

bidding

Reverse Auctions: Losing Propositions

Selling services in online auctions only reinforces the view that cleaning is a commodity, BSCs say

By Lisa Ridgely, Deputy Editor of Contracting Profits

Thanks to the Internet, business is not what it used to be. Nowhere is that more obvious — and painfully so — than in the arena of reverse auctions. As if everyday business for building service contractors wasn't enough of a circus, procurement professionals added a bidding tool that pits contractors against each other in real time to bid each other down to the lowest price possible.

While relatively few contracts are awarded in this way and some contractors have never participated in a reverse auction, most BSCs have a healthy fear of them if not an outright dislike. Typical auctions force buyers to compete for items that are considered valuable, things such as jewelry, collectables and sports memorabilia, and the items are sold to the highest bidder at the close of the auction. Unlike what happens on eBay, and unlike what happens in a typical bidding situation, reverse auctions help buyers of an item to secure the lowest price by allowing them to bid multiple times in competition with other buyers. This method is commonly used to purchase plane tickets, hotel rooms and even insurance.

But should services be sold in the same way commodities are sold? Purchasing agents may argue that if the specs are written correctly and the group of bidders are pre-qualified, reverse auctions are a fair way to obtain cleaning services at a low price. Most BSCs, however, think the process takes the value out of service, making it more difficult to fight the commoditization of cleaning.

"It's how one sees the world — that's literally what drives the whole reverse auction process for services," says Chris Arlen, president of janitorial consulting firm Service Performance in Bainbridge Island, Wash.

Win-Win or Lose-Lose?

It's no secret that those on the purchasing side of things don't always see eye-to-eye with BSCs. Those who see cleaning as a commodity will treat it as such, Arlen says.

There are many things that reverse auctions work for — things that are commodities or products, where the scope and the quality can be ascertained, he says.

"The challenge is, with service, is that you don't get the value at the purchase price. It's delivered over time and it's very difficult to quantify that value received for the price," Arlen says.

From the purchasing side, it is possible to have a win-win situation resulting from a reverse auction.

"Contractors have to prepare up front before they go into a reverse auction and know exactly what their limits are and what they can do the work for," says Jim Haining, a purchasing agent for Clarke County, Nev. He says that while purchasers do find the bottom line most important, added value is considered as well — it's just that he usually doesn't see a lot of added value from cleaning contractors.

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"From our perspective, janitorial service is a commodity," Haining says. "They think that they're something special, they're not, really. And as far as services go in an organization, it's one of the ones that is a commodity. So they're going to have a tough time trying to dig themselves out of that hole."

For many BSCs, that hole is exactly what they've been trying to dig out of for years. The attitude that cleaning is a commodity is being fought by industry leaders who have invested in scientific research, technology, management, training and certifications as a way to differentiate themselves and elevate the perception of cleaning.

Reverse auctions essentially perpetuate the damaging opinions that the industry has been fighting to eliminate, says Tim Russell of [Mr. Clean Maintenance Systems](#) in Colton, Calif.

"You try hard to build a reputation built upon quality of service. In reverse auctions, they tend to treat everybody the same," Russell says.

Most reverse auctions will qualify contractors prior to the actual bidding as an attempt to narrow the field to experienced and serious bidders — but the bidders are all anonymous, so BSCs can't be sure who they're up against, or if they're even legitimate competitors.

Mr. Clean hasn't participated in a reverse auction in more than a year, but the few that the company has engaged in did not leave Russell with a good impression of the practice. The company took part of one auction because it was the incumbent — one of the few situations in which it is recommended a BSC participate — and another auction because of a partnership it had with a few other contracting companies. But in both cases, Russell was appalled to see the price bottom out to the point he wasn't sure how the dollar amount could even cover labor costs.

"They kind of invalidated the whole auction because obviously someone who was participating had no understanding of how to go about the bid, the price was so low," Russell says.

Purchasers do understand when the price is too low to be true, Haining says. He's shut down auctions in the middle of bidding because of irresponsible bids.

As long as the specifications are well-written, a pre-qualified field of contractors should yield an auction winner that gets the job done at a low price, he says. The biggest benefits to holding a reverse auction are, of course, financial and time efficiencies.

"When you get your specs clean and everyone knows what the performance measures are, and you train your suppliers correctly on how to bid in a reverse auction, then it can be very effective," Haining says. "It's just as effective as a traditional bid; it just happens in a shorter time frame instead of taking several weeks to do the bid and to get the results."

In an ideal world, reverse auctions would be fair, using only BSCs that would bid reasonable amounts while being able to provide a good level of service while following employment laws. But the reality, to most BSCs, is that that's not possible.

"Most reverse auctions that I have seen do not level the playing field before the bid starts," says Steve Zaccagnini, executive vice president for ABM Industries. "In our normal business we will bid, we will <http://www.cleanlink.com/cp/article/Reverse-Auctions-Losing-Propositions--10703>

respond to RFPs and negotiate with reputable regional firms in the local market, and the expectations are somewhat level, but when you get into reverse auctions that kind of goes out the window. People aren't prequalified. I've seen reverse auctions where there are 50 bidders. I will tell you that there aren't 50 qualified companies to do most of this work."

BSCs largely view reverse auctions as a lose-lose proposition. Reverse auctions are a big example of the lack of understanding among purchasers about the cleaning industry, says Ian Greig, CEO of Daniels Associates Inc. in Phoenix.

"I see it all the time where people just don't understand that we're in a 65-percent labor industry with 20 percent of that amount going into taxes and insurance," Greig says.

Between supplies, equipment and overhead, that leaves only about 5 percent for profit. It can be hard to get purchasing decision-makers to understand how little profit cleaning companies typically make, Greig says, because janitorial purchasers are usually the lowest level buyer in an organization. They have a budget and their main objective is cost, not understanding value.

"So it simply doesn't work for a service-oriented industry," he says. "It works for products but not service."

Haining acknowledges drawbacks with going with the lowest bidder, such as dealing with inexperienced contractors that underbid and then cannot complete the job for the agreed-upon amount.

"Another thing that's important in a reverse auction is that if you don't have enough people bidding on a reverse auction, a reverse auction is not going to work," he says, "But usually in janitorial that's not the problem. The problem there is too many, because everyone wants a piece of the pie and everyone and their dog has a janitorial company."

On the decline?

The prevalence of reverse auctions seemed to have peaked a few years ago, and many in the industry acknowledge that they are just not worth it in most situations.

"I fully appreciate that there are times when a company's financial situation is such that all they care about is cost and they're willing to accept all the other risks. If that's the case, it's absolutely not a playground we want to play on," Zaccagnini says. "We've been here 100 years and we expect to be here another 100. I think a lot of reverse auctions have been driven by consultants who advise procurement groups and I think they're generally represented as one of many ways to get better pricing and perhaps the easiest way to get better pricing."

Most companies have found that the usefulness of reverse auctions will wear out if you continue to use it, says Haining. In discussions with other purchasing people, he has found that reverse auctions are not being used as much as they were three or four years ago because they were not getting value from the price reductions or they were burned by not having precise specs.

If a BSC is in a reverse auction situation, Greig suggests simply having a frank discussion with purchasing agents about how they get what they pay for — and with reverse auctions, the chance is, they won't be happy with what they get.

Arlen recommends forgoing the process altogether if possible, while constantly working to educate customers about the value of cleaning. If they understand that, it's less likely they will turn to a reverse auction as a bidding tool.