Reverse Auction Myths vs. Realities: The Truth About Competitive Bidding

by David C. Wyld, Founder and Director, The Reverse Auction Research Center

Myth	Reality
Reverse auctions are only used in private sector procurement.	The public sector, led by federal agencies, is leading the way with competitive bidding, saving tens of millions of dollars every year through successful adoption of reverse auction-based purchasing as a best practice.
Reverse auctions are only used by the largest, Fortune 500 companies.	Reverse auctions have been, and are being, successfully used by companies of all sizes.
Reverse auctions require a great amount of upfront investment in both money and time.	Cloud-based "procurement as a service" reverse auctioning platforms deliver immediate access and implementation, with no upfront cost and minimal employee training.
Reverse auctions are limited only to commodity goods and are not appropriate for services.	Both commodity goods and services (with a fixed price and clearly specified requirements) are purchased through reverse auction—with services taking the lead in average percentage of savings on FedBid.
Reverse auctions are only used for large, high dollar procurements—no less than six figures.	Reverse auctions save time and money on purchases of all sizes. Most auctions involve items under $150,000, but even items less than $2,000 are suitable for competitive bidding.
Reverse auctions add unnecessary costs to the procurement process.	Reverse auctions deliver direct cost savings while streamlining the purchasing process—which as a result, frees up time for acquisition professionals to negotiate better value and pricing on complex negotiated procurements. FedBid delivers these Buyer savings and efficiencies with no upfront costs, set-up, installation or training.
Reverse auctions damage suppliers.	The only suppliers at risk in competitive bidding are incumbent companies whose contracts have not been openly and actively competed for several years or more. Reverse auctions offer equal access to market competition, creating more real opportunities for competitive companies. In fact, in FY2012, 78% of the buys awarded through FedBid's online marketplace went to small businesses.

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Reverse auctions are merely a way of exerting power over suppliers.	Reverse auctions are in fact a liberating force for suppliers. They create a fair, open and level playing field that delivers equal access to all suppliers interested in competing for contracts.
Reverse auctions force companies to select and award to the lowest bidder.	Buyers are not bound to take the lowest bid in reverse auctions. In fact, FedBid gives Buyers instant resources to consider other critical information, such as past performance, supplier capabilities and credit, among others.
Reverse auctions favor large companies, because they have the scale and size to offer lower-priced bids, than smaller companies.	Reverse auctions are in fact a proponent of small business. Due to far reduced overhead and driven by desire to win, smaller firms win the vast majority of awards in reverse auctions.
Reverse auctions produce savings that cannot be replicated over time.	Private companies and government agencies show established track records of generating significant savings over successive months, quarters and years by purchasing goods and/or services through reverse auctions.
Reverse auctions don't always produce savings.	It is true that market prices for commodities can vary over a short time frame, and reverse auctions are sometimes used to purchase inherently noncompetitive items. But the fact is, when suppliers engage in competitive bidding, Buyers get the best possible price at that moment through real-time market pricing.
Reverse auctions create animosity between buying organizations and their supply base.	With the growth of public and private sector procurement adoption of reverse auctions, competitive bidding is fast becoming understood as a procurement best practice. Today, reverse auctions are simply the way business gets done.
Reverse auctions are a short-term tactic for procurement operations.	Revere auctions are a proven method for long-term management of indirect spend—delivering significant savings and process efficiency. They have proven to be an essential best practice, complementary to overarching organizational spend management efforts.

Contact Information:

David C. Wyld
Founder and Director, The Reverse Auction Research Center
C.E. Laborde Professor of Management
SLU - Box 10350, Hammond, LA 70402-0350
Office: 985-549-3079, 985-542-6831 | Cell: 985-789-2127 Fax: 985-549-2019
DWyld@selu.edu