



## Reverse auctions going full speed ahead

by Richard Bray

At first glance, reverse auctions look like the answer to a procurement manager's dreams. Live, over the Internet, prospective suppliers compete to see who can provide a good or service at the lowest price. Websites, email, reliable connections and effective security mean that well-informed, qualified vendors can do business online with public sector buyers.

Mention reverse auctions to vendors, however, and many might say something like, "Great for things like pencils or fuel oil, but no good for anything more complicated," or "Our customers are buying a long-term relationship, not a commodity." Those days may be gone, as reverse auctions are used for an expanding range of goods and services.

In the automotive sector, Ford Motor Co. gave its suppliers a hint of things to come when it held a reverse auction for fuel-injectors, a part that many considered too complex to be bought and sold like bushels of wheat or light bulbs.

EDS Canada, an information technology professional services company, held a reverse auction for people in the form of Requests For Proposals (RFPs) for contractors. The company wanted to consolidate its sourcing in one supplier and one backup, so it put out an RFP for various job descriptions, in different classifications in three regions of Canada. Potential bidders were carefully briefed and pre-qualified before the auction went "live." Many were naturally concerned that the procurement vehicle had been chosen simply to drive prices down, but the company explained that the short list of bidders was developed on qualitative considerations alone. Among the benefits that EDS realized from the exercise were a greatly reduced timeframe from concept to contract as well as pricing information it would have probably purchased from an outside research firm.

While governments in Canada are still studying reverse auctions, the US government has issued contracts for both Hosted Reverse Auction and Desktop Reverse Auction support through the Information Technology Acquisition Center of the General Services Administration.

The Hosted Reverse Auction is a complete service, run by the contractor for the buying department or agency. Together they develop the auction parameters, train the bidders to use the software and conduct the auction. Fees are based on the dollar value of the auction, beginning at \$500,000.

The Desktop Reverse Auction is a subscription service that connects desktop computers at the purchasing end to the contractor's server. The contractor provides the software and help desk services. In this arrangement, the government agency develops the auction, short-lists and trains the bidders and runs the auction.

The US government decision to enable reverse auctions took some bureaucratic stick-handling, because prohibitions on auction techniques had to be lifted and, needless to say, potential bidders must agree to disclose their prices during the course of the auction.

The American system can be designed to allow continuous competition, by awarding overall contracts for indefinite amounts to a range of suppliers. Then, under those contracts, vendors compete for business on an order-by-order basis. In effect, that means the marketplace for the government buyer is always open, instead of being closed under a fixed-term, fixed-price arrangement. The result, it is hoped, will be better prices for the taxpayer, higher quality and faster delivery of the needed goods and services.

In the United Kingdom, Accenture's eAuction service works with public sector organizations like Royal Mail Group and the Driver and Vehicle Licensing Agency. Accenture believes that reverse auctions can not only replace a clumsy, paper-based system with an efficient, electronic one, but has the potential to aggregate government spending for even greater price reductions.

Despite their increasing use to purchase a wider variety of goods and services in an increasing number of sectors, reverse auctions may not be suitable for every purchase. Detractors point out that reverse auctions may have unintended and drastic consequences. What happens, for example, when the downward pressure on prices gets out of control, the supplier pool shrinks and only one large fish remains? The result, in theory at least, is a monopoly supplier with the ability to dictate prices and availability.

The Canadian Construction Association is alarmed at the growing use of reverse auctions for construction projects, because they sweep away carefully developed and long-standing industry practice for procurement. Because it is not designed for construction procurement, the association claims, there is a "greater likelihood of disputes, bad faith and increased risk of claims."

Pressure is mounting for governments to stretch dollars and speed up purchasing, so it seems likely that there will be only one direction for reverse auctions – full speed ahead. *///*

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