

# *Procurement Excellence with Reverse Auctions and Best Value Reverse Auctions*

By: Matthew Bauer, MBA, CPPO, CPPB, CPSM

# Agenda

- ▶ Overview of Reverse Auctions
- ▶ How a Reverse Auction is Conducted
- ▶ Getting Started With Reverse Auctions
- ▶ NIGP Innovation Award
- ▶ Overview of Best Value Reverse Auctions
- ▶ How a Best Value Reverse Auctions is Conducted
- ▶ Results of Best Value Reverse Auction
- ▶ Benefits of Both Auction Formats
- ▶ Common Misconceptions
- ▶ Path to Success
- ▶ Q & A

# What is a Reverse Auction?

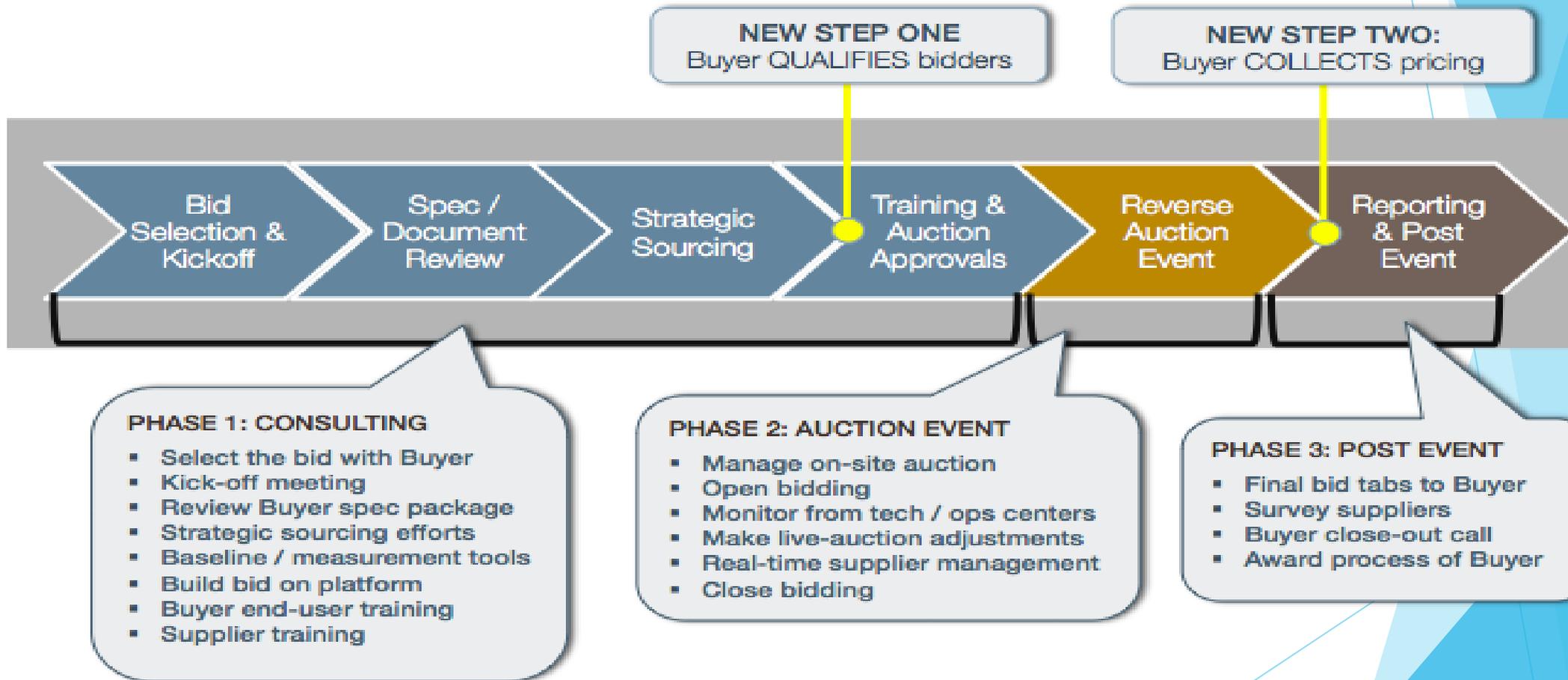
- ▶ A reverse auction is a type of auction in which the roles of buyer and seller are reversed. In an ordinary auction (also known as a forward auction), buyers compete to obtain a good or service by offering increasingly higher prices. In a reverse auction, the sellers compete to obtain business from the buyer and prices will typically decrease as the sellers undercut each other.

# How is a Reverse Auction Conducted

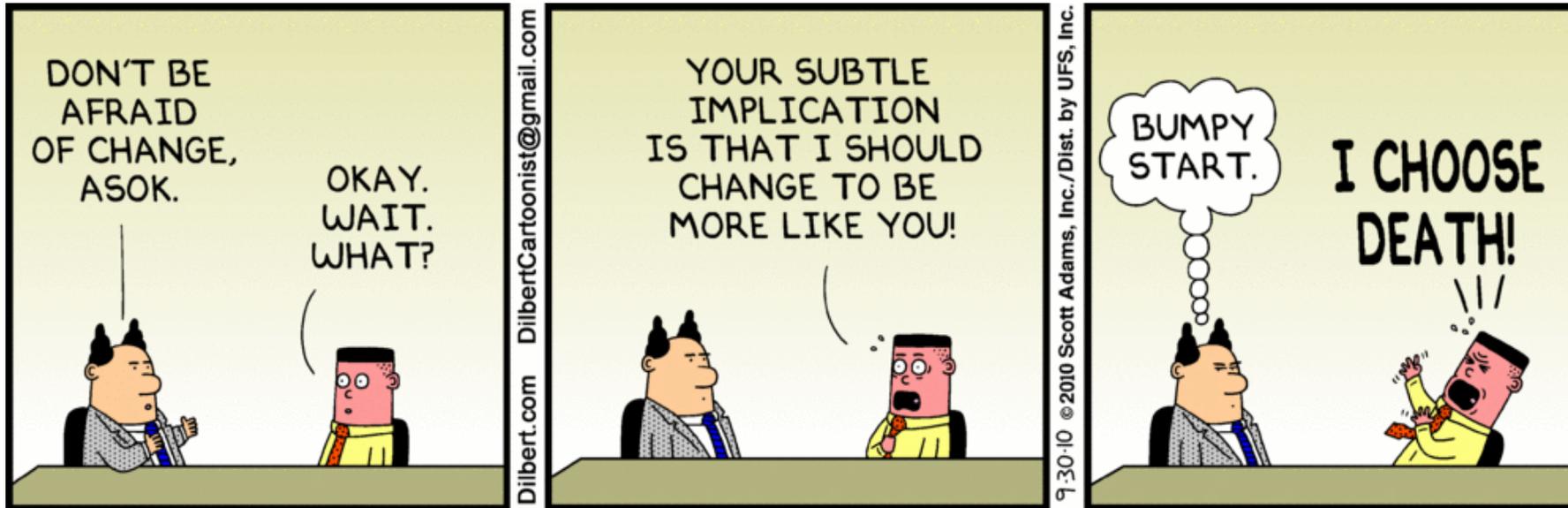
- ▶ A Two-Step Approach
  - ▶ User implements a 2-step procurement process when utilizing Reverse Auction
    - ▶ Step 1: Qualifying Responses
    - ▶ Step 2: Pricing Event

# Solution Implementation

## EASi Reverse Auction Lifecycle



# Getting Started With Reverse Auctions



# ABC 15

▶ Add Video

# NIGP Innovation Award

- ▶ Employee Life Insurance
  - ▶ 13000+ Maricopa County employees
  - ▶ \$615,000,000 in life coverage (County paid)
  - ▶ \$1.5 Billion in additional life coverage (employee paid)

# Results

## ▶ Employee Life Insurance

- ▶ All vendors who attended the pre-bidders meeting participated (eight respondents).
  - ▶ ING, Standard Insurance, CIGNA, Dearborn National, Aetna, Minnesota Life, The Hartford, and Prudential.
- ▶ Projected to save Maricopa County \$5,876,171.00 over the three year term.

# What is a Best Value Reverse Auction?

- ▶ RFP combined with a Reverse Auction
  - ▶ A Best Value Reverse Auction is a type of Reverse Auction in which suppliers compete to provide the best value or most advantageous proposal and not necessarily be determined strictly on lowest price. In an ordinary Reverse Auction, sellers compete to obtain business from the buyer through providing the lowest price to the buyer amongst its competitors. In a Best Value Reverse Auction, sellers provide proposed solutions and are evaluated on both price and non-price factors. Sellers obtain the business from the buyer by being the highest scored solution.

# How is a Best Value Reverse Auction Conducted?

- ▶ Conducted as a traditional RFP and proposals are evaluated prior to the auction event (including initial pricing).
- ▶ Only vendors who are qualified and reasonably susceptible for award are invited to participate in the Best Value Reverse Auction.
- ▶ Each vendor who enters the Best Value Reverse Auction does so with their evaluated scores pre-populated into the system and they are made aware of their rank.
- ▶ Once in the Auction, the vendor only has the ability to modify its price.
- ▶ When the Best Value Reverse Auction is open, the pricing is modified by the vendors which consequently changes their evaluated score in real time based on the pricing equation and points assigned in the RFP.
- ▶ When the Best Value Reverse Auction closed, the most advantageous proposer is then negotiated with (if necessary) and awarded based on the highest overall score.

# Example of a Best Value Reverse Auction in Action

- ▶ City acted as the lead agency under for Office Supplies
  - ▶ 40+ Agencies identified upfront as participants and over 100 agencies previously utilized the office supply contract within AZ
  - ▶ Cumulative annual spend of \$7.4M amongst the participating agencies
- ▶ Identified a market basket of over 500 core items and identified a discount off of catalog pricing for each group of items outside of core list.
- ▶ Had three vendors participate in the Best Value Reverse Auction (Office Depot, WIST, Staples).
- ▶ Now let's look at an actual auction that the City conducted!

# End Result of Best Value Reverse Auction

- ▶ Awarded contract to the most advantageous proposer, WIST Office Supplies.
- ▶ Mesa and its participating agencies received rates that were better than the WSCA for Office Supplies.
- ▶ Due to the great rates received through the Auction, combined with the City's ability to negotiate and award to the most advantageous provider, has resulted in a contract that is valuable to all participating agencies who use it.
- ▶ Since the award last year, several new large agencies agreed to cooperatively use this contract.
- ▶ Estimated expenditure annually is estimated to be over \$12M Annually.

# What are the benefits of using either method?

- ▶ Many of the same benefits of using a RFB vs RFP
- ▶ Reverse Auction
  - ▶ Competes strictly on price and meets specifications
  - ▶ Fierce competition
  - ▶ Does not allow for further negotiation (if necessary)
  - ▶ Required to build SOW to “Commoditize” items and exceptions are not accepted
- ▶ Best Value Reverse Auction
  - ▶ Competes on being the highest scored proposer
  - ▶ Not as aggressive
  - ▶ Negotiation is allowed
  - ▶ Removes negative vendor stigma of low cost provider
  - ▶ Opens auctions to many different types of products/services
  - ▶ Able to allow for creative solutions in vendor proposals

# Common Misconceptions

- ▶ Reverse auctions only work with commodities
- ▶ With Reverse Auctions, you must only award to the lowest priced vendor
- ▶ Vendor community is unwilling to participate
- ▶ Solicitations through Reverse Auction do not allow an agency to evaluate a vendors response.



# Path to Success

- ▶ Update your Procurement Code, if necessary
- ▶ Create a new solicitation format
- ▶ Ensure competitiveness while keeping the product specific
- ▶ Define clean and clear specifications or scopes of work
- ▶ Define and evaluate qualified suppliers
- ▶ Investigate supply base for optimum competition

# Conclusion

- ▶ Ultimately it is up to you and your imagination on what new products or services could be best utilized through reverse auctions.



*Imagination is more important than knowledge. – Albert Einstein*

Questions?

Thank You!!!

