

Section #1  
USACE EXECUTIVE SUMMARY

From October 2002 until September 2003, USACE conducted a pilot program to evaluate the use of 'reverse auctioning' in conjunction with the broad, diverse, and complex USACE engineering-acquisition mission. 'Reverse Auctioning' is only one of the elements under the acquisition genre called e-Sourcing. The general claim, by contractors that provide reverse auction services, is that reverse auctioning finds the lowest available market price for any good or service. This pilot program determined that this claim was not consistent for all types of acquisitions under different or variable conditions.

In order to provide a full range of reverse auction training and services for this pilot program, Contract GS-35F-0342K was awarded on a competitive basis to the contractor through the Federal Supply Schedules, under the competitive provisions of FAR Part 8. Other contractors could have provided these or similar reverse auction services.

This pilot program was open to all USACE customers and all agencies within DOD. However, this is not the first time that DOD or the US government has engaged reverse auctioning. Over the past few years, several commands in the Army (e.g. CECOM, FORSCOM) and the Navy had already experimented extensively with reverse auctioning regarding their specific acquisition missions. Reverse auctioning has also been used commercially for several years by large and small businesses, which have used it as a primary tool for price reduction of goods and services.

Please Note: Reverse auctioning IS NOT a new form nor type of contract.

Reverse Auctioning is a newly approved methodology for the government to obtain goods and services through a standard firm fixed price contract.

Also it should be noted that the final result of a reverse auction methodology is identical in every way to that the final result from a seal bid process: A bidding process is used to obtain bids for an award that is made to the lowest bidder – and to execute an award the government then enters into a standard firm fixed price contract with the winning bidder. Reverse Auctioning is merely an alternative contracting process, a choice in methodology to arrive at the lowest bid for a standard firm fixed price contract.

However, there are significant operational dynamics and ramifications in the use of the reverse auctioning methodology that differ greatly from the operational dynamics a sealed bid process. So a major question that must be addressed by any DOD element is whether or not reverse auctioning is significantly or marginally advantageous to any particular acquisition mission, project, product, and or contract. This was the overarching question that this USACE pilot program focused on with regards to the USACE overall vast and complex acquisition mission.

For those who are not adequately familiar with the subject a short primer on 'reverse auctioning' is provided at Section 3 of this USACE report.

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There was an option to extend this pilot program for three months until December 2003, if and only if, time was necessary to complete reverse auction work already in progress. However, these specific circumstances never arose and the contract services for this pilot program were terminated in accordance with the terms and conditions of the Contract GS-35F-0342K on 30 Sep 03. A request was made to USACE by the contractor for the contractor to continue the use of Contract GS-35F-0342K after 30Sep03, but before 31Dec03. However, this request was denied by USACE because the specific special circumstances were not present. By the terms and conditions, the contract had already ended, and contractual authority no longer existed as of on 30Sep03. Additionally, the final contractor's report was not received until April 2004.

Previous to this USACE Pilot Program, select elements of the USACE acquisition team had also used 'reverse auctioning' in a limited manner. They did so by engaging an Army software version of 'desktop' reverse auctioning owned and operated by CECOM of AMC, which is free for use throughout DOD. However, reverse auctioning is a relatively complex and labor-intensive process in comparison to standard sealed bidding. Additionally, prior to this pilot program, there had never been any focus on and/or training for reverse auctioning provided on a widely dispersed agency basis in USACE before. So there were four goals set in using a contractor to provide reverse auctioning services in order to obtain:

- 1) Reverse Auction training for nine sub-commands of USACE (over 180 people).
- 2) Executive briefings to explain reverse auctions and promote their effective use.
- 3) Training in and the use of two different forms of reverse auction technology (standard 'desktop' reverse auctions and full-service [assisted] reverse auctions).
- 4) Expertise, assistance, advice and suggestions in the reverse auction processes.

From a USACE Program Management perspective, the contractor met the majority of all these goals with fully a satisfactory performance.

Within the limited parameters of the pilot program and contractually provided reverse auction services, the USACE Pilot Program sought to evaluate five major issues regarding reverse auctioning:

- 1) Was there in fact a basis to claim that reverse auctions provide real savings (significant or marginal) – beyond the standard sealed bid process?
- 2) Was the reverse auction process more or less efficient and/or effective than the standard sealed bid methodology? (Given that both alternative processes produce the same final operational result of a firm fixed price contract.)
- 3) Was the reverse auction process frictionless and/or compatible with all significant USACE mission factors?

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- 4) Was there a quantitative or qualitative difference in the use of standard 'desktop' reverse auctions versus the use of full-service (assisted) reverse auctions?
- 5) Should reverse auctioning be kept on as part of the professional 'acquisition tool box' for the complex and diverse USACE engineering-acquisition mission?

From the results of this USACE pilot program on reverse auctions USACE determined that:

- 1) The acquisition methodology referred to as 'reverse auctioning' is a strategic acquisition tool that should be kept in the USACE professional acquisition toolbox at all times.
- 2) For a variety of significant reasons, construction services cannot be equated with commodity goods. This is mainly due to the operational dynamics of construction services versus commodities along with the parameters of DOD contracting regulations. The dynamics and variables are just much too diverse between the acquisition categories of construction services versus commodities
- 3) There is apparently significant potential is using reverse auctions for commodity goods and/or very simplistic services where the critical issue of variability is exceedingly small or nil.
- 4) Within this pilot program there was no proof that reverse auctioning provided a significant or marginal edge over the sealed bid process for construction projects. In fact there is NO valid measurement method to project any claim of significant or marginal savings from reverse auctions.
- 5) Conceivably, under very specific, unusual circumstances, reverse auctioning *may* be considered as an alternative methodology for construction services -- but only after sealed bidding has failed. (And this would be an experimental approach.)
- 6) There was no demonstrated quantitative or qualitative difference in the use of the use of full-service (assisted) reverse auctions over standard 'desktop' reverse auctions. In fact, the desktop' version was superior to the full-service version.
- 7) The reverse auction process is not a protest-free methodology for initiating or obtaining a standard firm fixed price contract; it too has systemic, internal flaws.
- 8) There was significant resistance to the use of reverse auctions by a variety of key USACE customers who initially entertained the idea in all earnest. However, after careful consideration, these customers adamantly refused to allow USACE to use the reverse auction method to procure their specific construction services.
- 9) For a variety of reasons, there was also an apparent reluctance by other DOD agencies to sample reverse auctioning services for their acquisition mission.
- 10) At this time, the best form of the reverse auctioning tool that USACE should keep in its professional acquisition toolbox is the free government software version of desktop reverse auctions offered by CECOM of AMC, primarily for commodity acquisitions. All other exceptions should be reviewed by the USACE Acquisition Corporate Group.

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Included within this report is a copy of the contractor's final report as well. See Section #10. This contractor's report does provide a fully satisfactory outline of the general nature of this pilot program covering the basic descriptive narratives for non-value-judgment categories: general services provided, command sites involved, training provided, reverse auctions performed, and a protest against a reverse auction that was sustained. So the USACE report will not provide any redundancy on these standard, descriptive narrative issues. (Please see Appendixes B thru P for these narratives.)

However, it should be noted that USACE is by no means in total agreement with the contractor's report. There are indeed significant differences of opinion. Nonetheless, in the interest of fairness, this contractor's report is included yet balanced by various qualifications and caveats by USACE that will be evident from reading the entire USACE report. Before reading the contractor's report it is recommended that the reader first read Section #2, and take note of the important Point of Clarification provided.

Also, in the interests of fairness to all parties concerned regarding this pilot program, this USACE report also includes a White Paper on Reverse Auctions from the Associate General Contractors of America. See Section 11.

There are some intentional narrative redundancies within this report to reiterate specific critical points. This report was designed so that the reader could focus on one specific question / issue without major referencing back and forth to the answers for other questions / issues. For the most part, the answers to questions / issues should stand alone.

(Also please note: Alphanumeric marks (e.g. A or B7 or C6a) throughout this report indicate sub-sections of the report not paragraphs.)