

# London Borough of Newham

## E-Auction Case Study

**Target Audience – Local Authorities**

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## **Introduction**

This case study concerns the actions and results of a tendered framework contract held for the Supply and delivery of 4 different commodities (lots). The pricing element of these commodities was determined via an electronic reverse auction.

- **What was up for tender?**

4 contracts were up for tender.

1. Stationery
2. Print Room Paper
3. Electronic Office Supplies
4. School Supplies

- **What size was the authority? What was the approximate value of the contracts?**

The LCSG (London Contract and Supplies Group) is a consortium of all London Boroughs and other public bodies who contract together to achieve value for money. This contract has also been tendered on behalf of Surrey CC and its 11 districts and boroughs. The stationery contract (utilised by 36 public bodies) currently owned by the LCSG was due for renewal and it was agreed to investigate the possibility of performing a reverse auction.

The value of the contracts exceeded the OJEU (Official Journal of the European Union) threshold and it was advertised under the restricted procedure. Suppliers were initially shortlisted using scores on business issues (finance, health and safety etc) once approved they then received the formal tender document. On return of the tenders they were scored on non-price issues (returns, electronic capability, service level, quality) and a decision was made on how to weight the non-price score against the price score coming out of the auction.

The contract was from 1<sup>st</sup> September 2005 to 31<sup>st</sup> August 2009. The total value of all 4 lots combined was in the region of £12m.

- **What were the drivers for implementing an e-auction?**

To try and maximise any possible cost savings. E-Auctions (sometimes known as reverse auctions) are being increasingly used in the private and public sector. Headline results have been extremely eye catching with Central Government and the Gershon Review encouraging reverse auctions to become more common practice as a way of potentially generating additional savings. It was felt that the time was right and the contract commodity appropriate for the LCSG to use this method for this substantial contract.

Research by the London Borough of Newham shows that for 46 known e-auctions the average savings were 18% - see Appendix A.

It would also be an ideal test case for not only e-auctions but also to see if the Gershon report advice on collaborative working “quick measurable wins” could be substantiated.

- **What system was selected?**

After conducting some research it was decided to seek advice and guidance from the OGC (Office of Government Commerce) who were actively promoting the use of their framework auction providers. Initial meetings were held with 2 of the framework suppliers and internal advice was taken from personnel with past auction experience. It was then decided to approach Achilles Online Services for help.

- **Which approach was decided upon?**

After deciding to combine the stationery and supply of computer consumables into one procurement activity, it was agreed to add two further identified requirements. These were, School supplies (specifically stationery related...exercise books etc) and also Print Room Paper (large bulk delivery pallets of paper).

The council that would lead the tender process was then decided with the responsibility to form a Tender Appraisal Panel (TAP), made up of volunteers from a number of LCSG members.

- **Tender Procedure**

A restricted tender procedure was used, this allowed short-listing of suitable suppliers. In compliance with standard procedures, a Prior Information Notice was published in OJEU. The formal contract notice followed this. Pre-Qualification Questionnaires (PQQ) were made available to interested organisations. A financial evaluation was carried out on all organisations.

Following this all organisations were assessed on 5 specific areas, eligibility, insurance, technical capacity and ability, equal opportunities and race relations and health and safety, with weightings attributed to each area. Procurement representatives of all boroughs carried out the evaluations. Finally Invitation to Tender documents were issued.

On return, Tenders were checked for compliance. Those suppliers who did not fully comply were advised that for certain lots they would be excluded. The Tenders were then quality assessed on eight areas with weightings attributed to each area (such as order and delivery process, service levels etc).

Following the quality assessment a total of 9 different suppliers were invited to take part in the auction events.

It had been agreed that the contract would be awarded on the most economically advantageous tender with pricing allocated 70% price and 30% non-price element (qualitative assessment).

- **Instigating an E-Auction**

After it was agreed that we would “auction” the price element of the contract, a meeting was set up with an auction provider. Initial discussions soon realised that the commodities to be tendered were ideal for an auction event. The auction provider sent a draft appendix, which was to be attached to the outgoing tender document. This appendix outlined to the suppliers the process by which the contract would be awarded.

- **Contract Award.....**

ITT (Invitation to tender) bidders were requested to provide information in order for the buyers to assess the bidders ability to fulfil the contract. This would include various non-price, samples, and technical elements of the proposal.

After assessment the tender appraisal team scored the ITT responses. Bidders were then sent an email inviting them to take part in the next stage of the process and how to access the online auction website. The bidders then submitted their opening price bid, which they calculated against the “basket” of goods/services in the tender, taking the form of a bidding spreadsheet. Any questions or issues raised on the tender were resolved prior to the auction. Bidders were also able to see other supplier bids, although they did not have access to any information allowing them to identify their competitors.

The bidding event took place over the Internet.

Bidders were trained by the auction provider a week or so prior to the event and notified of the time the auction was due to start. They were also provided with backup support in case of technical or network issues on the day of the event.

To enable the auction to be as transparent as possible, invitations were sent out to all participating LCSG authorities. A large meeting room was booked with Internet and projector capabilities. Off site access to the auction was also available and was provided where requested, however it was felt that participation on site was much the preferred option.

- **Auction timetable**

22.03.05	Invite Tender
03.05.05	Final date for receipt of tenders
03.05.05	Open Tenders
06.05.05 - 31.05.05	Evaluation of tenders
27.05.05 - 31.05.05	Site visits/presentations and clarification meetings
31.05.05	Finalise short list to auction
02.06.05	Initial Auction Structure Meeting
03.06.05	Finalise Auction Structure
03.06.05 - 10.06.05	Supplier Auction Training
14.06.05 - 16.06.05	<b>Hold E-Auction</b>
20.06.05	Finalise Evaluation
21.06.05	Agree award proposal
28.06.05	Prepare draft award report
05.07.05	Circulate draft report for comments
12.07.05	Finalise report
16.08.05	Obtain political approval
21.08.05	Award contract
21.08.05 - 31.08.05	Lead in time
01.09.05	Commencement of contract

This was the original timetable initially agreed, the auction was finally held on 20<sup>th</sup> June. This delay was primarily due to internal issues and was not a direct result of the auction process. The main point to note here is that the actual auction only adds at most 1 week to the overall tender process.

- **Dealing with Issues**

The lead authorities, with reference to the TAP, handled any queries or questions during the tender process. Auction training and advice was fully managed by the auction provider.

- **Auction basics (rules)**

<b>Buyer agrees to:</b>	<b>Suppliers agree to:</b>
Invite only qualified suppliers to take part in the bidding event.	Participate actively in the bidding event and to bid as competitively as possible.
Award only to suppliers who take part in the online bidding event.	Submit price bids only through the online bidding event.
Award the contract at the price bid online.	Submit all price bids as legally binding quotations.
Give all bidding suppliers' proposals a fair and reasonable assessment before awarding the contract.	Acknowledge that the lowest bidder will not automatically win, and that other non-price and technical factors will be taken into consideration.

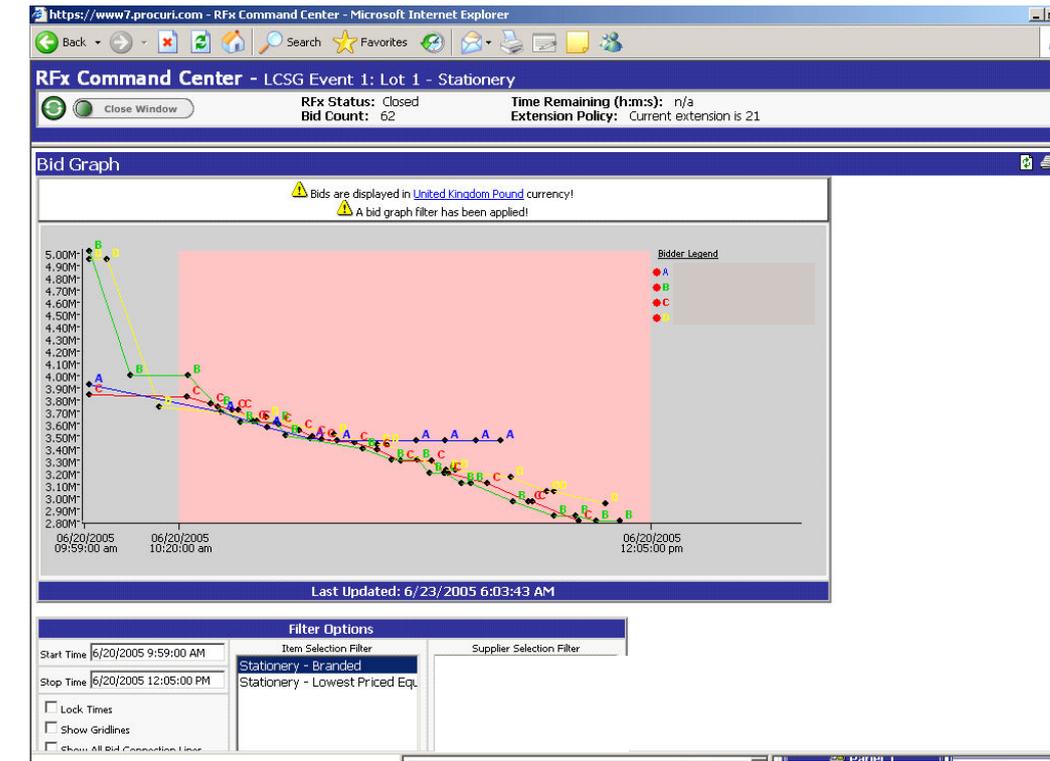
At the end of the auction, bidders are required to fax back confirmation of their final bid; they are then required to provide a more formal breakdown of that bid in the next 48/72 hours. The auction provider relays the information to the bidders.

At the end of the bidding event the buyers will have all the price and non-price elements of the bidders proposals. It is then down to the buyers to make their selection and award the contract in the light of all of this information. It is made clear to the bidders that the buyers will not be bound to accept the lowest price proposal received.

Each of the four auctions were set to run for a minimum of 20 minutes, with an additional 5 minutes being triggered by a new bid made with less than 5 minutes to go. This enabled all bidders to have further time to be able to respond to any late competitor bids.

- **Auction 1 overview**

There were two bidding lines (branded and lowest priced equivalents), supported by a spreadsheet that defined a set of stationery items with indicative usage for each item. The bid value was calculated by multiplying the usage figures and the unit price.



The diagram above shows an overview of how the different bidders performed. On the left hand side is the high level basket value, each time a new bid is made the auction the graph is updated with reference to who made the bid. The bottom axis is the timeline.

### **Auction 1 – Stationery**

6 suppliers were originally invited to tender, ultimately 4 suppliers took part in the auction. All went through the non-price / qualitative evaluation.

The “Basket” includes 1100 lines with the value of the “basket” at current prices being £4,462,951.82 (sometimes known as the “Reference Price”).

In total 62 bids were made, the auction lasted 2 hours and 5 minutes and had 21 auto-extensions [NB: auto-extensions are where 1 bidder submits a bid within five minutes of the end of the period. When this happens, to allow counter bids to be made a further period is added, typically 5 minutes].

The lowest "branded" quote was £1.6 million pounds less than the current cost (based on the existing contract), this equated to a saving of approximately 37%. Taking the "lowest equivalent" quote the saving was £1.8m with a potential saving of 41%.

### **Indicative Savings on Branded items – Lot 1**

<b>Current Price</b>	£ 4,462,951.82
<b>Lowest Bid Value</b>	£ 2,799,171.86
<b>Indicative Savings - £</b>	£ 1,663,779.96
<b>Indicative Savings - %</b>	<b>37.28%</b>

Current spend levels for Lowest Price Equivalents were not available for comparison.

- **Auction 2 overview**

There was a single bidding line, supported by a spreadsheet that defined a set of paper types with indicative usage for each item.

#### **Auction 2 – Print Room Paper**

7 suppliers were invited to tender, 4 returned bids, 1 was later excluded, and so 3 suppliers took part in the auction. All eligible suppliers were assessed for non price / qualitative evaluation. The Basket of goods includes 47 lines of high usage/high spend products. In total 5 bids were made with the auction lasting 20 minutes, there were no auto-extensions.

Current spend levels were not available for comparison.

- **Auction 3 overview**

There were two bidding lines "branded" and the "lowest priced equivalent", supported by a spreadsheet that defined a set of electronic office supplies with indicative usage for each item. The bid value was calculated by multiplying the usage figures and the unit price.

#### **Auction 3 – Electronic Office Supplies**

8 suppliers were invited to tender, 6 returned bids and all 6 took part in the auction and all were scored through the non-price/qualitative evaluation. The "Basket" included 507 lines with a value of £3,256,560.48 (at current prices).

In total 62 bids were made and the auction lasted 2 hours with 20 auto-extensions. All bids for these products were very close probably due to the fixed pricing of certain items.

### **Indicative Savings on Branded items – Lot 3**

Current Price	£ 3,256,560.48
Lowest Bid Value	£ 3,023,493.54
Indicative Savings - £	£ 223,066.94
<b>Indicative Savings - %</b>	<b>7.16%</b>

Saving on “lowest equivalent” where the margins are more controlled by the bidders was - £ 1,061,560.48 or 32.6%

- **Auction 4 overview**

There were three bid lines supported by a spreadsheet that defined a set of commodities.

1. Auction 4 – School Supplies

6 suppliers were invited to tender, 5 returned bids 1 of which was ultimately excluded from the auction. All were scored through the non-price / qualitative evaluation. The “Basket” included 209 lines split into high/med/low usage, no indicative usage or spend values were available. The auction lasted 35 minutes.

**Current spend levels were not available for comparison.**

## Successes in Our Approach

1. Used an auction provider with experience in the commodities being auctioned.
2. Auctions offer potential additional savings to normal tender processes...they are transparent, provide easy access, and provide additional audit trail decision support.
3. The importance of the Tender specification was highlighted; this not only helped the bidders but also meant each "basket" was especially representative of buyer's requirements.
4. By having a competitive auction, the process confirmed that the LCSG is buying at current market rates.
5. The auction provided a clear level playing field for suppliers.
6. Supplier location is not an issue.
7. By going through the non-pricing scoring element and agreeing internally on the price/non-price ratio it enabled us to then feed in the auction bid prices and come up with an overall winner which incorporated both price and non-price.
8. Suppliers were encouraged to continue bidding even if their latest bid was not the lowest, this is because it is made clear that price was not the only element in the final contract award.
9. The e-auction was the first held by the LCSG, the event was well advertised and was attended by 60 officers representing 20 boroughs, plus 10 offices with remote viewing access.

- **Post Auction actions**

Suppliers were asked to fax in confirmation of their total bid an hour or two after the auction closed. They were then required to send a full breakdown of pricing by item within a stipulated time (normally around 48 hours later).

The final documents were then checked and the assessment panel reviewed the pricing and non-pricing elements, the scores were combined and a proposal was put forward to cabinet.

## Approach difficulties

The size of the 4 lots and the number of line items required to be valued were substantial; agreement on the scoring mechanism involved frequent consultation with other boroughs.

Although this provided us with significant collaboration and consensus of opinion it did cause some issues regarding scheduling meetings, individual availability etc.

The auction added approximately one week to the overall process (see Timetable above).

## **Lessons learnt**

- Ideal where the goods or services have a sufficient number of qualified suppliers.
- Ideal where goods or services can be clearly specified.
- The Price element confirmed that the buyer was purchasing at the current market rate.
- The buyers must have a willingness to select non-incumbent supplier.
- The lowest bid does not automatically win the award, full appraisal/assessment must still take place.
- The more specific and detailed usage information that can be provided the better the end result will be for both buyer and supplier.
- Works best where the commodities being auctioned have a significant margin and where there is genuine competition between 3 or 4 suppliers.
- "It's a No brainer"...just do it !

## **Conclusion**

In the main the process was very similar to the traditional tender process used by the Public Sector. All the normal procurement processes remained the same with the only real exception being that the bidders/suppliers submitted their proposal in two parts. Firstly non-price, this was done as part of the ITT- Invitation to Tender. Following review by the buyers, a reverse auction-bidding event occurred.

The actual auction does not require any specialised computer equipment nor do they need any extra software to be downloaded onto their computer hardware.

The only basic requirement is a reliable Internet connection with a reasonably up to date Microsoft Internet Explorer Version.

The tender Specification must be tight. To gain maximum benefit it is extremely important for the suppliers to be entirely clear as to what they are bidding for. The collection of data, historical spend etc is key.

The auction provided additional information with regard to the buyers sourcing decision; this is useful for internal audit departments – it is a transparent and fully recorded event.

Because of the level playing field and openness of seeing competitor bids it was safe to assume that additional savings were inevitable as a result of the auction process over and above the standard tender process.

The transparency of the auction allowed the suppliers to be able to see how and where they might need to adjust their business to remain competitive.

The buyers retained full control over the award process of which price is only one element, albeit a very important element.

Certainly with regard to other e-initiatives auctions have the ability to provide a much quicker return on investment.

LCSG members present at the auction were clear that it had been a great success and that when the next opportunity arose, we would once again have little hesitation in auctioning the price element.

It leaves one question, which should be aimed at all local authorities....

**“Why aren’t auctions used more often when all the evidence suggests significant cash savings and other process advantages”...?**

**Appendix A: Data Available on eAuctions / eTenders****Dec 2004**

<b>Commodity/Services/Good</b>	<b>Value of Contract</b>	<b>Savings Achieved</b>	<b>Saving (%)</b>
Computers	140,000	21,000	15%
Paper	52,000	9,400	18%
Bottled Water	450,000	260,000	58%
Electricity	1,152,000	99,000	9%
Gas	200,000	26,000	13%
Paper & Paper Board	450,000	72,000	16%
IT Equipment	40,000,000	12,700,000	32%
Medical Products	6,000,000	600,000	10%
Pharmaceutical Products	5,333,000	640,000	12%
Stationery	1,886,000	1,000,000	53%
Computers	1,400,000	400,000	29%
Court Reporting & Transcription Services	10,000,000	1,000,000	10%
Electricity	615,500	61,000	10%
Carrier Bags	788,000	248,000	31%
Stationery	465,000	269,000	58%
Pest Control	70,000	41,000	59%
Agency Staff	3,000,000	1,170,000	39%
Bulk Envelopes	713,500	85,600	12%
Car & Commercial Vehicle Hire	2,500,000	195,000	8%
Car Hire	750,000	195,000	26%
Carpet Tiles	1,225,000	355,300	29%
Construction Service (x10 Auctions)	76,000,000	12,160,000	16%
Contingent Labour (x6 Auctions)	84,000,000	12,600,000	15%
Architectural design & drawing services (x3 Auctions)	6,000,000	300,000	5%
Electrical cabling & install (x4 Auctions)	10,800,000	1,404,000	13%
Electricity	6,700,000	1,474,000	22%
Envelopes	1,185,000	118,500	10%
Mailing & Distribution	3,413,800	409,700	12%
Hotel Accommodation (UK)	8,000,000	880,000	11%
IT Recruitment	1,000,000	500,000	50%
Logistics	1,458,000	116,600	8%
Mobile Telephony	15,100,000	3,020,000	20%
Oils & Lubricants	612,000	79,600	13%
Statements & Letters	1,290,000	309,600	24%
Office Supplies	3,100,000	1,023,000	33%
Temporary Building Hire	3,284,000	755,300	23%
Major Electrical Components	500,000	75,000	15%
Cleaning Services	600,000	150,000	25%
Fleet – Leased Cars	5,000,000	500,000	10%
Hotel Accommodation	3,500,000	980,000	28%
Telecommunications – Outbound telephony	1,000,000	350,000	35%
Temporary Staff	6,000,000	1,200,000	20%
Mobile Telephony	656,000	225,000	34%

Inland Revenue Flat Screen Monitors	8,000,000	180,000	23.09
Environment Agency Stationery	963,195	200,000	23.29
NHS PASA Eye Pads	311,904	20,000	80.57
NHS PASA Canned Grapefruit	143,413	30,000	24.16
Inland Revenue Furniture	24,000,000	5,500,000	23
	<b>349,807,312</b>	<b>64,007,600</b>	<b>18.30</b>

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