

Title:	Reverse Auctions
Identification:	Overview of Solutions: Technical Description
Version:	V.1
Date of Issue:	June 2003
Current Status:	Approved
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e-PROCUREMENT OVERVIEW			
CONTROLLING		BUYING	
SOURCING	MANAGING	ORDERING	PAYING

Terminology

Definition: a reverse auction is an electronic auction where suppliers bid online against each other for contracts against a published specification and pre established criteria

Similar terms:

- E-auctions
- Online auctions
- E-bidding

Why should I use a reverse auction?

Business benefits:

- Reduction of paper and streamlined processes
- Shorter negotiation cycle
- Achieve more competitive prices
- Increased transparency of the contract award process

Reduced paperwork, short procurement cycle and increased transparency of competing bids are clear benefits for suppliers.

Negotiation of contracts with your suppliers can be a lengthy process that is costly for both the buyer and the supplier. In addition, negotiating with suppliers individually will not always achieve the best deal.

By conducting contract negotiations on-line, the process is much quicker than the normal negotiation process, and as a result the overall procurement cycle is significantly reduced. Vendors report up to 30% savings in time and therefore cost of process.

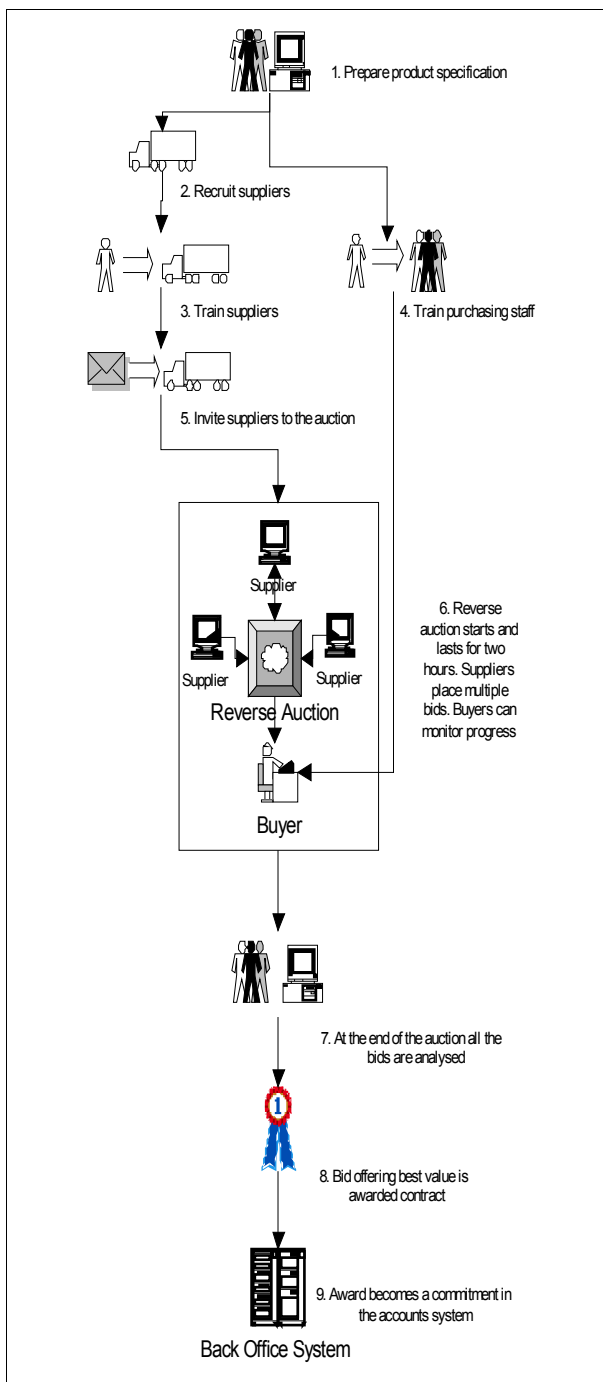
Reverse auctions create an environment where suppliers bid against each other for a contract. This environment encourages competition with the result that goods and services are offered at their current market value. Vendors report price savings ranging between 5% and 20% on non-reverse auction derived pricing.

How are reverse auctions used?

Reverse auctions tend to be used either as hosted services or in house applications.

The main effort involved in carrying out each online reverse auction is usually focused on the set up activities.

The key steps involved in using reverse auction technology are as follows:



1. Prepare detailed electronic product specification and pre established criteria. It is essential bidder know what these are)
2. It is important to produce a clear requirements specification as it will help suppliers in bidding and also make the post-auction evaluation more straightforward
3. If issuing an OJEU notice or advertising the tender elsewhere clearly state that a reverse auction may be used
4. Recruit suppliers
5. Train suppliers to use the software/website – reverse auction service providers can help with this as well
6. Train purchasing staff in using the software/website (
7. Publish product specifications in advance of event and invite suppliers to the reverse auction event
8. Start reverse auction event. Buyer and suppliers access the event via the web. They can log in and out of the event to view and place bids. The event can last from two hours (most common in the UK) to a few days. Suppliers bid anonymously against each other. Suppliers are able to see the bids on their personal screens. There is no limit to the number of individual bids
9. Reverse auction closes. The bids are analysed using preset criteria. Some reverse auction systems provide bid evaluation tools and assessment engines, which automate the evaluation process.
10. Award contract.
11. In case of integrated reverse auction systems, the awarded contract automatically becomes a commitment in the accounting system.

Key things to look for and think about

Typical features of available reverse auction solutions include:

Buyer Features:

- Secure environment for setting up business rules, approving supplier participation and monitoring events
- Ability for buyers to upload images, specifications and other documents
Re-usable auction facility which permits editing and reposting of saved auctions as new auctions
- Customised buyer screen
- Analysis tools for bid evaluation
- End of auction management information reporting
- Audit trail
- Open transparent process

Supplier Features:

- Facility to upload product specifications and images
- Customised supplier screen
- Event log showing a minute by minute bidding activity with a graph
- Automated award notification to the successful bidder

Integration

Some reverse auction systems, offer integration facilities which allow for automatic creation of a commitment in the corporate accounting system for the winning bid.

Integration can allow product details taken from the winning bid to be uploaded into the catalogue of the council's electronic ordering system or e-marketplace.

Regulatory Issues

There are some issues regarding EU Directives and Public Procurement Regulations. The OGC is working on guidance for central government and have some guidelines about what is permissible under current legislation. At the time of writing you can find this guidance at the following address: <http://www.ogc.gov.uk/index.asp?docid=1001034>

Some local authorities have avoided any problems by pre-selecting the suppliers through a full tendering process so that all the suppliers taking part in the auction are acceptable.

Local authorities considering using this solution type should check the latest regulations.

Local Authorities may wish to consider appropriate rules for dealing with very low bids

Effort and Cost

The main effort involved in carrying out each online reverse auction is usually focused on the set up activities:

- Preparing detailed product specification – it is very important to produce a clear product or service specification as it will help suppliers in bidding and also make the post-auction evaluation more straightforward.
- Recruiting suppliers – Some suppliers are not experienced in taking part in electronic reverse auctions and therefore may not be immediately willing to join in. Reverse auction service providers may be able to help with supplier recruitment.
- Training suppliers in using the software/website – reverse auction service providers will provide training assistance. This may be included in the price.
- Local authorities should make a careful assessment of the likely cost of the process before proceeding

There are a number of cost options available:

- Software license purchase - the auction software is bought and installed on the council's server. The council can then use the software and organise an unlimited number of events at no extra cost. The additional cost involves consulting services required to set up and manage the first auctions and train users to be able to manage auction independently in future.
- Pay as you go – the buyer can purchase individual events from a third party auction provider. The price will depend on the number of suppliers taking part in the auction.
- Multibuy – the buying organisation can purchase a number of auctions as a package for a set price. The package usually includes support and training for both users and suppliers.
- Commission on the realised savings, where the vendor takes a percentage of the savings realised by the buyer on the agreed contract.
- Supplier pays – in some cases, the suppliers of the product or service to be auctioned pay to be able to take part in the auction on a “no win, no fee” basis.