

WHAT THE FEDERAL GOVERNMENT IS DOING BETTER THAN BIG BUSINESSES

Why the Reverse Auction Experience of the Department of Defense is a Best Practice Businesses Should Emulate Today

A White Paper from
The Reverse Auction Research Center

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REVERSE AUCTION RESEARCH >

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Introduction

The level of competition in today's business environment is akin to that found in professional sports. Top athletes—from LeBron James to Danica Patrick to Michael Phelps—constantly ask themselves, “What can I do to gain an edge against my competition?”. Just as pro runners search for ways to shave fractions of seconds off their times and pro golfers strive to add yards to their distance off the tee, executives are constantly looking for ways to improve performance in their respective areas—be it finance, marketing, procurement, human resources or other.

In the corporate world, we place a great deal of merit in the concept of benchmarking, which involves finding the best organizations at anything and applying their proven techniques and philosophies in efforts to improve our own organization's performance and execution. Managers from companies and industries across the globe travel to America to learn from leading-edge firms regarded as the best at what they do. For example, every year, executives from an extensive assortment of companies interested in improving their speed and execution fly to Dallas to learn how Southwest Airlines' process and unique corporate culture contributes to the air carrier's unparalleled levels of performance and customer satisfaction. Similarly, global executives visit Memphis to learn the methods of FedEx, the leader in worldwide distribution, with intention of gaining greater automation and execution success by adapting those best practices into their own respective situations. Likewise, many managers responsible for any organization where care of overnight customers is a priority—from hotels to health care to universities—enroll in benchmarking programs hosted by market-leading global hospitality companies such as the Marriott Corporation and Hilton Hotels, all in search of gaining an edge in their own unique competitive environments.

So, which organizations should procurement executives consider best practice leaders, and consider emulating, in efforts to improve corporate financial and operational performance? Many would answer this question with market-leading retailers like Walmart and Target domestically

and Tesco abroad. Those would be, and are, great companies to emulate for their supply chain and distribution excellence.

However, if one was looking to benchmark an organization and discover best practices that can be readily adapted to your own company, be it a Fortune 500 firm or a small to medium-sized enterprise, this management expert would direct procurement executives to what many would think to be an unlikely target—the U.S. Department of Defense (DoD).

When comparing global organizations, public or private, the scope and scale of the DoD makes it far, far larger than any Fortune 500 firm. By any measure, the DoD would be Fortune #1, with ExxonMobil, Walmart and even Apple being far behind by any measure.

While many in the public still associate the DoD with now decades-old stories of military procurement gone awry, the truth of the matter is that today, the U.S. military is actually the leading-edge example of acquisition excellence. The DoD is a global organization with hundreds of billions of dollars of critical procurements being made every day, 24/7/365, from outposts around the world. And today, the U.S. military is operating in an environment where, because of budgetary and operational pressures to “do more without more”, the DoD has been challenged as never before to be innovative and efficient in its procurement operations.

Reverse auctioning is becoming widely recognized as a key method for acquisition both in the Department of Defense and indeed, across the entire federal government. In this research brief, we will examine their success in employing reverse auctions to:

- Lower prices paid for a wide variety of goods and simple services.
- Gain efficiencies in procurement processes.
- Increase competition and the utilization of small businesses.

We will demonstrate that by benchmarking against the DoD—an organization that has, by far, a procurement budget topping that of any public or private sector organization anywhere in the world—large and small businesses alike can see how reverse auctioning can help their own companies find that competitive edge through better, faster and cheaper procurement execution.

What is a Reverse Auction?

According to the Institute for Supply Management (2003), in the procurement context, reverse auctions are, “A type of e-auction that is conducted online, in real-time, between a single buying organization and pre-qualified suppliers. Suppliers compete in presenting bids to the buyer for the supply of goods or services whose specifications for design, quantity, quality, delivery, and related terms and conditions have been clearly defined.” (p. 4).

Reverse Auctioning

In a recently completed research report for the IBM Center for the Business of Government, *Reverse Auctioning: Saving Money and Increasing Transparency* (Available at: <http://www.businessofgovernment.org/report/reverse-auctioning-saving-money-and-increasing-transparency>), this author outlined the many benefits of reverse auctioning for organizations in both the public and private sector today, including:

- **Driving prices down**—Lowering the price to be paid by the organization across a wide swath of its procurement outlays for appropriate categories of goods and simple services.
 - **Increased competition** —Opening access to bidding from an expanding pool of suppliers to heighten competition in the procurement process.
 - **Real-time market pricing**—Since competitors can adjust their bids multiple times in response to other competitors' prices, the first and best offer can be improved to the benefit of both the buyer who saves hard dollars and the seller who ultimately gains the business.
 - **Process efficiencies**—By leveraging the reverse auction tool, the acquisition function can be improved and generate soft-dollar savings through efficiency gains and more productive use of time, manpower and resources.
 - **Time savings**—Compressing the buying process from weeks or months to days or even hours, benefiting both sides of the procurement equation.
 - **Increased suppliers**—Encouraging new entrants into the contracting process to provide benefits to small businesses that enter.
 - **Sustainable cost savings**—Delivering not just cost savings in the initial round of reverse auctioning, but ensuring that the organization is paying a real-time market price on subsequent like acquisitions.
- Produce significant levels of savings.
 - Be utilized across a wide variety of goods and services comprising a significant portion of spending for a governmental agency.
 - Make acquisition processes more efficient and faster, enabling agencies to deliver improved service levels and results with the same or less staff than before.
 - Introduce new levels of competition by providing improved access to governmental contracting for small businesses.
 - Be conducted in a manner that ensures transparency in the acquisition process to assure competing suppliers and taxpayers of a fairer, open competition amongst a wider field than alternative procurement methods.

Now, proven through a decade's worth of successful performance, reverse auctions have become an established, mainstream acquisition method across the federal government. Each year, contracting offices in both DoD and civilian federal agencies are making well over \$1.5 billion in awards annually through competitive bidding. The use of reverse auctions is growing rapidly across the federal sector, as experience has shown that the employment of reverse auctions as an acquisition tool can:

Today, we see that reverse auctions are not hype—competitive bidding is a very real tool that can be used by government acquisition operations to produce very real, very significant results. Reverse auctions can go a long way towards making acquisition efforts better, faster, cheaper and more accountable and transparent. In agency after agency, we have seen how the competitive environment of a reverse auction levels the playing field, allowing for new suppliers to break through and make the competition for government contracts more open, both in terms of access and in transparency. And while incumbent suppliers may detest having their positions challenged, the openness works for all parties.

In the next section of this report, we will examine to date the DoD's success in employing reverse auctions.

Federal Agencies Currently Using FedBid for Reverse Auction-Based Acquisitions

- Department of the Air Force
- Department of the Army
- Department of Commerce
- Department of Defense
- Department of Education
- Department of Energy
- Department of Health and Human Services
- Department of Homeland Security
- Department of the Interior
- Department of Justice
- Department of Labor
- Department of the Navy
- Department of State
- Department of Transportation
- Department of the Treasury
- Department of Veterans Affairs
- Environmental Protection Agency
- Federal Communications Commission
- Federal Bureau of Investigation
- General Services Administration
- National Aeronautics and Space Administration
- National Transportation Safety Board
- Office of Personnel Management
- Securities and Exchange Commission
- Social Security Administration
- U.S. Agency for International Development
- U.S. Government Printing Office

Reverse Auctioning in the Department of Defense

The rapid growth of competitive bidding across the U.S. military is remarkable. Across the various services, the Department of Defense (DoD), working in partnership with the reverse auction-based, fully-managed online marketplace, FedBid (www.FedBid.com), has produced impressive results. As previously mentioned, as part of the federal

government's overall effort to "do more without more", the U.S. Armed Forces have been challenged to meet efficiency goals like never before not only from an operational standpoint, but from a financial perspective as well. In response, competitive bidding has risen to the forefront of the DoD's acquisition reform efforts. Working with FedBid, acquisition leaders from a wide swath of DoD agencies, ranging across service branches and continents, have leveraged the online marketplace's power to source its pool of over 57,000 registered suppliers to equip and support the U.S. military's critical operations, both at home and abroad. In doing so, the DoD has found that purchasing routine procurements of readily specifiable goods, commodity items and simple services through the online reverse auction-driven marketplace has fast become a best practice for defense acquisition today. Years of consecutive findings have proven that reverse auctioning delivers not just solid savings, but increases competition, enhances small business participation and improves buying efficiencies across the DoD.

Analysis of Key Performance Indicators

When it comes to benchmarking best practices in organizations, one must look at the critical performance measures or metrics. In the following sections, we will analyze the Key Performance Indicators (KPIs) for assessing the DoD's use of reverse auctioning in its acquisition efforts. The breakdown of the KPIs—along with their definitions—for the DoD's utilization of competitive bidding is detailed in Table 1 (Definitions of Key Performance Indicators for Reverse Auctioning in Federal Agencies). These terms will be used throughout the ensuing analysis of five years of acquisition data (FY2007-FY2011), encompassing all DoD acquisitions awarded through reverse auction competitions taking place via FedBid's fully-managed online marketplace. A summary of the aggregate results produced through the DoD's use of reverse auctioning is presented in Table 2 (Department of Defense Reverse Auction Experience: Summary of Key Performance Metrics, FY2007-2011), with a

detailed breakout of each KPI given in Table 3 (Department of Defense Reverse Auction Experience: Detailed Performance Metrics, FY2007-2011).

Table 1 – Definitions of Key Performance Indicators for Reverse Auctioning in Federal Agencies

PERFORMANCE MEASURE	DEFINITION
Number of Buys	This is the number of completed reverse auction procurements, where an award is actually made through the competitive bidding process from the buyer (the government) to the winning supplier (the contractor).
Independent Government Cost Estimate	This is the estimate set forth by the government (typically set by the contracting officer in charge of making the acquisition) as to the anticipated total price to be paid for the goods/services in the quantity to be purchased in this individual situation. This estimate is the beginning point for the competitive bidding and the threshold from which savings are to be calculated for each successfully awarded contract.
Final Awarded Dollar Volume	This is the final price paid by the government agency for the particular award, determined through the competitive bidding process where rival suppliers bid down the price that they are each willing to provide the precise goods/services in the quantity specified to the agency in this specific action, net of the reverse auction fee (paid by the seller).
NET Savings in Dollars	This is the difference—expressed in dollars—between the initial Independent Government Cost Estimate and the awarded price (the Final Awarded Dollar Volume).
NET Savings Percentage	This is the difference—expressed on a percentage basis—between the initial Independent Government Cost Estimate and the awarded price (the Final Awarded Dollar Volume).
Average Final Awarded Price	This is the average total price—across all award actions using reverse auctions—actually paid by the government agency for the goods/services in each action.
Average Number of Sellers Bidding	This represents the average number of firms competing (each having submitted at least one bid in the auction competition) in each reverse auction-based acquisition.
Average Number of Bids per Buy	This represents the average number of bids collectively offered by the firms competing in each reverse auction-based acquisition.
Average Number of No Bids per Buy	This represents the average number of firms notified of their eligibility to participate in a specific reverse auction acquisition who respond that they are aware of the opportunity, but officially decline to participate.
Average Number of Sellers Notified	This represents the average number of firms notified of their eligibility to participate in a specific reverse auction acquisition (based on their specific line of business, locality, etc. that makes them suitable for the acquisition in question).
% Count to Small Businesses	This represents the percentage of all awards that were won by small business participants.
% Dollars to Small Businesses	This represents the percentage of all dollars awarded through reverse auctions that were won by small business participants.

Table 2 – Department of Defense Reverse Auction Experience: Summary of Key Performance Metrics, FY2007-2011

PERFORMANCE MEASURE	FY2007-2011
Number of Buys	28,216
Independent Government Cost Estimate	\$1,383,078,696
Final Awarded Dollar Volume	\$1,383,078,696
NET Savings in Dollars	\$182,413,663
NET Savings Percentage	13.19%
Average Final Awarded Price	\$42,553
Average Number of Sellers Bidding	5.8
Average Number of Bids per Buy	14.1
Average Number of No Bids per Buy	86.2
Average Number of Sellers Notified	2,513
% Count to Small Businesses	85.30%
% Dollars to Small Businesses	77.21%

As can be seen, clearly the competitive power of reverse auctioning proves consistently effective. Over the past five years, the DoD has saved over \$180 million dollars through routing suitable procurements through FedBid. In doing so, the agency produced savings of 13.19% over what the government would have paid based on the Independent Government Cost Estimate (IGCE) set forth for each acquisition. How did the DoD’s savings actually come about? In short, the savings are the byproduct of intense reverse auction-driven competition between suppliers trying to obtain the government’s business for procurements of a simple good or service they provide. Since FedBid’s equal access platform and market operations sourcing efforts increase the ability for small businesses to learn of selling opportunities tailored to their specific specialty areas, the DoD has delivered cost savings, while improving the diversification of their supply base. New, rival suppliers—often small, disadvantaged businesses who can, and are willing to, deliver a better value to the government—regularly unseat incumbents, gaining best value for the government, and more importantly, the U.S. taxpayer.

To further examine the DoD’s reverse auctioning results, we will review measures in two key areas, each with multiple KPIs:

1. Savings Metrics
2. Competition and Small Business Participation Metrics

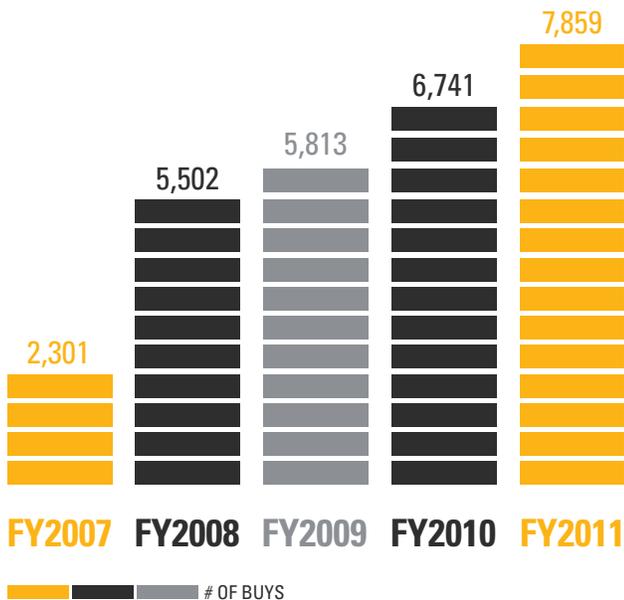
**Table 3 – Department of Defense Reverse Auction Experience:
Detailed Performance Metrics, FY2007-2011**

PERFORMANCE MEASURE	FY2007	FY2008	FY2009	FY2010	FY2011
Number of Buys	2,301	5,502	5,813	6,741	7,859
Independent Government Cost Estimate	\$75,917,538	\$236,544,353	\$250,193,701	\$366,011,118	\$454,411,985
Final Awarded Dollar Volume	\$67,716,397	\$202,883,317	\$216,487,760	\$317,873,106	\$395,704,452
NET Savings in Dollars	\$8,201,141	\$33,661,036	\$33,705,941	\$48,138,011	\$58,707,533
NET Savings Percentage	10.80%	14.23%	13.47%	13.15%	12.92%
Average Final Awarded Price	\$29,429	\$36,874	\$37,242	\$47,155	\$50,350
Average Number of Sellers Bidding	4.7	5.6	6.9	5.7	5.6
Average Number of Bids per Buy	9.8	13.8	17.5	13.7	13.4
Average Number of No Bids per Buy	67.7	75.4	92.1	95.1	87.9
Average Number of Sellers Notified	1,201.9	1,502.0	2,127.4	2,960.6	3,506.5
% Count to Small Businesses	82.31%	88.22%	86.05%	83.34%	85.25%
% Dollars to Small Businesses	69.61%	83.98%	81.29%	75.49%	74.17%

Savings Metrics

As seen in Figure 1 (DoD: Number of Reverse Auction Acquisitions, FY2007-FY2011) below, the Department of Defense has experienced rapid adoption of reverse auctioning. In fact, the number of acquisitions conducted through competitive bidding has grown by over 340% in the past five years. As DoD's utilization of reverse auctions has increased, so has the possibility of achieving savings. This is key to the math behind how reverse auctioning works—as a rule, funneling more appropriate simple goods and services needs to the competitive bidding environment of a reverse auction will produce greater amounts of aggregate savings as more and more of overall spending is channeled through the online marketplace. The power of competition always works when it comes to reverse auctions.

Figure 1 : DoD: Number of Reverse Auction Acquisitions, FY2007-FY2011



The Department of Defense's savings figures clearly show significant savings. There are two key independent variables in their savings equation. These are the Independent Government Cost Estimate (IGCE) and the Final Awarded Dollar

Volume. The savings equation is simply, the IGCE minus the Award Price equals the net savings to the government from each individual reverse auction, and in the aggregate, the savings from all competitive bidding events.

In Figure 2 [DoD: Reverse Auction Savings (Award Price vs. IGCE), FY2007-FY2011], we see that as the adoption of reverse auctioning grew across the DoD, the agency's acquisition specialists were able to employ competitive bidding on greater aggregate amounts of defense procurements, growing from approximately \$75 million in FY2007 to just over \$250 million in FY2009 to \$454 million in FY2011. As reverse auction utilization grew, the savings equation worked—and even improved. As can be seen in Figure 3 [DoD: Reverse Auction Savings (Percentage Basis), FY2007-FY2011], the DoD's reverse auction net savings rate rose from 10.8% in FY2007 to 12.92% in FY2011, with an overall average net savings rate of 13.18% over the full five-year period. As the volume of reverse auction acquisitions grew, the net savings in dollars to the government grew dramatically. As can be seen in Figure 4 [DoD: Reverse Auction Savings (Dollar Basis), FY2007-FY2011], the DoD's use of competitive bidding generated net savings that have risen from \$8.2 million in FY2007 to just over \$58.7 million in FY 2011.

Figure 2: DoD: Reverse Auction Savings (Award Price vs. IGCE), FY2007-FY2011

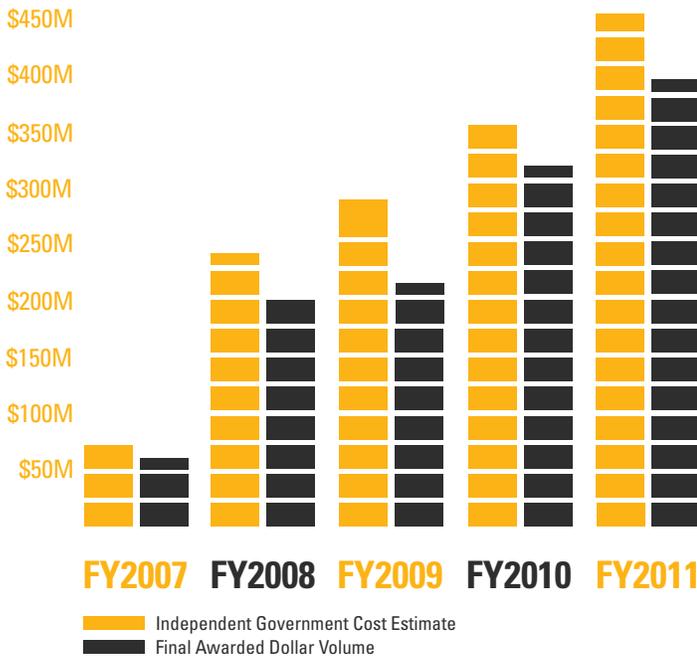
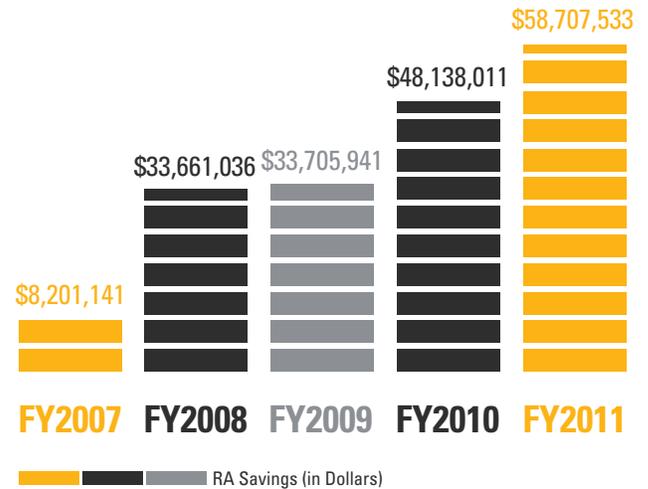
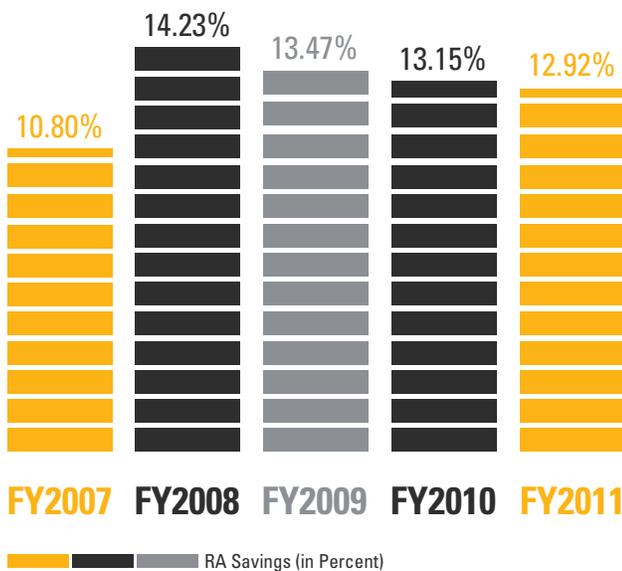


Figure 4: DoD: Reverse Auction Savings (Dollar Basis), FY2007-FY2011



In terms of the savings KPIs for reverse auctioning, military procurement operations have delivered great value in terms of leveraging the power of competitive bidding to produce vital savings to the DoD and ultimately, as referenced earlier, to the U.S. taxpayer. With rapid adoption of the online marketplace by acquisition professionals across the DoD, the agency has proven that reverse auctioning can deliver solid KPIs—even as the volume and mix of goods, commodities and simple services grows to unprecedented levels.

Figure 3: DoD: Reverse Auction Savings (Percentage Basis), FY2007-FY2011



Before going further, it's critical to gain a greater understanding of the extensive reach and gravity of the DoD's acquisition efforts and wide range of purchasing needs. Not only does the DoD acquire fuel, ammunition and supplies for soldiers, airmen and naval personnel in harm's way, but they also supply hundreds of installations across the country and around the globe with literally everything that it would take to run small cities and support the hundreds of thousands of people living and working there. These acquisition efforts extend far beyond bulk, commodity-like items, which some misconstrue as being the primary things suited to competitive bidding-based procurements. The DoD's exemplary results clearly bust that myth, demonstrating just

how wide and encompassing the net should be when considering what can be successfully acquired through reverse auctioning.

Competition and Small Business Participation Metrics

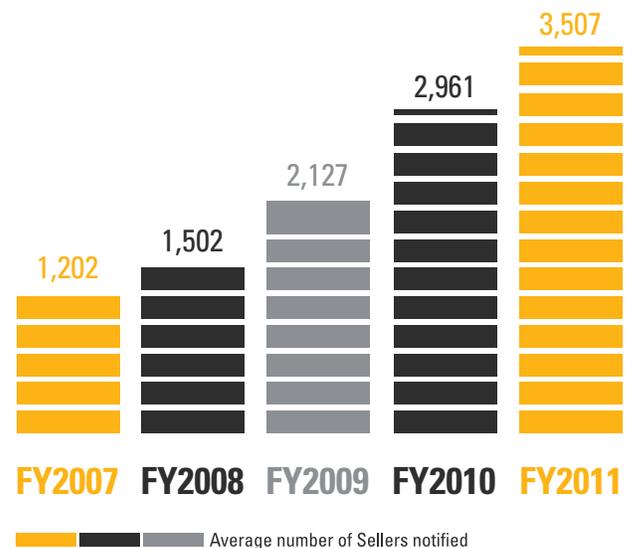
As highlighted in the preceding section detailing savings, the hard-dollar purchase price reductions produced by the DoD's competitive bidding over the most recent five-year period are highly significant. These savings were facilitated through the increased utilization of FedBid's fully-managed online marketplace by contracting professionals across the entirety of the DoD.

It's important to note that simply requiring current suppliers to participate in a reverse auction will only produce an "x-level" of savings. In order to achieve truly significant "x-plus" levels of savings, the level of competition must increase. More qualified, viable suppliers participating in reverse auction-based competitions for the business of the organization produces greater savings through the heightened bidding process.

The secret for long-term reverse auction success is to increase the size of the active, qualified bidding pool. This has certainly been the case with the Department of Defense buyers' use of FedBid, whose online marketplace currently includes a pool of over 57,000 suppliers a number that is continuously growing. What we see is that increased competition does indeed produce greater levels of savings, while simultaneously opening new doors to potential qualified suppliers—the majority being small and disadvantaged businesses—who gain unprecedented equal opportunity access to bid on federal contracts. This produces not just a "win" for the buying organization, but a "win" for the potential sellers as well. This win-win is an absolute necessity for reverse auctioning to work as a long-term procurement strategy for any organization.

The Department of Defense's KPIs in the competition area stand as solid evidence that this competitive bidding strategy could work for any buying organization. Let's begin with the fundamental competition metric—is the pool of qualified suppliers being increased? As can be seen in Figure 5 (Growth in Number of Qualified Suppliers per Reverse Auction, FY2007-FY2011), out of the total universe of potential suppliers (the registered firms sourced and available on FedBid's online marketplace) each year, the average number of companies that were qualified (meaning they currently produced the product or delivered the service in question and met the necessary guidelines [based on location, size, etc.]) to participate in each reverse auction competition nearly tripled between FY2007 and FY2011.

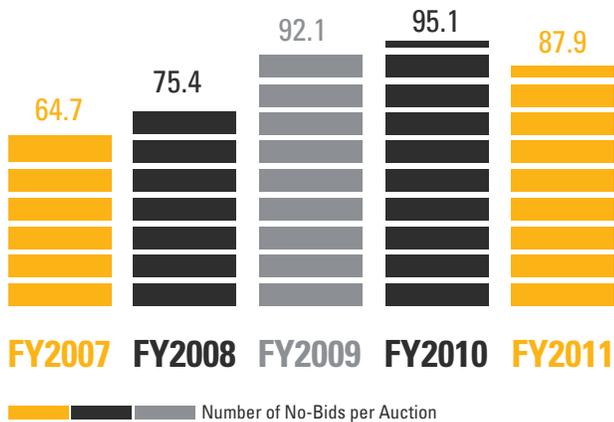
Figure 5: DoD: Growth in Number of Qualified Suppliers per Reverse Auction, FY2007-FY2011



The next KPI is one that may seem a bit odd, but it is a crucial criterion in assessing the expanding size of potential, viable competitors available to the organization. This is the number of qualified suppliers who were notified of the reverse auction, but responded that they would not be bidding on that particular acquisition—the number of "no bidders". The findings in regards to the DoD for

this metric are shown in Figure 6 (Average Number of Suppliers Responding, But Not Participating, in Reverse Auctions, FY2007-FY2011). As can be seen, the average number of “no bid” responses for any single procurement rose significantly as the size of the qualified bidding pool grew. This is an important indicator of the activity and interest levels of the competitive pool in general, as the “no bid” response from a supplier does not indicate a lack of interest in participating in reverse auctions per se. Rather, this response means that the potential supplying company actually took the time to evaluate the acquisition in question and chose not to enter a bid at this time on that particular sales opportunity.

Figure 6: DoD: Average Number of Suppliers Responding, But Not Participating, in Reverse Auctions FY2007-FY2011



Thus, the rising average number of “no bids” responses from qualified suppliers means that over time, more qualified suppliers for the acquisition of a particular product/service by the DoD were seeing and actually responding to the award opportunity—even if their response was not to participate at that particular time on that particular competition. Their causes for not participating may vary for a wide range of reasons—from not thinking they could meet a delivery deadline to having too much business at the moment to be able to meet the requirements at all or without incurring additional

costs that would make their acquiring the business counterproductive. However, experience shows that this widening net of active, qualified suppliers will, in time, build a greater base of companies that will be available for future, similar acquisition opportunities.

The next two competition KPIs are far-more direct measures of the degree of rivalry found in the DoD’s reverse auctions. As Figure 7 (Average Number of Sellers Bidding in Reverse Auctions, FY2007-FY2011) illustrates, for each acquisition conducted via competitive bidding, the average number of participants (qualified suppliers submitting at least one bid) rose from 4.7 in FY2007 to 5.6 in FY2011. While this approximately 20% rise in the overall number of bidding suppliers may not seem impressive, the competitive intensity of those firms fully engaged in the reverse auction rose over time. As Figure 8 (Average Number of Bids Submitted in Reverse Auctions, FY2007-FY2011) demonstrates, rival suppliers, once engaged in the reverse auction, become far more active and likely to submit subsequent bids. Over time, the average number of bids tendered in one of the Department of Defense’s reverse auctions rose from 9.8 in FY2007 to 13.4 in FY2011—a nearly 37% increase. In plain language, this means that their first offer (first bid in the reverse auction as the price declines from the first bid to the next subsequent, lowest bid) was not necessarily their “best offer”. Thus, as has been demonstrated through this report, the power of competition invariably works through reverse auctioning, lowering the “equilibrium price” at which the government’s value is maximized while meeting the calculus of the supplier as a “win” to secure the business.

If one looks at the exponential growth in hard dollar savings the DoD has seen over the specified time period (see Figure 4), one may question why the net savings percentage has not risen—and in fact declined—over the past few years (See Figure 3). Similarly, the average number of bidders in a DoD reverse auction has actually slightly fallen in the past two fiscal years under review (See Figure 7).

The reason is that a large number of the reverse auctions being conducted today are actually driven by competition on top of competition, with a smaller pool of vendors—whose prices qualify them to be on a pre-approved contract list—competing for second time for specific contracting opportunities.

To further explain, in a standard reverse auction contracting opportunity, the competition is “open market”, encompassing all qualified suppliers of the goods and/or services being procured. This use of reverse auctioning as a means of “first-order competition” has traditionally represented the bulk of competitive bidding-based acquisitions—as measured by both dollar volume and number of actions. However, reverse auctions are increasingly being employed as a means of “second-order competition” amongst suppliers who have pre-competed to be included on pre-approved vendor lists for federal buyers. These include GSA schedules and NASA Solutions for Enterprise-Wide Procurement (SEWP) that are Government-Wide Acquisition Contract Vehicles (GWAC). Likewise, in the Department of Defense, many U.S. Army information technology purchases are made through the Army Computer Hardware, Enterprise Software and Solutions (CHES) program. In using reverse auctioning for a second-order competition, the reverse auction occurs on top of the competitive positions suppliers must take in order to be included on the pre-qualified vendor list. In this limited array of pre-qualified vendors, the competition is opportunity-specific for the exact items or services being competed in that particular acquisition. As such, the savings garnered by the DoD in such auctions represents a clear, gross savings over the prices that the DoD would have paid under the standard government contracts. So, while the DoD’s aggregate savings percentage may be slightly declining, the overall savings has continued to grow rapidly through the use of reverse auctions to beat contract prices.

Figure 7: DoD: Average Number of Sellers Bidding in Reverse Auctions, FY2007-FY2011

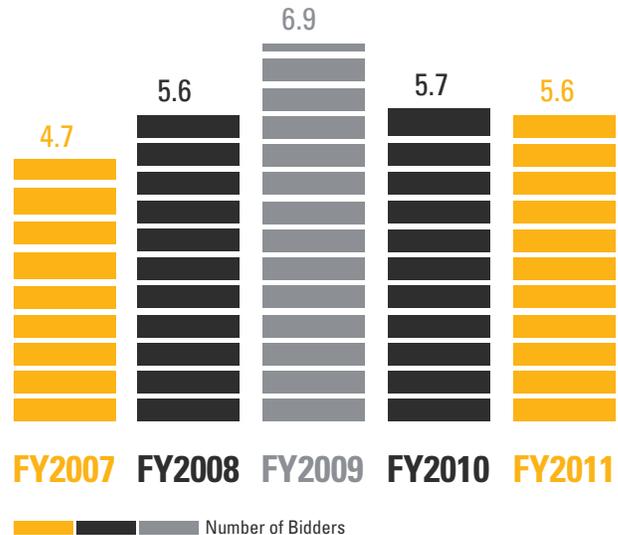


Figure 8: DoD: Average Number of Bids Submitted in Reverse Auctions, FY2007-FY2011



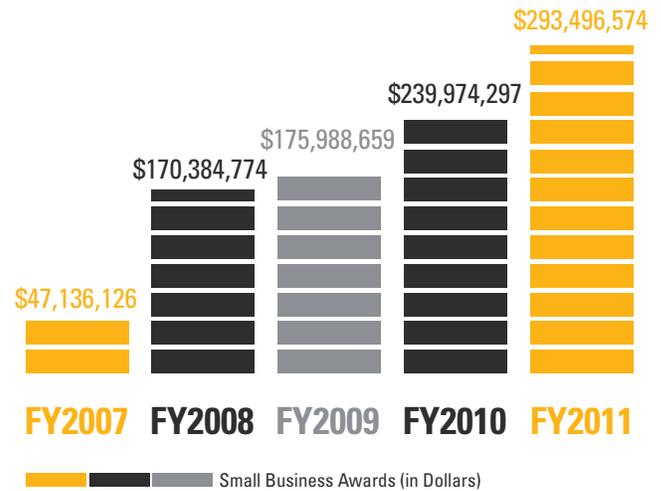
As with most large organizations—public or private—increasing opportunities for small businesses is an important goal for procurement operations, and nowhere is this truer than in federal contracting.

Clearly, much of the growth in reverse auction participation in DoD contracting has been sparked by small and disadvantaged businesses joining the network of federal suppliers through their inclusion in FedBid's online marketplace. There are two important KPIs that demonstrate the rising role of small business in defense contracting through reverse auctioning. As can be viewed in Figure 9 (Reverse Auction Small Business Participation, FY2007-FY2011), both as a percentage of all awards made by the DoD through reverse auctioning and as a percentage of all dollar amounts awarded, small business participation has risen significantly over the most recent five fiscal years. As Figure 10 (Reverse Auction-based Awards to Small Businesses, FY2007-FY2011) reveals, total awards through DoD reverse auctioning to small businesses have risen rapidly, from \$47.1 million in FY2007 to \$293.4 million in FY2011—an over six-fold increase! Even more impressive are the 7x-10x gains made by subcategories of small businesses—as the increases shown by women-owned, minority-owned, veteran-owned and veterans with service-related disabilities shown in Table 4 (Department of Defense Reverse Auction Awards to Specific Small Business Subcategories, FY2007-2011).

Figure 9: DoD: Reverse Auction Small Business Participation, FY2007-FY2011



Figure 10: DoD: Reverse Auction-based Awards to Small Businesses, FY2007-FY2011



The DoD has found that purchasing routine procurements of readily specifiable goods, commodity items and simple services through the online reverse auction-driven marketplace has fast become a best practice for defense acquisition today.

Table 4 – Department of Defense Reverse Auction Awards to Specific Small Business Subcategories, FY2007-2011

Subcategory	FY2007	FY2008	FY2009	FY2010	FY2011
Minority-Owned Business	\$9,414,734	\$32,064,304	\$37,561,640	\$57,499,497	\$77,405,010
Woman-Owned Business	\$10,983,156	\$34,978,976	\$39,802,200	\$48,404,080	\$62,618,134
Small Disadvantaged Business	\$5,050,723	\$18,156,800	\$28,426,057	\$41,372,362	\$50,075,122
Veteran-Owned Business	\$10,475,675	\$39,234,087	\$34,818,325	\$49,471,357	\$50,155,249
HUBZone Business	\$2,467,573	\$7,484,885	\$13,508,339	\$8,656,234	\$11,641,563
Service-Disabled Veteran-Owned Small Business	\$5,409,472	\$24,197,628	\$19,579,399	\$29,003,166	\$33,043,246

Analysis

The Department of Defense’s successful adoption of reverse auction-driven competitive bidding shows how the largest, global organization by any possible ranking method—other than profit, due to the nature of its vital mission—is setting the standard for achieving cost savings through enhanced competition in its acquisition operations. At the same time, by opening the door to equal access through FedBid’s online marketplace, the DoD is creating opportunities for small businesses to grow and prosper through their newfound ability to compete with big businesses traditionally engaged in the federal contracting arena. Challenged to “do more (operationally) without more (financially)”, the Department of Defense’s use of reverse auctioning is today enabling just that outcome. However, considering that the Department of Defense is presently auctioning less than two percent of its

total acquisition outlays, there is still has much room to grow, expand and capitalize on the power of competitive bidding.

In conclusion, what does the Department of Defense’s success in implementing reverse auctions as a major component of its acquisition strategy across the various services and support systems mean for you and your organization? Well, considering how just a few short years ago military procurement made headlines for all the wrong, wasteful reasons, the DoD’s competitive bidding success is indicative of the professionalism, dedication and innovation found throughout the acquisition realm of the agency. In other words, if the military can succeed in reinventing a great deal of their acquisition operations—through not just the use of reverse auctioning, but a whole host of other

initiatives, your company—whatever size, regardless of industry, and however profitable —is capable of doing the same.

The Department of Defense’s experience chronicled in this research report shows how reverse auctions can assist your organization achieve its savings and efficiency goals. Purchasing simple goods and services through a reverse auction-driven online marketplace, gives you the power to:

- Save money across procurement operations.
- Ensure that you are getting the best, market price on the simple goods and services it takes to operate your business.
- Impact your financial “bottom-line”, while succeeding on your social responsibility measures—increasing competition for your business by helping small, often local businesses, become your suppliers and partners in the process.

Whether it is a pro athlete, a college student, or a business executive, there is always the search for the edge. The success of reverse auctioning can be clearly seen, benchmarked and replicated in any organization—it is an adoptable, adaptable and successful procurement “best practice” capable of giving your company a vital competitive and financial edge in the marketplace.

The critical step you can take today to immediately to gain the edge and get ahead in meeting your organizational efficiency and savings goals, is to move towards implementing reverse auction-based competitive bidding purchasing strategy.

About the Author



David C. Wyld (dwylid@selu.edu) currently serves as the C.E. Laborde Professor of Management at Southeastern Louisiana University in Hammond, Louisiana. He is the Director of the College of Business' Strategic e-Commerce/e-Government Initiative, the Founding Editor of the *International Journal of Managing Information Technology*, and a frequent contributor to both academic journals and trade publications. He has established himself as one of the leading academic experts on emerging applications of technology in both the public and private sector. He has been an active consultant, a qualified expert witness, and an invited speaker on the strategic management of technology to both trade and academic audiences, as well as an invited panelist on technology issues on The Discovery Channel, Federal News Radio, and other media outlets.

He presently serves as the Executive Director of the Reverse Auction Research Center (<http://www.reverseauctionresearch.org/>), which serves as a hub of research and news in the expanding world of competitive bidding. In recognition of his research accomplishments, Dr. Wyld has been awarded Southeastern Louisiana University's "President's Award for Excellence in Research" and been named a Rising Star in Government Information Technology by *Federal Computer Week* Magazine. Dr. Wyld and his family reside just outside New Orleans in the small town of Hammond, Louisiana.

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ABOUT FEDBID

FedBid was founded on the premise there's a better way for organizations of all sizes to buy smart, save money and reduce risk on simple goods and services they buy every day.

Our marketplace can maximize any organization's buying and selling power, regardless of size, delivering double digit savings and reducing internal procurement costs. Our simplified process saves time and money, and dramatically reduces the administrative and sales challenges of managing large-scale commodity and spot buys.

In the world of FedBidable buying and selling, where the principles of opportunity, transparency, access and competition prevail, we are transforming and dramatically improving the effectiveness and efficiency of public and private sector procurement.

This year, Buyers purchasing through FedBid's online marketplace will realize approximately \$142 million in savings, while reducing the cost of procurement operations, improving the success of overall spend management efforts and streamlining purchasing efficiency. Meanwhile, Sellers motivated to compete and deliver at the best market price will get unprecedented access to real sales opportunities while reducing cost of sales, increasing revenue capture and boosting market awareness. In FY2012, 78% of awards posted in our marketplace went to small businesses—adding up to over \$1 billion.

It's a win-win marketplace.

For more information, visit FedBid at www.FedBid.com.

REVERSE AUCTION RESEARCH



ABOUT REVERSE AUCTION RESEARCH

The Reverse Auction Research Center, founded in 2010, was created to stimulate research in the use of reverse auctions in procurement, both in the private and public sectors. Since the founding of the Center, the institution has become a catalyst for reporting research findings and has served as a hub for news and resources on the use of reverse auctions.

The Center is under the direction of Dr. David C. Wyld, who is the C.E. Laborde Professor of Management at Southeastern Louisiana University. Dr. Wyld is one of the world's leading experts on reverse auctions, and under his leadership, the Center has produced findings that have been reported in major news stories, cited in academic journal articles, and served as a foundation for corporate and governmental entities to guide their decision-making on reverse auctions as part of their acquisition strategies. Dr. Wyld continues to lead the Center in exploring new applications of the reverse auction model beyond the procurement of commodities and simple services, with new efforts underway in the fields of energy and telecommunication resource allocations.