



This Bid's for You!

How online reverse auction saves taxpayers millions

Jim Taylor and his family just made it through a bad storm. They're all a bit shaken but safe. Their roof, however, wasn't as fortunate—and now it needs to be repaired. How should Jim go about finding someone to fix his roof? Which construction company would do the best job and at the best price?

After this storm, Jim wants the best roof protecting his family – and fast. So, he searches the phone book and calls various companies, asks about prices and references for quality of service, and chooses a repair service. This process, however, could be much simpler. If Jim could jump online and go to a reverse auction website where qualified roofing companies compete for his particular project, he could save a lot of money and time and still end up with his roof expertly repaired.

Online Reverse Auctions

Like Jim, government has every reason to pursue online reverse auctions as a way to get the best bang for procurement dollars. Contractors could place bids for government projects and compete with each other to provide the desired service at the best price, helping the state manage a healthy budget while saving taxpayers from wasteful government spending.

Illinois Representative Michael Connelly put this idea forward in legislation in January 2009 when he introduced the Procurement-Reverse Auction bill (HB379), which passed both chambers unanimously. On August 18, 2009,

Governor Quinn signed the bill (now called the “Local Government Electronic Reverse Auction Act”), which allows government to use an online reverse auction for the procurement of supplies and services, exempting construction contracts and professional and artistic services. Purchases could range anywhere from buying copy paper and office equipment to security equipment or school buses.

Online reverse auctions are more than just an intriguing policy concept. A company called BidBridge, for instance, has set up a platform for both the public and private sector to administer an online bidding process, much like eBay. The idea behind this is simple: In order to get the desired level of service at the best price possible, make contractors compete.

Basically, BidBridge assists buyers in achieving the best price and quality for a product or service through its competitive sourcing and online procurement system. Its buyers have enjoyed significant cost reductions and procurement efficiencies – and saved millions of taxpayer, corporate and investor dollars in the process.¹ BidBridge has worked with over 400 public entities (delivering an average net savings of 14 percent) and currently operates in 35 states and parts of Canada. Overall, BidBridge has helped generate over \$150 million in purchases at no direct cost to its customers.² BidBridge puts in an average of 25 to 35 hours of work on behalf of the buyer, and the winning bidder pays BidBridge a small pre-disclosed transaction fee based upon the amount of the expected award, typically two to three percent.

Online reverse auctions make the procurement process more transparent, foster competition,

and help to eliminate pay-to-play, waste, and corruption. Online bidding would act as a deterrent of insider deals, so the brother or the cousin of some elected official wouldn't get business just because of personal relations (something all too common in Illinois politics).

Other states, at both the local and state level, have enjoyed substantial savings as a result of making contractors bid for their business in online reverse auctions. Illinois would serve its families and taxpayers well and help alleviate some serious budget problems by following the lead of other states that have implemented online contract bidding.

Savings Examples

- **Florida:** Five suppliers competed to provide Hillsborough County Public Schools with vans and trucks for the upcoming school year. For one truck, a Ford F250 Utility Body, suppliers placed 64 bids, resulting in a scant 0.05 percent difference in price between first and second place bidders. For a second bidding item, a Ford F250 with a tool box, bed liner and tow package, suppliers put forward 48 bids, ending the auction with just a 0.14 percent difference between first and second place bid. Because of the online reverse auction, Hillsborough County Public School's received over **50 percent savings versus budget** for the five truck and van varieties.³
- **Indiana:** Indiana's efforts to "look for efficiencies and cost savings" led to a partnership with BidBridge in 2007 and since then, BidBridge has hosted over \$50 million in purchases for Indiana, producing a total savings of nearly **\$5 million to the state's bottom line**.
- **North Carolina:** In High Point, five suppliers competed on a bid for 36,000 recycling carts, which lasted 52 minutes with a total of 45 bids. The city **saved over 13 percent** compared to the original budgeted amount for the purchase, and "the first and second place suppliers were separated by only

1.62 percent at the conclusion of the bid, which assured the city they had achieved true market value for the recycling carts."⁴

- **Ohio:** Nine suppliers competed for a contract with Robinson Memorial Hospital to renovate its surgical center. The suppliers placed a total of 438 competitive bids, and the first through fourth place bidders were separated by only 0.31 percent, which gave Robinson Memorial Hospital **7.14 percent savings** versus its original budget.
- **Mississippi:** Hinds County has held nearly 25 events with BidBridge, **saving over \$4 million or 16 percent** versus original budgeting for contracts. The county has had so much success with online bidding, it passed a statute requiring BidBridge to run all purchases over \$80,000 through the reverse auction process.
- **Colorado:** The City of Denver needed five pieces of security equipment, including whole body imagers, conveyor type x-ray machines, walk-through metal detectors and employee restricted access turnstile gates (dual & single entry). Five suppliers competed for the walk-through metal detectors, which received 24 bids, and the bid ended in a 1.79 percent difference between first and second place. Denver achieved a **45 percent savings versus budget** on this item. Based on the lowest bid for each item, Denver gained a **27 percent savings** versus budget.
- **Arizona:** Arizona State University (ASU) needed pool covers for their swimming facility and decided to use BidBridge for this purchase. "Three suppliers competed on three different swimming pool covers, each varying in size and specifications."⁵ ASU realized an overall savings of nearly **25 percent versus budget** for the three swimming

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pool covers combined.

- **North Carolina:** Charlotte-Mecklenburg Schools fifth bidding event with BidBridge involved five suppliers competing for a copy paper contract. After a total of 76 bids in 35 minutes with a 0.19 percent difference between the first and second place suppliers, the bid concluded. This competition beat out the established North Carolina state contract price by over **\$3.00 per case**. If the school system had gone about business as usual and purchased their 18,480 cases with the previously established state contract, **they would have spent an extra \$55,440**.

What Can Illinois Do?

In January 2009, Chicago participated in one reverse auction event with BidBridge, which involved bidding on snow removal equipment for O'Hare airport. Eight months after this auction, the city decided to award the winning bidder for its O'Hare airport snow removal equipment on August 6, 2009. By implementing a reverse auction bid instead of relying on its traditional sealed bid auction, Chicago has saved taxpayers \$1 million for the O'Hare deal. According to a BidBridge press release, "The winning bid stood at \$19,586,940 – **nearly \$1 million less than a contested one-price format bid** that occurred several months before with the four same suppliers."⁶

More of this cost-efficient, quality-driven spending activity needs to occur at both local and state levels of government. Illinois's state budget has exploded from \$24.7 billion in 2004 to \$32.2 billion in 2009, increasing nearly 30 percent over just five years.⁷ The state needs better spending practices, and online reverse auctions provide the path to better procurement practices. Online bidding saves money and provides quality service, while making the whole procurement process more transparent and competitive, which helps eliminate pay-to-play, waste, and corruption. Local government can also control spending with vendors and contracts by using an online reverse auction process.

If state and local government procurers took advantage of utilizing online reverse auctions for all projects (including construction projects), they would dramatically improve budget management, help keep costs down, and save Illinois taxpayers significant sums.

Notes

1 BidBridge, "About Us," http://www.bidbridge.com/About_Us.aspx.

2 *Ibid.*

3 BidBridge, "Proven Results," http://www.bidbridge.com/Proven_Results.aspx.

4 BidBridge, "Event Summaries: High Point, North Carolina – Recycling Carts," <http://strategies.bidbridge.com/?p=115>.

5 BidBridge, "Event Summaries: Arizona State University – Swimming Pool Covers," <http://strategies.bidbridge.com/?p=138>.

6 FOX Business Press Release, "BidBridge Helps City of Chicago Save Nearly \$1 Million with Reverse Auction," August 6, 2009.

7 Illinois Policy Institute, Budget Facts, <http://www.illinoispolicyinstitute.org/news/article.asp?ArticleSource=1051>, July 2009.