



Oppose Utilization of Reverse Auctions for the Procurement of Federal Construction Services

Background:

Over the past decade, the construction industry has seen a growth and drop in the use of reverse auctions as a means to procure a variety of goods and services. One issue that is clear is that reverse auctions are inappropriate for the procurement of construction services. Reverse auctions do not only guarantee the lowest price but also place undue emphasis on price versus value-added services, may encourage imprudent bidding, tend to denigrate relationships, and may even contravene Federal procurement laws and certain state laws.

Key Points:

- Construction Services Should Not Be Procured as A Commodity. Reverse auctions attempt to treat construction as a commodity, which it is not. While reverse auctions may work for purchasing certain commodities, construction procurement has many unique aspects that make the procurement process different than other forms of commerce. Every building, project, and contract is unique and requires special knowledge, skills and training.
- Reverse Auctions Do Not Provide Benefits Comparable to Currently Recognized Selection Procedures for Construction Contractors. Reverse auctions rely solely on driving the price of a good or service to an absolute minimum and awarding the contract to the lowest bidder, reversing years of progress in “best value” contracting. Reverse auctions deprive taxpayers of the full benefits of fair competition, quality construction and consideration of life-cycle costs.
- Reverse Auctions Do Not Guarantee the Lowest Price and May Encourage Imprudent Bidding. Under a reverse auction process, contractors are forced to repeatedly reduce their price after each bid is submitted. This deprives the government value by creating cost-value disparity in the final bid. Relying solely on price, which is the purpose of the reverse auction, requires cutting costs in the areas of materials and/or labor, which is significant in determining a structure’s overall quality and value.
- Reverse Auctions May Contravene Federal Procurement Laws and Certain State Laws. Federal procurement laws and regulations do not specifically address the use of reverse bid auctions to procure construction. Federal rules do, however, reflect a clear policy of not disclosing contractor price information. Given Federal restrictions on contractor price disclosure, it is unclear that any authority exists for the federal government to conduct reverse auctions for the procurement of construction services by the federal government.

NECA Asks:

NECA opposes the utilization of reverse auctions for the procurement of construction services on Federal or Federally-assisted projects.