



Government of the Republic of Trinidad and Tobago

Ministry of Finance

eAuction: The eWay of Business Procurement

eAuction

This is a Product of:

The Ministry of Finance, Investments Division

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1

What is eAuction and How Does it Work?

eAuction is a part of the strategic sourcing process. It is a procurement tool using web-based software that allows suppliers to bid online for a contract for the supply of goods or services. It is sometimes called a 'reverse auction' because bids are reduced and not increased as in a traditional auction. The objective is typically to arrive at the lowest total cost as distinct from the lowest price.

e-Auction replaces the conventional methods of requesting sealed paper tenders, however, it must be emphasised that success depends on at least the same market knowledge and sourcing skills as the paper-based process it replaces. Just as in the traditional process:

- A pool of suppliers is selected
- A Request for Quote (RFQ) is sent out to the suppliers
- The quotes are evaluated using criteria such as price, prior performance, ability to meet the specifications and delivery considerations
- Based on the above the suppliers are short-listed and invited to participate in the eAuction event

Typically, more time is invested up-front in achieving a very tight Request for Quote (RFQ) specification than in a traditional sealed bid process, but this saves time that would otherwise be spent on post-bid negotiations and clarifications.

After the bidders (suppliers) are selected copies of the confirmed specification, commercial conditions and bid rules are distributed. The buying organisation arranges for suppliers to be trained prior to the event.

At the appointed time of the event suppliers log on to a website where bids can be made at any time during the event. The identities of the bidders are usually masked, however, suppliers are provided with a ranking in relation to other suppliers. Typically events will run for an hour with extensions occurring if a bid is made in the last few minutes.

The eAuction Service Provider and the eAuction software are the basis of any e-Auction. The technology and systems support required include:

- an online bidding system;
- eAuction upload tools;
- back ups;
- security systems; and
- reporting tools.

These components are usually provided by the Service Provider with the necessary staffing. This is the most basic level of support and will usually include a Service Provider staff member being available remotely to monitor the event and to ensure that the software is running properly.

In summary eAuction should not be regarded as a technology only solution but as an online sourcing tool that will help to drive best practice. An eAuction is a bidding event that forms a single part of the greater e-Procurement strategy that is used to drive acquisition cost to real market prices. It is an online dynamic bidding process (a pricing war between suppliers that compete for the business to supply products/ services by successively bidding prices downward). To secure the maximum returns from eAuction, traditional skills such as bid evaluating, specification writing and negotiating, need to be enhanced and extended through a programme of global supply management, which usually entails working with a plethora of different suppliers from around the world.



2 Benefits of eAuction

An important feature of an eAuction is that the results gained are highly visible and bids are comparable. eAuctions can typically secure cost reductions in the order of 20 to 30 percent on the first event for a particular commodity and 5 to 10 percent in subsequent events. Combined with its quick implementation and relatively low entry cost e-Auction can provide a very rapid return on investment.

The use of the eAuction process provides benefits to both buyers and suppliers:

- substantial cost savings (20-30%) through auction being online and instantaneous;
- an accelerated process reducing the sourcing cycle time;
- the ability to open up procurement to a wider market allowing suppliers to make bids without being restricted by geographic location;
- an efficient, open and transparent system and clear audit trail of transactions;
- greater insight of buyers into the dynamics of the marketplace and an indication of the true market price for goods and services;
- anonymous online event creates a “level playing field” i.e. a fair and competitive market; and
- suppliers can, of course, use eAuction to arrive at market prices for their own purchases of raw materials and components.

e-Procurement, of which eAuction is a subset, forms part of the Government’s Public Sector Reform.



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**Basic Operating
Rules for
e-Auction
Participants**

- All bidding suppliers (bidders) have online remote access to the e-Auction event
- The identity each bidder is unknown to other bidders
- The purchasing company (purchaser) knows the identity of the bidders
- During the e-Auction event the bidders are not privy to the actual dollar amount of the lowest bid
- Bidders are aware of their ranking in relation to other bidders i.e. 1st, 2nd, 3rd
- In the case of a technology failure the bidder can continue participation via a proxy bidder, usually the e-Auction Service Provider
- Draft contracts are standardised and completed prior to the e-Auction event
- The detailed specification for the product on Auction is confirmed by the suppliers and purchaser prior to the event
- At the end of the e-Auction event the lowest bidder wins the contract
- The contract is legally binding at the lowest price and for the specifications already agreed upon
- The purchaser is a passive viewer during the event



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**Security
Protocol during
the e-Auction
Event**

- Attendance at the e-Auction event is by invitation only
- No bidders are allowed in the e-Auction control room
- No mobile phones or electronic recording devices are allowed in the control room
- Attendees must be escorted if leaving the control room temporarily
- Security is of utmost importance to protect the integrity of the e-Auction process!



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International Users of eAuction

eAuction constitutes best practice procurement and a wide cross section of enterprises and entities have adopted it as a preferred way of doing business:

- American Express;
 - BP;
 - British Airways;
 - FedEx;
 - Merck;
 - YARA;
 - Exxon Mobil;
 - Nestle;
 - Coca Cola;
 - Goodyear;
 - Shell;
 - Johnson and Johnson.
 - Ameritrade;
 - Morgan Chase;
 - General Dynamics;
-
- **Canada's** Government Electronic Tendering Service (GETS) has been in place since 1997. The government has realized extensive operational savings through the outsourcing of the advertising and distribution functions. The Public Works and Government Services Canada (PWGSC), the central purchasing agency for

the federal government, obtained savings of **Canadian \$1.5 million** a year in photocopying and courier charges, **Canadian \$2 million** a year in newspaper advertising and **Canadian \$1 million** in the service start-up costs.

- **Brazil** introduced its e-procurement portal, Comprasnet, in 2001. Prior to implementation, tenders took more than four months, online auctions can now take just 20 days and facilitate the participation of SMEs. In 2001, **Brazil's** federal government saved 4% on the purchase of goods and services by using e-procurement channels for 20 percent of its supply needs in 2001.
- The **Chilean** Public Procurement Information E-System has made business opportunities with the Chilean Government more transparent, reduced firms' transaction costs, increased opportunities for feedback and cooperation between firms and public agencies, and sharply reduced opportunities for corruption
- The **Colombian** Ministry of Defence reports 47 percent savings in the procurement of military goods through improvement of transparency and procurement procedures



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**The Status of
eAuction
implementation
in Trinidad and
Tobago**

Since the introduction of eAuction in 2006, the Ministry of Finance has held several seminars on eAuction in procurement, to heighten the awareness of eAuction within the State Enterprise Sector.

The Task Force

To coordinate and spearhead the eAuction process, the Government established a Task Force comprising officials of the Ministry of Finance and representatives of the State Enterprises whose companies are in an advanced stage of implementing eAuction.

The Task Force consists of:

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|--|----------|
| • Mr. Bernard Sylvester, Permanent Secretary in the Ministry of Finance | Chairman |
| • Mr. Jaggernauth Soom, Representative of Ministry of Finance Investments Division | Member |
| • e-Auction Manager (Ministry of Finance) | Member |
| • Mr. Carl Forteau, Head Strategic Procurement (Petrotrin) | Member |
| • Mr. Keith London, Manager Procurement (Petrotrin) | Member |
| • Mr. Leslie Figaro, General Manager Corporate Services (WASA) | Member |
| • Ms. Beverly Paris, Supervisor—Supply Chain Management (PPGL) | Member |

Since its establishment the eAuction Task force has held several meetings and has worked in co-ordination with the Water and Sewerage Authority (WASA) and Petroleum Company of Trinidad and Tobago (Petrotrin) to conduct several e-Auctions which are outlined as follows:

- ⇒ **WASA** held eleven (11) eAuction events during the period 2007 – 2008 for the procurement of vehicles, paper, gas tanks and chemicals resulting in total savings of **TT\$19.8 million** or **18.47%**.

- ⇒ **Petrotrin** hosted three (3) eAuction events to purchase pipes and other steel products. These were held in December 2007 and June and September 2008. Petrotrin realised bottom-line savings of **TT\$ 12.4 million** or **12.5%**.

- ⇒ The Task Force also hosted the first ever joint Multi-State Enterprise eAuction event for photocopying paper on August 15, 2008. This event was hosted at the Hyatt Regency Hotel and was coordinated by WASA using the service provider ARIBA. ARIBA provided the necessary training for the suppliers, bidders and client State Enterprises. The companies which participated include:
 - The National Gas Company of Trinidad and Tobago (NGC)
 - Evolving TecKnologies and Enterprise Development Company Limited (e-Teck)
 - Lake Asphalt of Trinidad and Tobago (1978) Limited
 - National Schools Dietary Services Limited (NSDSL)
 - Phoenix Park Gas Processors Limited (PPGPL)
 - The Petroleum Company of Trinidad and Tobago Limited (Petrotrin)
 - The Water and Sewerage Authority of Trinidad and Tobago Limited (WASA)
 - The National Petroleum Marketing Company (NP)
 - National Helicopter Services Limited
 - Public Transport Service Corporation

The event was a success with total savings amounting to approximately TT\$0.5 million or an average saving of 32.8 % on the traditional prices for these products. This huge quantum of savings constitutes a tremendous achievement, thus demonstrating the merits of eAuction. The event itself cost approximately US\$10,000 which was easily recovered based on the savings resulting from the event.

⇒ A second multi-stakeholder event was held on December 5, 2008 in collaboration with Petrotrin for the procurement of IT hardware. Magnus United provided the necessary technical services. Nine State Agencies participated namely:

- Education Facilities Company Limited (EFCL)
- Evolving TecKnologies and Enterprise Development Company Limited (e-Teck)
- The Trinidad and Tobago Electricity Commission (T&TEC)
- National Entrepreneurship Development Company Limited (NEDCO)
- Phoenix Park Gas Processors Limited (PPGPL)
- The Petroleum Company of Trinidad and Tobago Limited (Petrotrin)
- The Water and Sewerage Authority of Trinidad and Tobago Limited (WASA)
- The National Petroleum Marketing Company (NP)
- National Flour Mills (NFM)

Savings from this event totaled approximately TT\$0.2 million and average of 12 % of traditional cost. The overall consensus was that there was a high level of cooperation by all participants in the events hosted in 2008 including the Service Provider Magnus United. Execution of the mandate of the Task Force was a success with twelve State Agencies using eAuctions for the first time.

To date the eAuction Task Force has successfully achieved the first phase of its implementation plan.

The Way Forward

In moving forward the Task Force will be guided by its mandate to ensure that all State Enterprises adopt eAuctions as an alternative form of procurement by 2012. ***In 2009 the Task Force is expected to commence the second stage of the e-auction process in which*** two groups of twelve (12) State Enterprises should have adopted eAuction by December 31, 2009 and December 31, 2010 respectively.

Accordingly, the Task Force will undertake a spend analysis of the procurement patterns of State Enterprises and provide the necessary technical assistance and training for its members and officials of State Enterprises.

Simultaneously the Task Force will prepare a priority listing of State Enterprises for inclusion in the eAuction Programme for the period 2009 to 2011. The task force will also initiate the following programme:

- ⇒ undertake an analysis of the procurement patterns of State Enterprises in order to determine items of major spend which could be procured under the e-Auction process;
- ⇒ assist State Enterprises in obtaining the services of e-Auction providers. These providers will provide the necessary technical training, spend analysis and other preliminary activities leading up to and including execution of the actual e-Auction event. The costs of these providers are usually included in the savings generated and

- ⇒ acquire the services of an e-Auction consultant in order to prepare a national strategic plan for the adoption of e-Auction in Trinidad and Tobago based on a dearth of local expertise in the sector. The e-Auction task force Committee has already obtained proposals and is currently at the second stage of the selection process.



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**Frequently
Asked
Questions**

Question: **What Products or Services would be suitable for eAuction?**

Answer: Consideration should be given to the following when selecting a commodity for eAuction:

i. the commodity must be of sufficiently high value to generate reasonable savings (as you need to cover the cost of running the auction).

ii. the commodity must be capable of being defined precisely so that like can be compared with like, or the criteria measured objectively (there are myriad possibilities but examples could include: fuel/ electricity, PCs, software, photocopiers, voice and data telecommunications, vehicles, furniture, stationery); and

iii. there must be sufficient players in the market to be able to have a number of suppliers participating in the auction.

Question: **Can eAuctions be used to purchase professional services?**

Answer: Yes. Where levels of professional competence, levels of experience and specialty can be defined, an e-Auction can be used as part of the sourcing process.

Question: **Is eAuction based on price alone?**

Answer: e-Auctions can be based on price alone, however, more commonly they are weighted to account for other criteria such as quality and delivery. An e-Auction enables the buyer to arrive either at or close to the true market price in an efficient and transparent way, but does not encourage suppliers to submit bids at unsustainable levels.

Question: At what stage during my procurement process should I prepare for an eAuction?

Answer: As soon as you have identified a requirement or registered that a contract is coming up for renewal you need to start planning your e-Auction as part of your procurement. This will include prequalification of suppliers and specification of the product or service.

Question: At what stage during my primary procurement would I use the services of an eAuction Service Provider?

Answer: You will need to plan an eAuction and use the services of an eAuction Service Provider, as soon as you have identified a requirement or registered that a contract is coming up for renewal.

Question: How much does the eAuction Service Provider cost?

Answer: Pricing is pre-defined by the Service Agreement. The prices applicable to a specific customer are calculated based on the customer's requirements.

Actual prices for a customer will vary according to:

- The services elements ordered;
- The additional services required;
- The payment terms selected;
- The duration of subscription chosen; and
- The number of user licenses required.

Question: Does the eAuction Service Provider cost suppliers anything?

Answer: No.

Question: How can you be sure that confidential tender information is safe and not tampered with?

Answer: The Service Provider ensures that:

- Both the application software and data will be held on the Provider's secure servers;
- All data entered and held on the service is encrypted;
- The service is able to support the use of digital signature and certificates should the customer wish to use this level of security; and
- All information on the service, and all Buyer and Supplier actions, are recorded and are fully auditable.

Question: What is e-Procurement?

Answer: e-Procurement combines internet technology with procurement best practice to streamline purchasing processes and reduce costs.

