

# REVERSE AUCTION REPORT

The City of Chesapeake, on April 25, 2002, achieved another e-procurement break through in which we exceeded expectations in what we believe is the first reverse auction in the State. We saved nearly \$100,000 on the purchase of vehicle tires in a cooperative procurement with three municipalities.

## BACKGROUND:

During the last legislative session, we followed with great interest the debate and enactment of legislation authorizing reverse auctions in the State. We waited several months for an appropriate reverse auction test project. George Hrichak was gracious in providing an opportunity for the purchase of auto and heavy vehicle tires.

## HOW A REVERSE AUCTION WORKS:

Several suppliers vie for a contract in real-time in the blind to provide supplies at the lowest price. A hard copy solicitation is prepared and sent to potential bidders well in advance of the auction, and they agree to participate in the online auction. The reverse auction is just as intense as a forward auction. In this case, we served as the lead municipality for York County and Chesapeake Public Schools.

We first determined the current purchase price of the items and developed a target auction price as a benchmark to determine acceptable results.

The online service provider assumes all costs associated with software development and conducting the reverse auction. There is no cost to the City. The successful supplier pays an administrative fee to the service provider based on the bid price. In addition to the cooperating municipalities, Norfolk, Virginia Beach, City of Naples, FL, and City of Lubbock, TX viewed the auction in real-time in anticipation of conducting their own reverse auctions.

## THE AUCTION RESULTS:

### ONE-YEAR CONTRACT

Current Tire Contract Price

Estimated Auction Price

Actual Auction Price

Reverse Auction Savings

Participating Municipalities <sup>1</sup>	City of Chesapeake <sup>2</sup>
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\$323,000	\$300,000
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\$291,000	\$261,000
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\$224,087	\$201,677
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\$ 99,913	\$ 89,323
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<sup>1</sup>Totals include City of Chesapeake. <sup>2</sup> City of Chesapeake savings.