

REVERSE AUCTIONS: THE FACTS CRITICS DON'T WANT YOU TO KNOW

Reverse auctions recently have come under attack from special interest groups seeking to discourage competition for federal contracts and taxpayer dollars. Even though reverse auctions have been used for decades with great success, such critics are spreading misinformation, distortion and outright lies to discredit a proven procurement tool. The list below, sets the record straight on the most common myths referenced by these critics regarding reverse auctions generally, and about FedBid, the leading provider of reverse auctions to federal agencies.

Myths	Facts
Myth 1: Reverse auctions are not a 'best value' tool; the low bidder always gets award at the expense of quality performance.	Fact: <u>Federal agency Buyers on FedBid can use whatever selection criteria they deem necessary and make award to any bidder providing the most advantageous bid.</u> It is up to the Buyers to specify an all award criteria, including best value (price, past performance, delivery, technical capability, etc.). Sellers can upload past performance information, references, licenses, technical proposals, specification sheets and other information the Buyer requires to make an informed evaluation. <u>Buyers can award to other than the low bidder if a higher priced bid provides best value.</u> In fact, 18% of buys awarded through FedBid are awarded to Sellers other than the low bidder.
Myth 2: Sealed bidding, which allows for only one bid for each Seller and no opportunity for re-bidding, provides better savings.	Fact: <u>FedBid's reverse auction process is essentially a sealed bid process, BUT with the added benefit of re-bidding.</u> Sellers cannot see competitor names or pricing and see only a relative ranking of 'lead' or 'lag'. This format encourages re-bidding while minimizing risk of underbidding, as the Seller's re-bid pricing strategy is primarily focused on its own internal cost structure. Traditional sealed bid purchases competed on FedBid all average multiple re-bids per bidder, indicating that Sellers will lower pricing if given the opportunity. The data clearly shows that reverse auctions offer more savings than sealed bids.
Myth 3: Reverse auctions encourage imprudent bids, yielding irresponsibly low prices for a given project, resulting in poor performance and increased costs.	Fact: <u>Buyers on FedBid experience a less than 1% default rate due to Seller non-performance.</u> And when using pre-vetted Seller communities (e.g., multiple-award contracts), Seller performance issues are even lower. Before making award, Buyers evaluate bids for technical acceptability and qualifications. Because buys are not automatically awarded to the low bid, unreasonable bids can simply be discarded by the Buyer, as in any other procurement process. Again, FedBid discourages unreasonably low bids by focusing Sellers on their own prices rather than other parties' pricing.
Myth 4: FedBid makes procurement decisions for the Buyer.	Fact: <u>FedBid is a Buyer-powered online marketplace.</u> This means that, just like traditional acquisition methods, federal agency Buyers on FedBid use established contracting procedures and <u>maintain complete control over the purchasing process at all times,</u> including what items to compete, which acquisition scenario and award criteria to use and to which Seller to make award.
Myth 5: Reverse auctions are bad for small business, particularly Veteran-Owned Small Businesses, causing them to lose money and go out of business.	Fact: <u>A recent GAO report (GAO-14-108) found that reverse auctions provide a "high rate of awards to small businesses."</u> This is an understatement: <u>Every year some 80% of all dollars awarded through FedBid go to small businesses.</u> In FY12, federal agencies awarded \$1.03 billion to small businesses through FedBid, with 18% (\$240 million) to VOSBs, including 14% (\$181 million) to SDVOSBs. In FY13, small business awards grew to \$1.25 billion, with 27% (\$333 million) to VOSBs and 21% (\$259 million) to SDVOSBs. Small businesses appreciate the incredible opportunity access and ease of use provided by FedBid (see testimonials and case studies at www.FedBid.com/sellers/testimonials).

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<p>Myth 6: If buys end up with a single bidder, it must mean that reverse auctions do not encourage competition and another tool should be used.</p>	<p>Fact: <u>FedBid enables agency Buyers to quickly and easily repost any buy to broaden the eligible Seller community after evaluating the results of a prior posting.</u> Even with the built-in competition of reverse auctions, the nature of the purchase must provide a reasonable expectation of competitiveness. If not, a reverse auction will have minimal impact on cost of the purchased item. For example, if a particular brand of a product is being purchased through a contract vehicle using an economic set-aside, the combination of limiting factors can restrict competition to a single supplier. But the agency Buyer always has the ability to remove the restrictive factors, thereby expanding the Seller community. Thus, Buyers don't need another acquisition approach. They simply need to maximize the flexibility of the reverse auction process.</p>
<p>Myth 7: Reverse auctions limit competition.</p>	<p>Fact: <u>FedBid stimulates competition, rather than limiting it.</u> Competitiveness is mainly determined by the nature of the purchase (described above), which is solely controlled by the Buyer. FedBid makes it easy for the Buyer to revise competitive scenarios by broadening the eligible Seller base. Moreover, there are 70,000 companies selling through FedBid, none of which incur out-of-pocket costs to do so. The average federal buy on FedBid during FY13 resulted in FedBid notifications to 3,447 Sellers with profiles matching the buy requirements. In comparing Schedule awards on FedBid to those not using FedBid, FedBid materially increases the amount of awards going to other than the top 5% of awardees and to small businesses.</p>
<p>Myth 8: Reverse auction fees drive up the cost of the purchase and undercut any claimed savings. When Buyers award over their target price or pay contract fees in addition to FedBid fees, it means FedBid has cost the Buyer additional money.</p>	<p>Fact: <u>FedBid's 100% performance-based transactional fee structure guarantees results and plays a key role in validating buy results, including savings.</u> FedBid receives a transactional fee, consisting of not more than 3% of the transaction (capped at \$10K for federal agencies), <u>but only if the Buyer accepts the results and makes award.</u> There are <u>no fees</u> if the Buyer reposts or cancels the buy, and <u>no fees</u> for Buyers or Sellers to register, view, or post/bid on an auction. In addition, FedBid adjusts its fee downward when the FedBid fee has caused the selected Seller's bid to exceed a valid target price. For the average GSA/FSS buy, FedBid collects a \$414 fee, but provides an average savings of \$5,072, a 12x ROI. On average, FedBid helps agencies save nearly 10%, including \$281 million in the last two years. <u>Because of FedBid's price guarantee, if a Buyer awards above their target price, it is because the target price is incorrect.</u> And, there is nothing preventing the Buyer from awarding offline to the source of their target price if that is more advantageous.</p>
<p>Myth 9: Reverse auction models are all the same. Agencies should do this in-house because it's easy!</p>	<p>Fact: <u>Owning reverse auction software is very different than managing a full-service marketplace.</u> FedBid provides a fully managed marketplace, with a 100% performance-based fee covering a host of services, including operation and management of the FedBid reverse auction online marketplace; Buyer training (in-person, remote and online) and onsite and remote support; Seller sourcing, recruitment, training (in-person, remote and online) and support; market support; helpdesk services; quality assurance; reporting (including Level 3 transaction data); marketplace application development and site enhancements; system development, operations, maintenance and upgrades; and customer interface development. FedBid employs hundreds of employees to help manage tens of thousands of buys every year.</p>
<p>Myth 10: Reverse auctions decrease (1) Buyer accountability and (2) agency oversight.</p>	<p>Fact: <u>(1) FedBid provides real-time management tools enabling Federal supervisors to view every facet of a buy before, during or after their employee competes the buy. (2) FedBid provides comprehensive reporting of buy-related data.</u> Reports can be customized at the agency request, or agencies can consume raw data and create their own reports. In either case, the FedBid data can help agencies perform valuable analysis to determine the most effective acquisition scenarios for specific items, the best timing for purchasing certain goods and services, whether the agency is meeting its socio-economic utilization goals, or whether a contract vehicle provides adequate competition. That information can then inform agency action to adjust purchase timing, increase or adjust use of set-asides, or award additional contracts under a contract vehicle.</p>