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FOR INFORMATION CALL

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Ald. Jim Bohl
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Proposed "Reverse Auction" Legislation Could Save City Time and Money

A bold online-centered "reverse auction" approach to securing goods and services could be saving the City of Milwaukee time and money, according to **Alderman Jim Bohl**, who will introduce legislation Wednesday seeking Common Council support in establishing such a system.

The reverse auction approach – long used in the corporate world and which has become increasingly popular with many state and local governments across the U.S. – was a recommendation of the Kettl Commission (formally the Governor's Blue-Ribbon Commission on State-Local Partnerships for the 21st Century) in January 2001.

Reverse auctions follow a structured bid process that works much like online auction site E-Bay, only in reverse. Alderman Bohl said. "With reverse auctions, the city would put out an invitation to purchase a quantity of goods or services online, which pre-qualified vendors -- instead of using a single, blind sealed bid -- would compete over to win. During the bidding process, vendors would be able to view the current status of the bids online, allowing them to adjust their bids in real-time. This more competitive process establishes a true market value that usually results in a major cost savings to the buyer," he said.

Alderman Bohl said that in traditional government blind-bid procurement situations, it is not uncommon for losing vendors to state that they would have bid lower to secure a contract if they were only given an additional opportunity to re-bid. "Because these vendors can see the low bid in a reverse auction process, they can adjust their own bid in that situation," he said.

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Reverse Auction/ADD ONE

Significant time savings have also been realized by using reverse auctions, Alderman Bohl said. “Typical 30-day sealed bid process timelines can be reduced, in many cases, to just hours, resulting in huge time savings for the local government and greatly improving efficiency,” he said. “An added benefit to utilizing open technology in reverse auctions is the increased transparency and legitimacy to the process.”

To protect the city, bidders would be pre-approved by city officials in terms of quality of the goods or services to be provided, and in terms of ability to deliver those goods and services, Alderman Bohl said.

Alderman Bohl said the following are examples of savings realized by government use of reverse auctions:

- State of Minnesota officials estimate that they’ve saved \$1 million in the first year of their program, and those savings jumped to \$22 million over the five-year life of the contracts awarded through the state’s Internet bidding system, according to the Minnesota Materials Management Division.
- Minnesota trimmed its \$10 million copy paper contract by \$1.2 million, a 13% savings; chopped its \$200,000 paint contract by \$36,000, an 18% savings, and slashed \$67,000 from its \$432,000 body armor contract, a 16% savings.
- The Kentucky League of Cities completed 18 auctions in 2003 for everything from fire apparatus to computers. Estimated costs related to these auctions totaled close to \$5 million with low bids resulting in an average savings of 15%.
- Delaware saved more than \$13 million on its utility bills from 2010 through 2013.
- The City of Dayton will enjoy average savings of 12% on some basic commodity purchases for 2010 and 2011 as the result of a pilot “reverse auction.”
- The City of Chicago shaved \$1 million dollars from the purchase of snow removal equipment for O’Hare airport in 2009 by utilizing a reverse auction instead of a traditional sealed bid process that had taken place only months before with the same 4 suppliers.
- In a pilot first-year trial, the Louisville Metro Government ran eight reverse auctions and realized a savings of nearly \$600,000.