

PROHIBITING USE OF INTERNET REVERSE AUCTIONS

CQC Position:

CQC supports legislation prohibiting the use of the ethically-questionable construction procurement process known as “reverse internet auctions” for any federal or federally-assisted construction project.

Issue:

Several years ago advances in high-speed internet computer technology led to the introductory use of a new method of construction contract bidding – the internet reverse auction. Under this technique bidders gather around their computers at a certain time. Bidders previously have received relevant project data, specifications and projected construction timetables. The owner opens the bidding, and each participating contractor submits his initial bid electronically. The low bid is posted for all bidders to see – but the name of the current low bidder is withheld. The bidding continues with additional rounds of bidding. After each round of bidding the new low price is posted for all bidders to see. This continues until the lowest price is reached, at which time the bidding is closed and the winner declared. The process encourages unethical practices by owners and irresponsible bidding practices by contractors – and does so without guaranteeing the best construction price and quality to the owner.

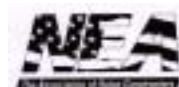
Status:

Legislative language under development.

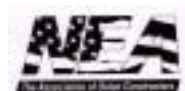
Facts:

- Contractors spend substantial time, money and effort in preparing their bids. The price they submit is not arbitrary, but based upon the best prices they have been able to obtain from their subcontractors and suppliers and their best estimate of the price at which they can bring in a project and still make a reasonable profit. This is why best-price sealed bidding is the most effective way to obtain the highest quality construction at the lowest price.

- The internet reverse auction process drives out the most responsible bidders in favor of those who are willing to cut corners and/or squeeze subcontractors (who also must cut quality) to get at a lower price.
- Responsible estimating practices go out the window in the scramble to submit a lower, winning bid.
- Fraud is possible, since no one (except the owner holding the auction) knows if the low bid is real or a false target submitted by the owner holding the auction.
- Some contractors who have learned to “game the system” of reverse internet auctions inflate their initial bids to allow room to move their price downward. Should other bidders do the same, the owner may actually end up paying more than he would have under a sealed bid system.
- A study of internet reverse auctions by the U.S. Army Corps of Engineers indicated that it does not lead to the best prices or construction quality and recommended against use of the practice.
- Every construction project is unique. Each building design and location will have unique conditions that have to be met in a specific climate and location. Construction procurement cannot be treated like procurement of mass-produced commodities.



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