ASSOCIATION OF CONSULTING ENGINEERING COMPANIES BRITISH COLUMBIA

ACEC British Columbia Position Paper

Why ACEC-BC Opposes Reverse Auctions for Engineering Services

Introduction

A Reverse Auction is a method of procurement arranged by an Owner that involves a live online bidding competition which allows interested bidders to review the most recent accepted bid and submit a lower bid until either a desired price is obtained, or a fixed time limit expires.

Background

In the late 1990s, reverse auctions were introduced in Canada as an alternative method of construction procurement and as a substitute to the open tender process. The reverse auction practice originated from large manufacturing industrial firms in the United States and was originally used for the purchase of goods and supplies before being expanded into the construction procurement area.

Construction groups across Canada, including the Canadian Construction Association, have strongly discouraged the use of reverse auctions as a method of construction procurement. The Surety Association of Canada (SAC) has supported the construction community and believes that while reverse auctions may be suitable for the purchase of certain types of supplies and services, it is inappropriate for construction procurement.

Reverse Auctions Inappropriate for Engineering Services

"Engineering design" typically represents 1 to 2 percent of the overall lifecycle cost of a project, with construction accounting for approximately 6 to 18 percent of the cost. All the rest—80 to 93 percent of the lifetime asset cost—is accounted for by operations, annual and capital maintenance and de-commissioning.

ACEC-BC believes reverse auctions are not appropriate for the procurement of engineering services because it is frequently not possible for the Owner to provide sufficient detail about the services required to ensure that all firms are bidding on equal footing. This is because part of the undertaking may be an exploration for the most appropriate solution. Reverse auctions do not provide a means for open discussion and alternate proposals for value added service. Services are limited to a narrow set of deliverables. Any value added service is omitted or constrained by the reverse auction.

ACEC-BC believes that reverse auctions will seldom provide benefits comparable to currently recognized selection procedures for design professionals.

- ### Reverse auctions do not guarantee lowest price

  Reverse auction processes may not lower the ultimate cost of construction. For example, "winning" bids may simply be an established increment below the second lowest bid not the lowest responsible and responsive price. Moreover, in reverse auctions, each bidder recognizes that he or she will have the option to provide successive bids as the auction progresses. As a result, a bidder has little incentive to offer its best price and subsequently may never offer its lowest price.

- ### Negotiated procurements allow thorough evaluation of value

  Where price is not the sole determinant, owners increasingly have utilized processes focused on negotiation to expand communication between the owner and prospective contractors for the purpose of discussing selection criteria such as costs, past performance and unique needs. These processes recognize the value and quality of project relationships and other factors that promote greater collaboration among the owner and project team members. These processes also consider quality, system performance, time to complete and overall value that can, in fact, outweigh the lowest price to arrive at the best value for the owner. Such an approach offers both the owner and contractor the opportunity to discuss, to clarify and to better understand each party's needs for the performance of the project. On the other hand, reverse auctions do not promote communication between the parties. Rather, they promote a dynamic in which parties repeatedly attempt to best each other's prices. In fact, current studies of reverse auctions between buyers and suppliers have found that reverse auctions often have a deleterious effect on the relationship between buyer and seller.

Qualification Based Selection is Preferred Best Practice

ACEC-BC believes that Qualification Based Selection provides better life-cycle value to owners. The QBS procedure makes it easier to think about an engineering problem without obsessing over bidding at the lowest dollar figure possible. It allows engineers to consider the most creative and ultimately effective (and often the lowest costing in the long run) solutions to problems. It favours the best and brightest minds in the engineering community, rather than simply those with the lowest initial bids. For more information on QBS, visit:

www.yes2qbs.com

ACEC-BC does not give direction or provide guidance to members or any other design consultants invited to participate in such auctions. Each member must decide whether to participate in reverse auctions, and each must do so entirely on his or her own. However, ACEC-BC believes for the reasons outlined above that reverse auctions are an unproven method for selection of design consultants.

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The ACEC British Columbia Position Papers are a series of articles published by the Business Practice Committee of the Association of Consulting Engineering Companies – British Columbia. They are intended to provide general information about issues and best practices in the consulting engineering industry, and should not be construed as legal advice.

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