

**Saving Time and Money through Reverse Auctions:
*A Case Study on the Efficiency of Competitive Bidding
Utilization at the U.S. Department of State***



**A Research Brief from
The Reverse Auction Research Center**

Author: David C. Wyld
*Professor of Management
Southeastern Louisiana University*

July 2011

Saving Time and Money through Reverse Auctions: *A Case Study on the Efficiency of Competitive Bidding Utilization at the U.S. Department of State*

This research brief was compiled with the assistance and backing of the procurement leadership of the U.S. Department of State and the staff of FedBid, Inc. (<http://www.fedbid.com/>). The author wishes to thank them for their help and support.

Contact Information

David C. Wyld
Robert Maurin Professor of Management and
Director of the Strategic e-Commerce/e-Government Initiative
Department of Management
SLU - Box 10350
Hammond, LA 70402-0350
Phone: 985-549-3079, 985-542-6831
Cell: 985-789-2127
Fax: 985-549-2019
dwyld@selu.edu

The Reverse Auction Research Center
(<http://www.reverseauctionresearch.com/>)

Saving Time and Money through Reverse Auctions: A Case Study on the Efficiency of Competitive Bidding Utilization at the U.S. Department of State

IN BRIEF: *The U.S. Department of State (State) has achieved significant “hard dollar” savings through the use of reverse auctions. However, the efficiencies brought about as a result of competitive bidding through the FedBid Online Marketplace are not to be overlooked. In this case study, we found that contracting professionals at State saved approximately a day’s worth of time and effort by using FedBid versus traditional procurement methods. Through a panel discussion conducted with State buyers, we delved into specifically how reverse auctions do not just consistently create cost savings - but very real process efficiencies as well - across the acquisition process for State and its buyers. Finally, we discuss the implications of these efficiencies - both for agencies as a whole and for the individual procurement professionals.*

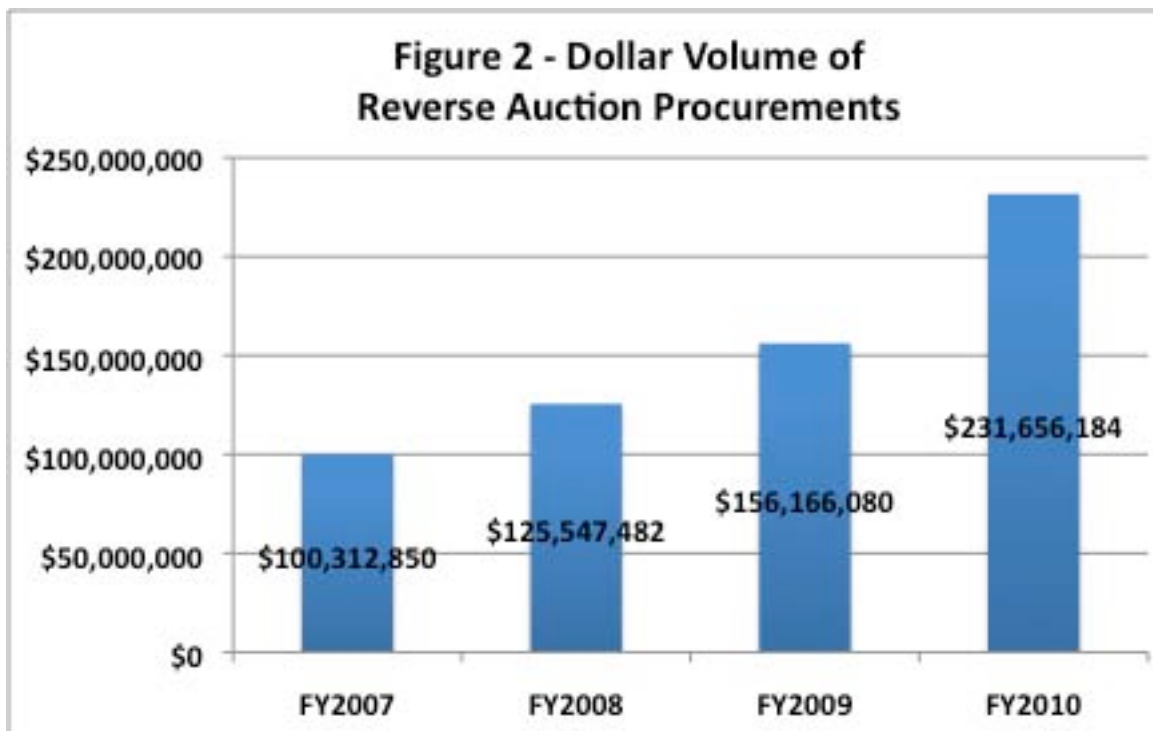
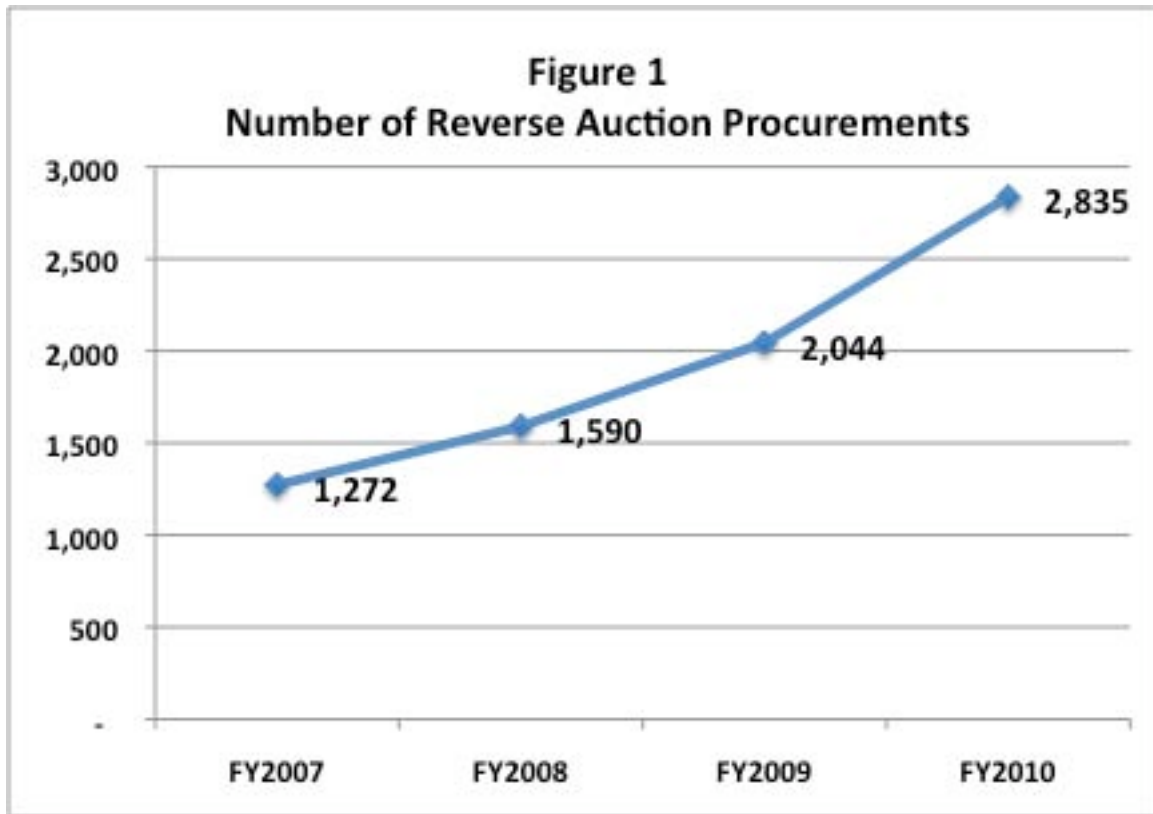
Introduction

The State Department and Reverse Auctions

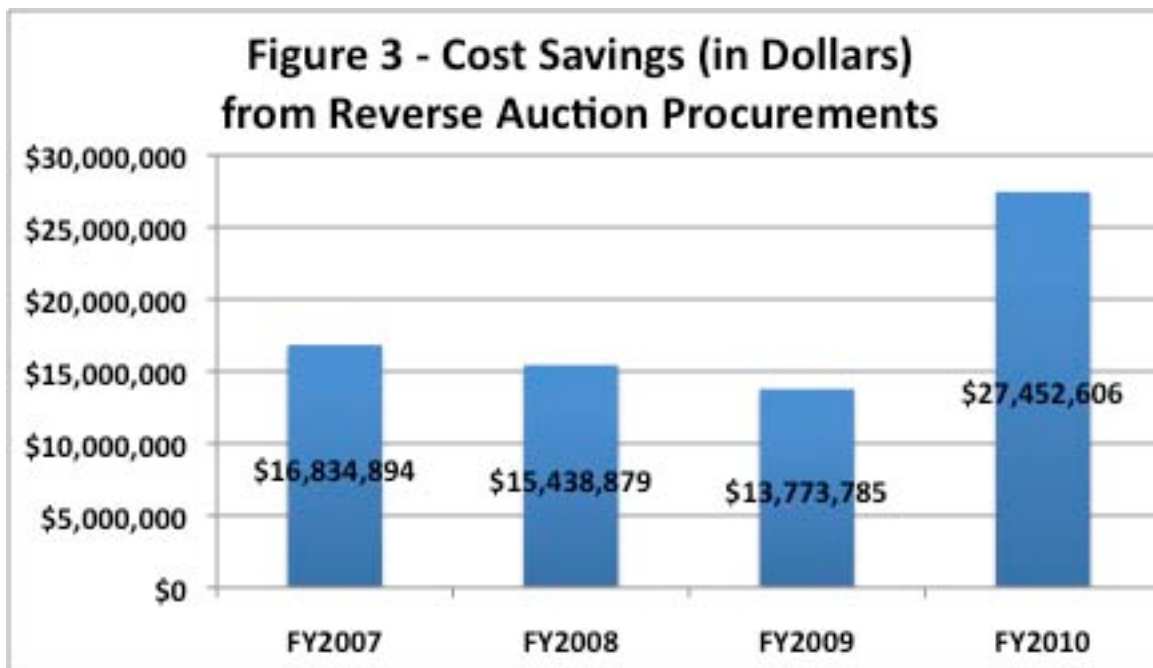
In a prior research brief from The Reverse Auction Research Center (<http://www.reverseauctionresearch.com/>), we chronicled the extent to which reverse auctions have become a focal point of the acquisition strategy for The U.S. Department of State. The April 2011 report, *Stating the Case for Reverse Auctions: The U.S. Department of State Demonstrates the Power of Competitive Bidding to Save Significantly on Acquisitions* (<http://bit.ly/m2mdHV>), which analyzed the agency’s most recent four fiscal years (FY2007-2010) of acquisitions made using competitive bidding. The analysis confirmed that the decisions made by the acquisition leadership of the State Department has produced dramatic results, including:

- savings of tens of millions of dollars,
- increased levels of competition, and
- improved small business opportunities.

In point of fact, as can be seen in Figure 1, State has *more than doubled* the number of acquisitions made through competitive bidding over the past four years, with the number of events topping 2,800 in FY2010. At the same time, the total dollar amount



awarded through reverse auctions has risen steadily. In fact, in FY2010, State made awards totaling over \$231 million, again more than doubling the \$100 million dollars in competitively sourced goods and services awarded by the agency in FY2007 (see Figure 2). This level of activity had produced dramatic levels of savings: in FY2010 alone, State saved over \$27 million on its procurements of goods and services through acquisitions made through reverse auctions in the FedBid online marketplace. During the four-year time span under review in the previously published analysis conducted by The Reverse Auction Research Center, State shaved over \$70 million off its acquisition costs through the use of competitive bidding (see Figure 3 below).



Hard Dollar vs. Soft Dollar Savings from Reverse Auctions

Too often, the perception is that the *only* reason to shift acquisitions of goods and services to reverse auctions is to produce “hard dollar” cost savings. Certainly, competitive bidding has proven to be a powerful tool to produce dramatic levels of savings on the procurement of goods and services. Indeed, as a well-accepted best practice in both the private *and* public sectors, organizations that shift to reverse auction-based methods have saved 10% or more – sometimes much more – on their procurement outlays. Moreover, because these cost savings scale, the larger the agency’s buying volume, the greater the potential for savings. In an era where government is being challenged “to do more without more,” such cost savings can be significant for agencies. Yet, as agencies across the federal government face the daunting challenge of stagnant budgets and declining staffing levels – likely for years to

come, every contracting officer and specialist faces the very real prospect of personally having “to do more without more” each and every day.

Prior research from the Reverse Auction Research Center has demonstrated what can be called the “FedBid Efficiency Dynamic.” In federal agencies where contracting offices, directorates, and commands have integrated the FedBid Online Marketplace as a first choice in their acquisition strategies, procurement professionals have experienced the benefits of the FedBid Efficiency Dynamic in their daily work lives. Simply put, using FedBid not only saves their agency - and thus, the taxpayer - money on procurements, but it also saves the individual acquisition professional a considerable amount of time.

These time savings, which occur across *ALL* phases of the acquisition process – from the time the customer submits the acquisition order through the completion of the procurement process (and beyond if “complications” such as bid protests, audits, etc. arise) – have proven to be quite significant to contracting officers and specialists. This is because by routing appropriate acquisitions for both goods and services through the FedBid Online Marketplace, contracting personnel have found not only that they can handle *more* acquisitions, but also that they have *more* time available during their work time to devote to higher value tasks, such as:

- Communicating with customers and suppliers;
- Handling more complex procurements; and
- Engaging in professional development activities.

Thus, for both the agency’s contracting operation as a whole and for the individual procurement professional, shifting increasing proportions of appropriate buys (both bulk commodities and a wide array of goods and services) to the FedBid Online Marketplace produces both a “win” through the “hard dollar” savings generated through reverse auctions as well as an additional and critical “win” through the “soft dollar” savings that spring from the more efficient and effective use of the contracting professionals’ time and efforts every day. At a time when the number of contracting staff is not expanding, even as the demands and expectations for them grow, these time and process efficiencies can be crucial in enabling procurement professionals to “keep their heads above water” by effectively managing their ever-expanding workloads and addressing the more complex procurement issues that require their immediate attention.



The Present Study

In this research report, we present the findings of a case study conducted at State. In this study, we investigate the impact that the use of reverse auctions through the FedBid Online Marketplace has in terms of the efficiencies - or “soft dollar” savings - that are experienced both by the agency and its contracting staff through the shift to competitive bidding. The results of the case study demonstrate the power of the FedBid Efficiency Dynamic at work collectively for the agency and in the work of individual staffers.



State Department Case Study

In the spring of 2011, the author traveled to Arlington, Virginia to meet with acquisition leadership and staff at State and conduct a panel discussion on their experiences to date utilizing the FedBid Online Marketplace. The panelists were selected for their expertise and experience in conducting acquisitions via reverse auctions through the Online Marketplace and included:

- Branch Chief Gary Clark
- Contract Specialist Steven Haines

- Contract Specialist David Cubitt (who joined via Teleconference from Frankfurt, Germany).

The panelists had an average of 6.3 years of federal contracting experience at State, and each had competed numerous acquisitions through the Online Marketplace (over a hundred each in FY2010), with the largest single procurement in excess of \$2.5 million.

Time Savings Assessment

The panelists first individually assessed how much time they would spend on individual elements of the acquisition process, conducting acquisitions both through traditional methods and then through the FedBid Online Marketplace. They were presented with a case scenario depicting what for them would be a “typical procurement” consisting of items that would be of a type and dollar amount ordinarily included within the scope of their work. The panelists were then instructed to estimate the average “time on task” they would spend on each element of the acquisition process under this typical procurement scenario. They were asked to respond in whole minutes and use an 8 hour workday (so that a half day would equal 240 minutes and each whole day would equal 480 minutes, a 40 hour work week would equal 2400 minutes, etc.).

The panelists’ individual responses were tallied, and the results of that compilation are shown in Table 1 on the next page. As can be seen, across the fifteen tasks, the consensus was that using the Online Marketplace saves them a great deal of time in the acquisition process over traditional federal procurement practices. In fact, the total time estimated to be saved each time an acquisition was conducted through the Online Marketplace was 475 minutes or 7.92 hours - *an amount approximately equivalent to an entire workday.*



Table 1 - Average Time on Task Using Traditional Procurement Methods and the FedBid Online Marketplace

Task in the Acquisition Process	Time on Task (in Minutes) Using Traditional Methods	Time on Task (in Minutes) Using FedBid	Minutes Saved
Determining buyer needs	31.67	31.67	0.00
Specifying the items/services to be procured	36.67	36.67	0.00
Soliciting qualified sellers based on specifications and designated acquisition scenario	186.67	10.00	-176.67
Amending specifications and reissuing solicitation to qualified sellers	101.67	13.33	-88.33
Revising acquisition scenario and reissuing solicitation to qualified sellers	101.67	16.67	-85.00
Fielding, managing, and responding to seller questions	40.00	35.00	-5.00
Collecting and organizing bids	56.67	5.00	-51.67
Evaluating bids	40.00	16.67	-23.33
Performing due diligence	30.00	16.67	-13.33
Making award decisions	8.33	8.33	0.00
Making award notification to both successful and unsuccessful bidders	18.33	6.67	-11.67
Documenting the procurement process	30.00	23.33	-6.67
Handling post-award inquiries	20.00	13.33	-6.67
Resolving bid protest actions	20.00	20.00	0.00
Ensuring compliance with FAR (Federal Acquisition Regulations) and other applicable regulations	15.00	8.33	-6.67
Total Time in Procurement	736.67	261.67	
<i>Time Differential (in Minutes)</i>			475.00
<i>Time Differential (in Hours)</i>			7.92

Time Savings Discussion

These findings are important because they help document the real power of the FedBid Efficiency Dynamic in creating significant time savings – nearly a full day’s worth of time - for each procurement professional each time they make use of the Online Marketplace. In the following sections, we will present a discussion of the participants’ unattributed comments describing how using the Online Marketplace to purchase goods and services saves time and effort across the eleven areas where time differences were found. This discussion yields greater specificity as to where important process efficiencies can be typically experienced when using the FedBid Online Marketplace versus traditional acquisition methods.

Soliciting Qualified Sellers

In this first area of significant time savings, the panelists noted that the Online Marketplace was both a quicker and better means for purchasing goods and simple services. They expressed their belief that by tapping into an ever-expanding network of over forty thousand suppliers, they could not only save time by soliciting qualified sellers through the Online Marketplace, but also increase the level of competition and open-up competitions to more small business participation. This is especially true in procurements for the many facilities located outside the Continental United States (CONUS), as U.S. sellers can compete to supply necessary goods and services to embassies around the world.

Amending Specifications/Revising Acquisition Scenario and Reissuing Solicitation to Qualified Sellers

The panelists provided interesting points in discussing the advantages of using the Online Marketplace to repost amended solicitations. One panelist revealed that he uses FedBid as an “Intel tool.” He elaborated on this point by saying that once a solicitation is “out there,” the sellers’ feedback allows him to “see if there is anything that may be amiss with the buy (in regards to specifications, part numbers, etc.). And as one panelist bluntly put it, “the automation of using FedBid produces time savings from the grunt work.”

Fielding, Managing, and Responding to Seller Questions

The panelists all agreed that the Online Marketplace saves them time in answering seller questions. If a question requires an actionable response (e.g., sellers report that the specified part number is bad), buyers can simply change the solicitation requirements and quickly repost the buy out for competition. If buyers wish to respond to questions through the system, buyers can provide responses to all potential sellers, resulting in

fewer questions overall. Moreover, panelists collectively agreed that they received far fewer phone calls from sellers in solicitations posted on the Online Marketplace than in alternative methods.

Collecting and Organizing/Evaluating Bids

The standardized documentation through the Online Marketplace saves procurement personnel a great deal of time in collecting and organizing bids for evaluation. Bids are recorded in uniform format as they are submitted and are immediately available for review. As one panelist commented, “The FedBid method forces sellers to bid apples to apples, as sellers do not have the option to bid on previous iterations but must bid on current posting with amendments.” Another panelist noted that using the Online Marketplace saved him significant time from not having to print and sort through bidders’ faxes and emails to find, analyze and compare individual quotes and then organize those documents for the contract file.

Performing Due Diligence

The panelists agreed that the automation of steps in the FedBid process - both from the procurement professional and from the vendors - provided a great deal of the necessary information to perform due diligence “baked-in” to the system. However, the automated information is not a substitute for the due diligence effort performed by the procurement professional. As one panelist remarked, “When it comes to ensuring FAR [Federal Acquisition Regulation] regs are followed...we do lose time, partially because of the large vendor pool. The terms of use will be overlooked and yes we can hold them to it, but what do we do when wrong equipment shows up? The system is a tool, but it is important to know that the system is not going to do your job for you.”

Making Award Decisions

While the panelists recognized that Online Marketplace automation presents them with comprehensive bidder and bid information, they cautioned that in no way did they - or should any contracting specialist - simply look at the low bidder as the winner. Rather, they go beyond the pricing results and look at the nature of the bids, particularly those detailed bids submitted in response to ‘meet or exceed’ and ‘brand name or equal’ competitions, and the companies bidding. As one participant remarked: “I feel that I am very familiar with the seller community, and I will look at the variance between the first and second-ranked sellers and second on down. I’ll look at whether or not they are bidding GSA Schedule or not. Additionally, if I am not familiar with a new vendor, I will check their Schedule. If I have to get down in the weeds, I will start comparing each line item.”

Making Award Notifications

The panelists believed that this was an important area for time efficiencies. They felt that the automated notifications to both successful and unsuccessful bidders was a real improvement over the standard practice of having to send emails and/or make phone calls, which one panelist referred to as “old school.”

Documenting the Procurement Process

The panelists felt that a primary benefit, both to the hands-on contracting staffer and to the agency as a whole, is the fact that so much of the documentation that must be created as part of the acquisition process is built into the Online Marketplace. Participants commented that, by using the Online Marketplace, information is conveyed in a consistent format that enables them to conduct bid analysis and perform other documentation tasks more quickly and easily.

Handling Post-award Inquiries

To date, the panel participants had not experienced a significant amount of post-award inquiries and had received no bid protests as a result of acquisitions conducted through the Online Marketplace. However, they agreed that using FedBid makes it easier to handle internal audit requests on buys, as they are able to quickly access complete information on the buy and all relevant data through the FedBid system.

Ensuring Compliance with FAR (Federal Acquisition Regulation)

While the panelists generally felt that meeting FAR requirements is at the heart of their jobs and part of every acquisition they carried-out, whether or not using the Online Marketplace, they agreed that FAR compliance was essentially “baked in” to the online process. In essence, although the buyer retains the decision making responsibility and authority for meeting agency regulatory requirements, much of the thought process to ensure such compliance is pre-loaded into the online system, which guides the user through compliance steps throughout the process.

Analysis

In the concluding part of the session, the panelists were invited to share their overall views and impressions as experienced users of the FedBid Online Marketplace. The group reached consensus on what they felt were the three primary advantages in using the Online Marketplace. These were:

1. The ability to achieve cost savings;
2. Reaching a larger vendor community and increasing competition and small business participation in the process; and
3. The general ease of use of the marketplace and the availability and helpfulness of FedBid support staff.

Overall, the panelists appreciated that FedBid represented a way for the agency, sellers, their customers, and the taxpayer to benefit from a more competitive acquisition process. However, for the panel participants themselves, increased use of the Online Marketplace for appropriate acquisitions made their workdays better and more productive. One panelist commented that: “using FedBid helps me better manage my workload and perhaps take on more work.” In that same vein, another panelist observed that: “the time savings from using FedBid are obvious, and you can reinvest that time into due diligence and making customers happier.” The third panelist summed things up by saying: “Our [State’s] requirements have spiked over the last two years. I would like to say that we have used more of that time saved via FedBid to do due diligence, but we really use it to keep our head above water, as every day, the reality is that we have to do the same amount of work with less people.”

CONCLUSION

In this case study of use of the FedBid Online Marketplace by experienced acquisition staff at State, we have documented the extent and impact of the efficiencies of using the Online Marketplace as a tool for federal procurement professionals. The results demonstrate that approximately an entire day’s worth of time savings can be achieved by using reverse auctions through the marketplace versus traditional acquisition methods. At this crucial time, when all federal agencies and the individual procurement professionals are being constantly challenged to do more without more, we have shown how the “soft dollar,” process efficiencies generated through using FedBid can make a significant difference in the operational capabilities of the agency and in the daily work lives of contracting professionals.

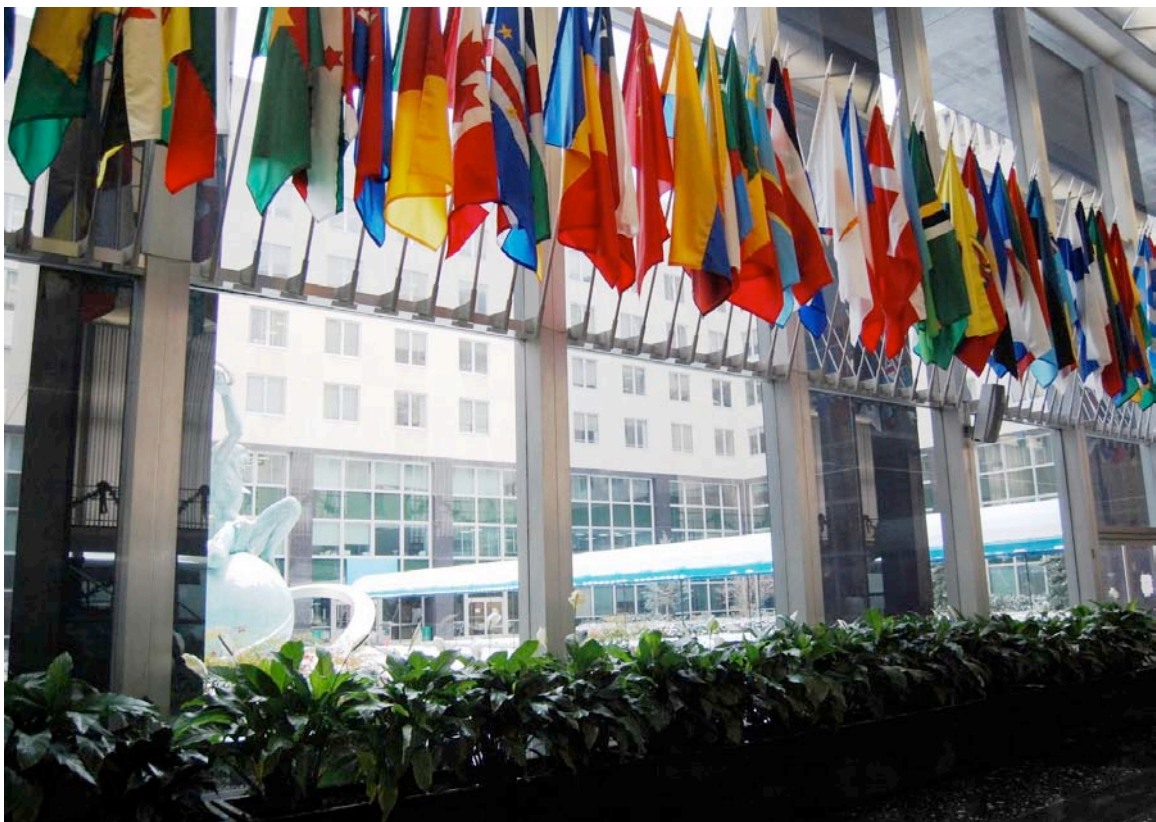
In regards to the results of the present study, Cathy Read, Director of the Office of Acquisition Management, commented:

“How perfect for an acquisition professional to be able to achieve better customer service and work more productively and efficiently - saving almost a day’s worth of time through each reverse auction buy. This study validates the efficiency gains we have been observing anecdotally through our contacting officers’ use of the FedBid Online Marketplace.”

Glenn Richardson, FedBid's President, remarked that:

"In the current fiscal environment, government agencies face limited – and often declining – resources. In the decision process for selecting new initiatives that agencies take on, cost savings should be a key criterion. In fact, initiatives that save money – without start-up costs or financial investments – should be the standard. Assuming cost savings, the question becomes, 'then what?' That's where process efficiencies and time savings become desired attributes that allow an agency to, in effect, optimize their resources. And since our most limited, and certainly most finite, resource is time, an initiative that saves time is a savings multiplier."

The results of this case study at State demonstrate how agencies across the federal sector can achieve not only the "hard dollar" cost savings for which reverse auctions are traditionally recognized, but also "soft dollar" process efficiencies that arise from the use of a faster, better, cheaper acquisition tool.



ABOUT THE AUTHOR



David C. Wyld (dwylld@selu.edu) currently serves as the Robert Maurin 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 and other media outlets.

He presently serves as the Executive Director of the Reverse Auction Research Center (<http://www.reverseauctionresearch.com/>), which serves as a hub of research and news in the expanding world of competitive bidding. He also maintains a blog, Wyld About Management, which can be viewed at <http://wyldaboutmanagement.blogspot.com/>. Finally, as a prolific writer and researcher, Dr. Wyld works with his students to help them to become published authors. To that end, he maintains compilations of the works he has helped his students to turn into editorially-reviewed publications at the following sites:

- Management Concepts (<http://toptenmanagement.blogspot.com/>)
- Book Reviews (<http://wyld-about-books.blogspot.com/>) and
- Travel and International Foods (<http://wyld-about-food.blogspot.com/>).

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.