

Policy and Procedure
Reverse Auctions

Division of Purchase and Contract
November 2019

POLICY

It shall be the Policy of the State of North Carolina to allow use of reverse auctions in the two-step competitive sealed bidding process for any procurements where price is a material determinant or when it is determined that the procurement method would increase procurement efficiency.

Please reference The North Carolina Procurement Manual for any policies and procedures not listed within this document.

PURPOSE

The Purpose of this Policy is to document the circumstances under which a reverse auction may occur and establish the procedures for conducting a reverse auction. Reverse auctions may be used if the State Procurement Officer determines that reverse auction bidding will provide the best value for the State.

SCOPE

The Division of Purchase and Contract (P&C) and any authorized entity with delegated authority under 01 NCAC 05B .1603 (Special Delegations) or 01 NCAC 05B .1604 (General Delegations) may use reverse auctions as a procurement option. P&C and any authorized entity must follow this policy as defined herein.

For purposes of this policy, the terms

“Two-Step Competitive Sealed Bidding Process” is a process consisting of two separate bid steps. The first step being the technical response and the second step being the cost proposal.

“Reverse Auction” means a real time purchasing process in which responsive and responsible vendors compete to provide goods or services at the lowest selling price in an open and interactive electronic environment.

“Electronic Bidding” means the electronic solicitation and receipt of offers to contract. Offers may be accepted and contracts may be entered by use of electronic bidding.

“P&C” shall mean the Division of Purchase and Contract (or Division) and any authorized Agency.

“Responsible Offeror” An offeror who has the capability in all respects to perform fully the contract requirements, and the integrity and reliability to assure good-faith performance.

“Responsive Offeror” An offeror who has submitted an offer which conforms in all material respects to the solicitation document. They are a responsible vendor that complies with the requirements of the solicitation and any subsequent addenda, excluding price, and whose bid proposal meets the final specifications of the solicitation. The responsive and responsible bidder was found to have an “Acceptable” technical response and allowed to advance to the bidding phase (Step 2).

“Online Bidder” is an authorized agent of the responsive vendor that will participant in Online Bidding.

“Vendor” shall have the same meaning as defined in 01 NCAC 05A .0112.

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AUTHORITY AND PRECEDENCE

§ 143-49. Powers and duties of Secretary.

(3) To purchase or to contract for, by sealed, competitive bidding or other suitable means authorized by the Secretary including, without limitation, negotiations, reverse auctions, a best value procurement method such as that defined in G.S. 143-135.9(a)(1), and the solicitation, offer, and acceptance of electronic bids, all services of the State government, or any of its departments, institutions, or agencies; or to authorize any department, institution or agency to purchase or contract for such services.

G.S. 143-49 authorizes the use of reverse auctions as a procurement option. The administrative code does not reference reverse auctions. In the event of conflict or ambiguity, the more specific requirements of this Policy supplement the more general requirements of G.S. 143-49.

GENERAL

The two-step competitive sealed bidding process using reverse auction is very similar to the standard two-step competitive sealed bidding process. The only difference is the cost proposal. Instead of collecting cost proposals in a separate envelope, they will be collected through the reverse auction.

Technical offer(s) will be evaluated (first step). Only those bidders determined by the agency that issued the solicitation document to have a responsive and responsible technical offer will move on (second step). Responsive and responsible bidders will be invited to complete their cost proposal via reverse auction.

P&C may use reverse auctions to procure goods and services that would normally be procured using “lowest price meeting specifications” or “best value” method. P&C may use reverse auctions when:

- Product or service specifications are clearly articulated,
- Performance history of the prequalified vendors participating in the auction is acceptable,
- Comparable bids are expected to be tendered from more than one vendor,
- A complete solicitation has been advertised, and
- The solicitation resulted in responsive and responsible bidders that have evidenced their ability to deliver the specified product or service.

The reverse auction shall be conducted by electronic means.

The Online Bidding shall be conducted in a manner such that (1) bids are updated in real time and (2) each bidder may bid against each other. No online bids may be accepted after the time that Online Bidding closes.

Reverse auction bidding is appropriate to use when there are multiple responsible providers of a procurement item or service.

P&C may contract with a third party to conduct the reverse auction as long as the procedure meets the requirements contained in this policy. If a third party is used, P&C shall contact them *prior* to issuing a solicitation.

Solicitation Guidelines

In addition to guidance provided in the NC Procurement Manual, the solicitation should:

- state that this is a two-step sealed bid process and that the cost proposal will be accepted in Step 2 – Reverse Auction only,

- state all dates and times relevant to Step 2 – Reverse Auction,
- prescribe the requirement that **no prices** are submitted prior to the reverse auction,
- inform vendors that they will be contacted and required to complete a training session explaining how to bid through the selected reverse auction bidding system,
- inform vendors of any additional terms and conditions that will require acceptance, if the reverse auction is being conducted by a third-party provider, and
- describe the procedure that P&C will follow in conducting the reverse auction.

Advertise on the Electronic Bidding System

The solicitation shall be published according to 01 NCAC 05B .0316 ADVERTISEMENT REQUIREMENTS. Vendors will be given a minimum of 10 calendar days’ notice of reverse auctioning opportunities.

STEP 1 – TECHNICAL OFFER

P&C will receive offers in response to the solicitation and determine which of the bidders are responsible, responsive, and eligible to participate in the reverse auction. This is to ensure that P&C contracts with responsible and responsive vendors who offer, and can deliver, quality products or services that meet or exceed the specifications of the solicitation. Only such bidders may be invited to participate in Step 2 - Reverse Auction.

Contractual terms and conditions will be defined up front with all two-step sealed bid process using reverse auctions opportunities.

P&C shall allow all responsive and responsible offerors to participate in a reverse auction.

STEP 2 - REVERSE AUCTION

Step 2 – Reverse Auction will begin once P&C has identified the responsive and responsible offerors. P&C or the third-party reverse auction provider will notify the responsive and responsible offerors that they have been approved to participate in the reverse auction and of the following.

- The Online Bidder will be required to complete training on the selected reverse auction bidding system.
- Each Online Bidder will be provided credentials to allow them to access the online bidding process.

Proxy Bidding

In order to assure the fullest possible participation, vendors with limited technology or experiencing technological difficulties will be offered the option of using a proxy bid process. P&C or the third-party reverse auction provider will bid on the vendor’s behalf as described below. Vendor will submit a proxy bid form requesting and authorizing a proxy bid. The solicitation may provide that the surrogate has no liability to the vendor for errors or omissions.

The proxy bidding will be conducted using one of the following methods:

1. Vendor will include on their proxy bid form a starting and final bid. P&C or the third-party reverse auction provider will continue to lower their bid by the set bid decrement/increment attempting to find first place until the surrogate bidder reaches the final bid at which time the surrogate will stop bidding regardless of the vendors rank.

2. Vendor will participate via the telephone with the surrogate bidder. The surrogate bidder will inform the bidder of their current bid and rank any time either change throughout the live reverse auction. Vendor will instruct the surrogate on each bid to place attempting to improve their rank.

Bid Ceiling/Starting Bid

P&C may provide for a maximum starting price or minimum percentage discount in the solicitation or addenda.

Bid Extensions

The reverse auction will run for a set duration. Unless otherwise expressed, P&C will utilize an "extension period" which is the number of minutes (typically 3) before the end of an auction, during which, if a bid is received, the bid time will automatically reset to a predetermined time (typically 3 minutes). For example, when the extension parameters are 3 and 3, if a bid is placed within the last three minutes of the auction time, the bid clock will reset to three minutes. This process would continue until no more bids are received.

Decrement/Increment

A decrement or increment will be set requiring bidders to modify their next bid by at least the set decrement or increment from their current bid. For example, if a bidder's current bid is \$100 and the decrement is \$5, the bidder will have to place a bid of \$95 or less for it to be accepted.

Online Bidder View

To protect the integrity of the bid, information visible to each Online Bidder, other than their actual bid prices, may only include:

- The Online Bidder's rank which is determined by comparing their current bid price to other participating Online Bidders' prices or percentage discounts (e.g., "1st, 2nd, or higher")
- The price or percentage discount of the Online Bidder offering the lowest bid price.

Online Bidders will not see any other information pertaining to other competing Online Bidders.

The Division of Purchase and Contract is committed to fair and open competition in the acquisition of goods and services that meet the needs of our customers while demonstrating stewardship worthy of the public's trust. The reverse auction is one way to promote fair and open competition while increasing the efficiency of the procurement process.

Declaration of Policy



Odessa McGlown
State Purchasing Officer

November 27, 2019
Date