advise potential offerors in advance that you intend to do so.
3. Mandatory and priority sources, as provided in Section 8.001 of the Federal Acquisition Regulation (FAR), must be used. Only after contracting officers or purchase cardholders have determined that mandatory and priority sources cannot meet their needs should they then seek sources on the open market through the use of a reverse auction. Reverse auctions can be used to compete among mandatory or priority sources such as Federal Supply Schedule (FSS) contracts, provided responses are

2.

IL 049-03-11

June 9, 2003

limited only to FSS contractors. Contracting officers must be knowledgeable of basic FSS contract prices prior to conducting a reverse auction among FSS vendors and must not pay more than the contract price for the items. If you do intend to issue a competitive request for quotations for an FSS purchase, you may want to consider using a free Web site, e-Buy (see http://www.gsa.gov/Portal/content/offerings_content.jsp?contentOID=116555&contentType=1004&P=1&S=1). Although not a reverse auction site, the General Service Administration's (GSA) e-Buy Web site allows you to compete among FSS contract holders, and there are no additional fees charged to agencies to use e-Buy. e-Buy may offer an inexpensive way to obtain reductions from basic FSS contract prices.

4. Reverse auctions tend to work best for large dollar value acquisitions where there is a clear and concise statement of requirements and a strong competitive market. However, reverse auctions can also be effective in lowering prices even for smaller dollar value acquisitions. Factors other than price can be used in conjunction with reverse auction techniques, and vendors can be pre-qualified prior to conducting the reverse auction through a two-step solicitation process. Low price need not be the determining factor for award. The reverse auction is just a technique for obtaining the best and final price.

5. Options available for conducting reverse auctions include using a contractor to host your auctions or purchasing software (with appropriate approvals) and conducting your own in-house auctions. FSS contracts under Federal Supply Classification (FSC) Group 70, Special Item Number (SIN) 132-52, include contractors that offer reverse auction services or software (see <http://www.gsa.eLibrary.gsa.gov/elib/eLibrary.jsp>). GSA's Federal Technology Service has awarded contracts for reverse auction services that may be used (see http://www.gsa.gov/Portal/content/offerings_content.jsp?contentOID=120813&contentType=1004). Also, other Federal agencies, such as the U. S. Navy, have awarded reverse auction contracts that may be used for a fee under an Economy Act agreement (see <http://www.auctions.navy.mil/>).

6. The cost to conduct a reverse auction may be a percentage of the transaction, either paid by the Government or by the seller, a percentage of the savings, or a flat fee. Contracting officers should seek out a contractor that best meets their needs on a competitive basis in accordance with Subpart 8.4 of the FAR or other applicable FAR parts. Even if a contractor offers to provide services at no cost to the Government (instead, charging a fee to the seller), selection of the firm you intend to use must be on a competitive basis. The Government cannot convey a benefit to one company (by using its services at no direct cost to the agency) on a non-competitive basis without justification. The projected amount of fees involved, either as a direct cost to the Government as fees you pay to the Web service provider or as an indirect cost to the Government as fees paid by the vendor (and incorporated into the cost of the goods or services purchased), must be taken into consideration when selecting a Web service provider.

3.

IL 049-03-11

June 9, 2003

7. Before proceeding with a reverse auction, contracting officers should conduct market research. The Web can be used to locate firms that sell specific supplies, equipment, or services and can provide a wealth of information on sources and prices. We recommend that contracting officers make maximum use of available free Web sites to locate sources, including the Small Business Administration's PRO-Net (<http://pro-net.sba.gov/pro-net/search.html>), the Department of Defense's Central Contractor Registration (<http://www.dlis.dla.mil/ccr/>), and the various free search engines available on the Web. Contracting officers should analyze which of the various goods or services the VA facility buys are conducive to the use of reverse auction procedures.

8. Contracting officers and purchase cardholders must follow the FAR when using reverse auction procedures.

a. FAR 13.202 provides that micro-purchases may be awarded without soliciting competition if the contracting officer or purchase cardholder considers the price to be reasonable. However, micro-purchase acquisitions must be equitably distributed among qualified suppliers. No one reverse auction host contractor should be used exclusively for micro-purchases absent the competitive selection of a host contractor in accordance with FAR 8.404. Even if a single host contractor is selected, micro-purchases should still be equitably distributed between that host contractor and vendors who choose not to use that contractor's Web site to sell to the Government.

b. For open market acquisitions between \$2,500 and \$25,000, FAR 13.104 requires that quotations be sought from at least three sources. In addition, socio-economic requirements apply, including the requirement to set aside the acquisition for small business (FAR 19.502-2) or for very small business (FAR 19.9). A reverse auction site should not be the only source for quotations, even if the Web site obtains multiple quotes, unless known sources are given advance notice that offers may be submitted only through a particular Web site. Offerors must be advised of the clauses that apply to the request for quotations and contracting officers must be able to determine the socio-economic status of the proposed contractor prior to award. For open market acquisitions between \$10,000 and \$25,000, FAR 5.101(a)(2) requires that solicitations be posted for at least 10 days. Thus, the closing date and time for any reverse auction in this price range must be at least 10 days after the posting of the request for quotations.

c. For open market acquisitions exceeding \$25,000, the acquisitions must be synopsisized in VA's Business Opportunities System (BOS) and the time for receipt of offers must be set in accordance with FAR 5.203. Acquisitions may be conducted either as a single step reverse auction or in two steps, with initial offers providing both technical proposals and price. In a two-step process, only those offerors in the competitive range would then be authorized to compete in the reverse auction. Initial offers must include price, and the solicitation should indicate that award may be made based on initial offers received. Initial offer prices may be so low as to preclude the

4.
IL 049-03-11
June 9, 2003

need for the reverse auction or there may be insufficient competition to warrant a reverse auction. Offerors can raise their prices in the reverse auction as well as lower them.

9. The use of the Web and reverse auction techniques can prove very beneficial to the acquisition process. Although the reverse auction process is not suitable for use in all situations and for all products or services, we encourage your exploration of this option. Additional guidance can be found on the Web (e.g., do a search for “reverse auction” on <http://www.firstgov.gov/>).

10. The Office of Acquisitions (049A) is interested in your experiences with reverse auction techniques. We request that you provide information to us, i.e., the make and model of the goods or a description of the services purchased, the original price estimate, the actual price paid, the cost of the transaction (either the fee paid to the host contractor by the Government or the fee paid by the vendor), and your opinions or comments on the process and results. E-mail responses are encouraged, and this is not a required report; it is strictly voluntary.

11. Please direct any questions regarding the above guidance to Don Kaliher, Acquisition Policy Division (049A5A), at (202) 273-8819.

/s/C. Ford Heard
Acting Associate Deputy Assistant Secretary
for Acquisitions

Distribution: RPC 7029