THE USE OF REVERSE AUCTION WITHIN THE U.S. ARMY

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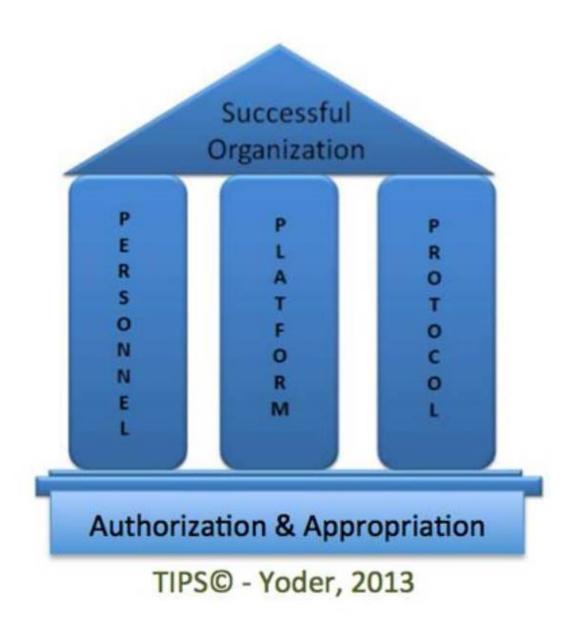
Abstract

The purpose of this research project is to analyze the effectiveness and efficiency of the U.S. Army's use of reverse auctions (RAs) in regard to contracting. RAs are a powerful procurement tool that leverage the power of fluid market conditions through a dynamic pricing environment. This project examines the use of RAs within the Army Contracting Command (ACC) using E. Cory Yoder's Three Integrative Pillars for Success.

TRADITIONAL AUCTION
1. ONE SELLER AND MULTIPLE BUYERS
2. ITEM COMPETITION DRIVES PRICE UP
3. BENEFITS THE SELLER
4. GOAL TO INCREASE PRICE PAID BY BUYER

REVERSE AUCTION
1. ONE BUYER AND MULTIPLE SELLERS
2. ITEM COMPETITION DRIVES PRICE DOWN
3. BENEFITS THE BUYER
4. GOAL TO DECREASE PRICE PAID BY BUYER

Traditional Auction versus RA Comparison Analysis

Successful Organization

PERSONNEL | PLATFORM | PROTOCOL

Authorization & Appropriation

TIPS© - Yoder, 2013

E. Cory Yoder's TIPS Model

Methods

Data gathered through personal interviews with subject matter experts and practitioners of RA tools identifies whether current RA platforms deliver "best value" procurements and generate true cost savings. Interview questions target the three integrative pillars of success: personnel, platforms, and protocols, and focus on identifying best practices currently used within the contracting field.

Results

FedBid's online marketplace is the most utilized RA tool within the ACC providing a fully serviced RA marketplace with outstanding customer support and a user-friendly interface. The Army's current contract with FedBid expires on September 30, 2017.

If the ACC is to utilize RAs in the most effective and efficient manner, it is essential to select the appropriate RA type, field the best platform, and implement the correct protocols to maximize the use of RAs. These three factors together will yield maximum savings while generating new process improvements that will enable the ACC to become a more efficient and lean organization.

1. **BUYER POSTS A BUY TO THE MARKETPLACE**

2. **SELLER BIDS**
Seller submits a bid to the marketplace.
e.g. Bid = $10,000

3. **FEE ADDED**
FedBid adds a 3% fee.
e.g. Bid: $10,000 + 3% = $10,300

4. **TRANSACTION**
Buyer awards total bid to Seller.
e.g. Seller awarded = $10,300

5. **FEE COLLECTED**
FedBid invoices Seller for fee.
e.g. FedBid fee = $300.

FedBid's Process for Assessing Fees

Recommendations

Data supports that RAs generate significant savings and process efficiencies. Recommend the ACC update its market research on RAs seeking to expand the use of RAs to additional product and service codes.

Recommend that the Army solicit its follow-on requirement for RA services with fees based on a percentage of savings achieved through the auction or a flat fee for the use of the platform.

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