

The Quick Guide to Using Electronic Auctions

1 What is an electronic auction (e-auction)?

Electronic auctions (e-auctions) are procurement auctions performed online. The most common type of online auction is a 'reverse auction' (see appendix for a list of auction types and how they work). In the right circumstances, it's a very effective procurement tool for both buyer and supplier: the buyer benefits from significant price reduction; the supplier benefits because an e-auction is, effectively, a very open and transparent competition where s/he can bid against the other companies.

2 How does an e-auction work?

A simple auction would have two stages:

- i. the first stage is where the tender is evaluated against the non-price criteria;
- ii. the second stage is where those suppliers who qualify from stage one are invited to compete in an electronic auction, generally on price only (note that to reach this stage you must be satisfied that you would be happy to do business with any of the suppliers admitted to the auction).

Although this is the most common type, at present, e-auctions can be conducted using the MEAT approach. For example, non-price criteria can be evaluated prior to the auction and the results converted to a price equivalent, which is translated into a formula using weights, for the auction. Or, other elements can be included in the auction by expressing them as a price equivalent.

An e-auction can last 30 minutes or several hours, depending on what happens. Normally, a time limit is pre-defined but if a supplier makes a last-minute bid, the time is usually extended to allow other suppliers to respond. Once the initial time period has elapsed, and (say) five minutes has passed since the last bid, the auction can be closed.

3 When would I use an e-auction?

Typically, the contract must satisfy the following conditions:

- i. the commodity must be of sufficiently high value to generate reasonable savings (as you need to cover the cost of running the auction:- see 5 below re costs);
- ii. the commodity must be capable of being defined precisely so that like can be compared with like, or the criteria measured objectively (there are myriad possibilities but examples could include: fuel/electricity, PCs, software, photocopiers, voice and data telecommunications, vehicles, furniture, stationery);
- iii. there must be sufficient players in the market to be able to have a number of suppliers participating in the auction;

- iv. there must be sufficient scope for more competitive pricing (i.e., *not* very low price margins).

4 How do I go about organising an e-auction?

If you don't have e-auction software and facilities, you will need the services of an e-auction service provider. Most of the providers will offer a fully-managed service which includes use of the e-auction software and facilities, assistance with the auction design and RFT specifications, training of suppliers and 'hand holding' during the auction. Support will also extend to providing a 'proxy bidder' where a supplier has ICT difficulties.

In the absence of a framework agreement, either at national level or for your sector/organisation, you will need to obtain quotes from service providers (for one or more e-auctions, depending on your requirements).

A list of known service providers is available from the Department of Finance (NPPPU) on request from eproc@finance.gov.ie.

5 What does it cost to run an eAuction?

The cost of running an e-Auction has reduced considerably over the past year and it's possible to run one (on a managed-service basis) for about €10,000 (it can be as low as €3,000 depending on the nature of your contract with a service provider: most will be very competitive if you contract them for a number of e-auctions).

6 Has anyone in Ireland ever run an e-auction?

Yes – Bord Na Móna conducted an e-auction for the procurement of fuel in 2004. Please email eproc@finance.gov.ie for contact details.

7 What is the legal position on using eAuctions?

The new EU Directives provide for the use of electronic auctions.

8 Anything else I need to know?

(i) For above EU-threshold tenders, the OJEU contract notice must specify that an electronic auction will be used (Q. IV2.2).

(ii) In your Request for Tender/Invitation to Tender documents you will need to specify everything that a supplier needs to know about the competition and especially about the e-auction. Be prepared for some suppliers not having the confidence or capability to participate and ensure that arrangements for proxy bidding have been

made with your service provider. Make sure that the suppliers fully understand the entire process.

(iii) You must decide in advance the details of the e-auction –e.g., the bid decrements, the duration, extension periods, whether or not to request a starting price, handling of lots, etc. Your service provider should assist you with this. A ‘dummy’ run is advised for suppliers who are unfamiliar with e-auctions.

(iv) The EU Commission published an explanatory document on electronic public procurement; section 5 includes helpful advice on information to be provided in relation to specifications, the auction device and running the auction. This document is at:

http://europa.eu.int/comm/internal_market/publicprocurement/docs/eprocurement/sec2005-959_en.pdf

9 Further Information

For further information on reverse auctions, check out the OGC (UK’s Office of Government Commerce) website at: <http://www.ogc.gov.uk/index.asp?id=1001034>

Also, the OGC Buying Solutions at:

<http://www.ogcbuyingsolutions.gov.uk/RAF/default.asp>

Some e-auction case studies can be seen at

<http://www.ogc.gov.uk/index.asp?id=1002655>

The following report, produced by the EU Procurement Learning Lab, might also be of interest, offering an overview of the way auctions are conducted across the EU (and including some non-EU participants in the study):

http://www.consip.it/sc/uff_studi/documentazione/Final_Report_AuctionDesign.pdf

Appendix

Glossary of Auction Types

This information was provided by the EU Procurement Learning Lab and provides an explanation of auction types – (note that some EU member states regard all tender competitions as auctions).

Auction: by Auction we refer to what in the EU directives is defined Open Procedure and Restricted Procedure as well as to the transposition of these procedures in Domestic Laws of EU Member States. These procedures are a particular kind of auctions that in auction theory are defined sealed bid auctions.

Open Procedure shall mean those national procedures whereby all interested providers may submit a tender in response to a notice placed in the Official Journal. This procedure is mainly used for simple procurement requirements. All tenders are considered, and the auctioneer selects the winner on the basis of pre-specified contract award criteria.

Restricted Procedure shall mean those national procedures whereby only those providers invited by the authority may submit a tender. This is the most common procedure. The Auctioneer selects a limited number of tenders after screening on the basis of the criteria set out in the Regulations. The Auctioneer evaluates the tenders and selects the winner on the basis of pre-specified award criteria.

Sealed Bid Pay As You Bid Auction (First Price Auctions): bidders submit bids in sealed envelopes; the person submitting the best bid, that means the highest discount, wins the prize and pays what he bid.

Sealed Bid Pay The Second Winning Bid Auction (Second Price Auctions): bidders submit bids in sealed envelopes; the person submitting the best bid, that means the highest discount, wins the prize but pays only the second highest bid.

Ascending Auction: the price start low and competing bidders raise the price until no-one is prepared to bid any higher, and the final bidder then wins the prize at the final price he bid.

Descending Auction: the price start high and competing bidders cut the price until no-one is prepared to bid any lower, and the final bidder then wins the prize at the final price he bid (this is the case of the auctions run by Procurement Entity).

Disclosure policy: the degree of information that the procurement entity decides to public before/during/after the auction.

Dutch Auction: The auctioneer starts at a high price and announces successively lower prices. The first bidder to bid wins the prize and pays the current price at the time he bids.

Ascending-Clock Auction: the price grows continuously in a predetermined period of time (e.g. 1 hour) in which players do not have to submit bids and they are considered to stay in the auction until they decide to exit. The prize is awarded to the last bidder remained in the auction. The mechanism is symmetric for descending auctions.

Multiple-Round Auction: multiple round auctions are similar to ascending ones, but the price does not increase (ascending auction) / decrease (descending auction) continuously but round by round with a predefined percentage. A multiple round auction is the discrete version of the ascending/descending auction. Rounds can be unlimited or limited.

Anglo-Dutch Auction: consists in adding a final sealed-bid round to either ascending or descending auction.

Combinatorial Auction with Package Bidding: In an auction for multiple items, this allows bids that each comprise a “package” (i.e., a set of items) and an associated payment. A bid is interpretable as an all-or-nothing offer for the specified package at the associated payment; there is no requirement that the bidder be willing to purchase a part of the package for a part of the payment.

Sequential auctions: the units are sold one-at-a-time in separate auctions that are conducted sequentially.

Explanation of some of the terminology used:

Reserve Price: the minimum amount the winner is requested to pay.

Awarding Constraints: limit in terms of number of lots or percentage of total value of the contract that can be awarded to a single bidder.

Awarding Criteria: rules usually adopted to give different weights to technical aspects and price in auctions for complex goods/services. These technical aspects relates to additional services contractually specified, such as assistance and maintenance, call center services, etc...).

Entry: the number of participants that will enter to the auction. Generally the larger will be the number of participants to the Auction the higher will be the competition and therefore the better will be the result achieved.