

Office of State Procurement

State of Louisiana

Division of Administration

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Annual Report on the Use of Reverse Auctions

To: The Honorable Taylor Barras, Speaker, Louisiana House of Representatives
The Honorable John A. Alario, President, Louisiana Senate

From: Paula Tregre, Director, Office of State Procurement

Date: September 4, 2018

In accordance with Act 226 of 2017, the Division of Administration – Office of State Procurement (OSP) hereby submits to the Legislature OSP's annual report on the use of reverse auctions.

I. Background

The reverse auction process is defined in R.S. 39:1556(50) as a competitive online solicitation on the Internet for equipment, supplies, and other materials in which vendors compete against each other online in real time in an open and interactive environment. Like eBay, bidders compete, but on the basis of lower rather than higher prices. Reverse auctions are intended and best suited for the subset of procurements in which the specifications are open, competitive, and oriented for an award strictly based on low price rather than technical value-added, but non-cost considerations.

During the 2017 Regular Legislative Session, Representative Schroder asked OSP to expand its use of reverse auctions, to determine if the process could yield value for State agencies in the form of lower prices through enhanced competition, with the expectation to save millions of dollars. HB 554, which was enacted as Act 226 of 2017, reflected this by requiring that OSP "report annually to the legislature by September first, on the use of reverse auctions and any savings achieved."

To accomplish this, OSP will detail the results of the reverse auctions ("events") which have been completed by OSP on behalf of State agencies in the past year, including the actual extent of savings or cost increases, as well as any other notes, concerns or lessons learned from OSP's implementation of the reverse auction process to date.

II. Event Results

OSP's FY17 report to the Legislature regarding the use of the reverse auction process described the six (6) events which had been completed prior to September 1, 2017. As described, only one (1) of those events were successful. For consistency, the numbering and types of information provided in this report will follow the format of the FY17 report.

7. 7.5 Ton Air Conditioner for DOC-Rayburn Correctional Center *(ended 9/11/2017)*

This reverse auction sought to obtain an air conditioning unit and curb adapter for Rayburn C.C. Two vendors registered and expressed interest in the event. Both vendors submitted bids.

Result: This reverse auction was a success – the second most successful overall, before or since.
Savings: **\$925 (14%) in cost savings** compared to the agency's \$6,425 initial price estimate.

8. Pipe Insulation for DOC-Louisiana State Penitentiary *(ended 9/11/2017)*

This reverse auction sought to obtain eight types of pipe insulation for DOC LSP-Angola. No vendors registered or expressed interest in the event. No vendors submitted bids.

Result: This reverse auction was a failure, as it did not generate any competition.
Savings: **None**, as no award could be made.
Remedy: Re-bid as a fax bid.

9. Gloves and Mitts for DOC-Louisiana State Penitentiary *(ended 9/11/2017)*

This reverse auction sought to obtain three types of gloves and mitts for DOC LSP-Angola. No vendors registered or expressed interest in the event. No vendors submitted bids.

Result: This reverse auction was a failure, as it did not generate any competition.
Savings: **None**, as no award could be made.
Remedy: Re-bid as a fax bid.

10. 15 Ton Air Conditioner for DOC-Rayburn Correctional Center *(ended 9/11/2017)*

This reverse auction sought to obtain an air conditioning unit and curb adapter for Rayburn C.C. One (1) vendor registered and expressed interest in the event. One vendor submitted a bid.

Result: This reverse auction was a failure, as it did not generate any competition.

Savings: **None.** The amount of the sole bid exactly matched the agency's cost estimate.

11. White Twill Fabric for DOC-Prison Enterprises at Elayn Hunt C.C. *(ended 9/20/2017)*

This reverse auction sought to obtain 30,000 yards of white twill for Elayn Hunt CC. Seven (7) vendors registered and expressed interest in the event. Five vendors submitted bids.

Result: This reverse auction was a failure, as the low bid did not result in savings.

Savings: **\$7,500 (16%) cost increase** (negative savings) compared to the prior purchase price.

12. Metal Culverts for the LDWF-Dewey Mills WMA *(ended 9/21/2017)*

This reverse auction sought to obtain five types/sizes of metal culverts for a wildlife mgt. area. Three (3) vendors registered and expressed interest in the event. One vendor submitted a bid.

Result: This reverse auction was a failure, as the sole bid did not meet specifications.

Savings: **None**, as no award could be made.

Remedy: Re-bid as a sealed bid.

13. Plain Envelopes – OSP Statewide Contract *(ended 10/9/2017)*

This reverse auction sought to obtain five types/sizes of plain envelopes for statewide use. No vendors registered or expressed interest in the event. No vendors submitted bids.

Result: This reverse auction was a failure, as it did not generate any competition.

Savings: **None**, as no award could be made.

Remedy: Not re-bid due to low usage.

14. Air Conditioners – OSP Statewide Contract

(ended 10/18/2017)

This reverse auction sought to obtain 28 types/sizes of air conditioners for statewide use. Three (3) vendors registered and expressed interest in the event. One vendor submitted a bid, but only for seven (7) of the 28 line items (25%). Bids were not submitted for the other three-quarters of equipment.

Result: This reverse auction was a partial success (25%).

Savings: **\$1,916 (11%) in cost savings** compared to the agency's \$17,682 initial price estimate.

15. Handicap-Accessible Deer Blinds for Wildlife & Fisheries

(ended 10/20/2017)

This reverse auction sought to obtain four handicap-accessible deer blinds. Two (2) vendors registered and expressed interest in the event. Both vendors submitted bids.

Result: This reverse auction was a failure, as the low bid did not result in savings.

Savings: **\$3,356 (28%) cost increase** compared to the agency's \$12,200 price estimate.

16. Gas Kitchen Convection Steamer for Veterans Affairs

(ended 10/20/2017)

This reverse auction sought to obtain a gas kitchen convection steamer. One vendor submitted a bid.

Result: This reverse auction would normally be regarded as a failure, as it did not generate any competition, however because of the cost savings below, it is considered a big success.

Savings: **\$3,581 (23%) in cost savings** compared to the agency's \$15,700 initial price estimate.

17. Decorative Wreaths for the Office of State Buildings

(ended 11/8/2017)

This reverse auction sought to obtain Christmas wreaths for the DOA Office of State Buildings. One vendor submitted a bid.

Result: This reverse auction was a success, even though it did not generate competition.

Savings: **\$168 (3%) in cost savings** compared to the agency's \$6,638 initial price estimate.

18. Water Heater and Tank for DOC-Louisiana State Penitentiary *(ended 12/14/2017)*

This reverse auction sought to obtain a water heater and water tank for DOC LSP-Angola. No vendors submitted bids.

Result: This reverse auction was a failure, as it did not generate any competition.

Savings: **None**, as no award could be made.

Remedy: Re-bid as a fax bid

19. Clothes Dryer for DOC-Elayn Hunt Correctional Center *(ended 12/15/2017)*

This reverse auction sought to obtain a clothes dryer for DOC Elayn Hunt Correctional Center. Two (2) vendors submitted bids.

Result: This reverse auction was a failure, as neither bid met specifications.

Savings: **None**, as no award could be made.

Remedy: Re-bid as a fax bid

20. Freon for DOC-Louisiana State Penitentiary *(ended 1/30/2018)*

This reverse auction sought to obtain Freon refrigerant for DOC LSP-Angola. One vendor submitted a bid.

Result: This reverse auction was a failure, it did not result in competition or savings.

Savings: **\$413 (3%) cost increase** compared to the agency's \$15,480 price estimate.

21. Binoculars – OSP Statewide Contract *(ended 2/6/2018)*

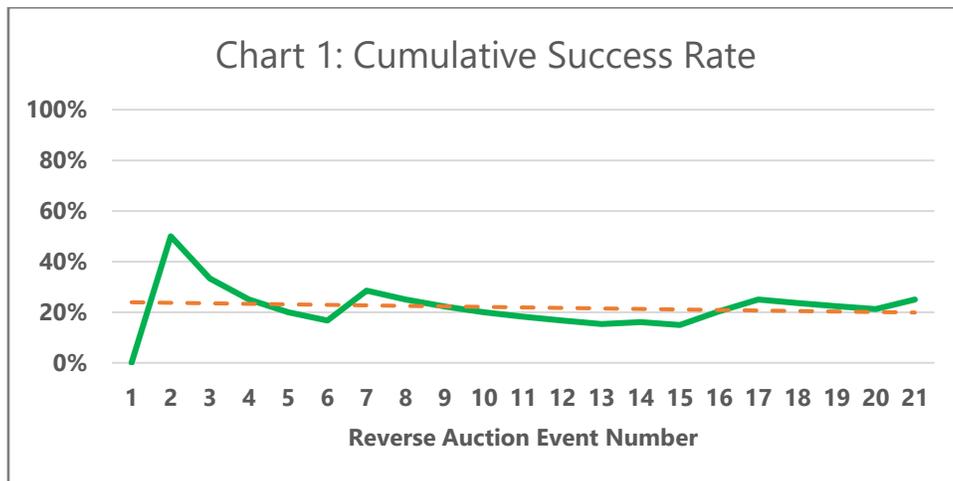
This reverse auction sought to obtain seven (7) varieties of binoculars for statewide use. One vendor submitted a bid.

Result: This reverse auction was a success, even though it did not generate competition.

Savings: **\$1,001 (8%) cost savings** compared to the agency's \$12,500 price estimate.

III. Concluding Notes

As identified in Chart 1 below, the State's implementation of reverse auctions to date has conclusively failed to achieve the successes intended. Overall, the success rate for reverse auctions has stubbornly held at 15-30%. Each time that a reverse auction fails (which happens approximately four times for every success), a re-bid through conventional means is required, with additional delay and cost for OSP and the agencies it serves.



As has been summarized, the State has steadily implemented the reverse auction process, as requested, and will continue to do so in response to the Legislature's stated intent, despite the problematic results the process has generated to date. OSP has learned much from each event, including the apparent strengths and weaknesses of the reverse auction process. However, it must be noted that out of the twenty-one (21) events completed to date, only 5.25 have been a success.

In consultation with other states and the National Association of State Procurement Officials (NASPO) regarding their implementation of reverse auctions, including Mississippi (which recently, counterproductively mandated the use of reverse auctions), the only state which reports actual success with reverse auctions is Pennsylvania, which uses a method of calculating "savings" which is logically indefensible. With that method, the extent of savings is measured by comparing the winning bid price to the initial bid of the eventual winner, rather than comparing it to the actual price previously paid, or to the price estimate budgeted by the using agency. No other states report success with the use of reverse auctions, but instead report that reverse auctions are a fad whose peak flared up 20 years ago and were found not to be value-added or a best practice in full, fair, and open public procurement.

OSP will continue to look for procurements that are well suited for the reverse auction process. The Office of State Procurement is hopeful that positive results will be realized through the reverse auction process. OSP will continue to monitor the outcome of each reverse auction, and report its findings to the Legislature.