

Reverse Auction Bidding

ASCC Position Statement #22

In reverse auction bidding (RAB), buyers continue to solicit bids from sellers until they are satisfied they have received an acceptably low price. Construction RAB is usually done at a dedicated Internet website where, at a scheduled time, the bidding for a project opens and all bidders submit their prices to the website. The host website then posts the prices on the site for all bidders to see. The bidders' identities usually remain anonymous. Bidders are then given a chance to submit a lower price, with the auction proceeding in the reverse of a typical auction where bids go up. The auction is closed once no further bids are received after a stated period following the receipt and posting of the last bid. Award is then made to the lowest bidder.

A study by the Army Corps of Engineers found "no factual, significant or marginal savings in the use of reverse auctioning methodology over the standard sealed bid processes" when used for construction services. The report indicates that "bid gaming," in which contractors do not offer the best bid initially so they can see the relative cards of all the other players, is partly to blame for the lack of savings. The objective of bid gaming is to consider how low to go to get the contract—not necessarily how low the contractor can afford to go.

Reverse auction bidding pressures contractors to reduce their main price variable—the amount of labor and supervision used to build the project. The continued reduction in price, and therefore reduction in labor and supervision, can have an adverse effect on job site safety and work quality. Reverse auction bidding is another form of bid shopping, which reduces profit and removes contingency dollars from bids, encouraging bidders to take shortcuts that may reduce quality and safety. This may also lead to claims for extra work, less cooperation between contractor

and owner, and more litigation. ASCC contractors believe the owner's best long-term interests aren't served by dramatically decreasing profits for any members of the construction team.

RAB is not appropriate for construction contracts that deal with materials, services, and systems tailored to the unique demands of a project. ASCC agrees with both the Army Corps of Engineers and the Associated General Contractors (White Paper on Reverse Auctions for Procurement of Construction; www.agc.org) that reverse auction bidding does not guarantee the lowest price and is inappropriate for construction services.

ASCC believes in the sealed bid procurement process, which was established to ensure integrity in the award of the construction contracts. Each bid is evaluated through the use of objective criteria that measure responsiveness of the bid to the owner's articulated requirements and the responsibility of the bidder. In this manner, sealed bidding ensures fairness and value for the owner and encourages contractors to submit their lowest price to obtain the work.

ASCC concrete contractors will work with all parties in addressing these issues. If you have any questions, contact your ASCC concrete contractor or the ASCC Technical Hotline at (800) 331-0668.



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