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Bidding for Savings: Automated Vendor Selection Outperforms Reverse Auctions

by William Gindlesperger, Chairman and Chief Executive Officer, e-LYNXX Corporation

Reverse auctions were touted as the way to go if you want to save procurement costs and gain efficiencies by a report released by the IBM Center for the Business of Government on October 20, 2011. However, there is a better path to even greater savings and efficiencies, and that path is made possible by the automated vendor selection (AVS) procedure and related procurement process.

AVS Technology[®] is a patented procedure for procuring custom goods and services – one that creates a competitive bidding environment that results in discounted pricing. All participating vendors are thoroughly vetted by the buyer to ensure quality and on-time delivery, regardless of pricing. The deep discount pricing of 25% to 50% occurs because vendors bid low to fill downtime, avoiding non-revenue producing holes in their production schedules. The computerized automated vendor selection process only invites vendors from the buyer's vendor pool who are qualified to produce a particular job. All vendors stay in the pool for consideration to bid on other jobs. Improved efficiencies occur with a proprietary web-based communications and workflow system that ensures total transparency, full accountability, strengthened controls, complete documentation and archiving of all tasks. Best procurement practices also must be applied.

An author of the IBM Center report, David Wyld, professor of management and director of the College of Business' Strategic e-Commerce/e-Government Initiative at the Southeastern Louisiana University, observed: "Reverse auctions are indeed coming of age in both the private and public sectors, as organizations are rapidly discovering that (the reverse auctions) can be a 'faster, better, cheaper' method of procurement." His work, though, did not compare reverse auction findings with AVS.

Had the report researchers included AVS in their study, they would have learned that while reverse auctions and the proliferation of other e-procurement competitive bidding techniques have resulted in attractive pricing, these methods typically result in vendors pricing work at the equivalent of a 3 X estimating factor (resulting in end price comprised of 33% materials, 67% value add). The AVS Technology[®] enables organizations to achieve a new level of cost-effectiveness including previously unachievable pricing in the range of a 1.7 X estimating factor (resulting in end pricing comprised of 59% materials, 41% value add). The chart to the right provides a comparison of procurement methods.

Procurement Method	Materials At Cost	Estimating Factor	Selling Price	% Materials	% Value Added
Relationship Dependent ➤ Open-ended Specifications	\$1,000	5	\$5,000	20%	80%
Negotiated Methods ➤ Rate Cards, Single Sourcing	\$1,000	4	\$4,000	25%	75%
Competitive Techniques ➤ Spot Bidding, Reverse Auctions	\$1,000	3	\$3,000	33%	67%
e-LYNXX patented AVS Technology [®] (1) ➤ Patent No. 6,397,197, Patent No. 7,451,106, and post-Bilski Patent No. 7,788,143	\$1,000	1.7	\$1,700	59%	41%
Materials At Cost - Out Of Pocket ➤ Materials, Supplies, etc.	\$1,000	1	\$1,000	100%	0%

(1) Suppliers generate additional profit by filling 30% unused capacity. When a supplier is given the ability to bid high, low or not at all based on immediate capacity needs, the supplier is free to bid whatever it takes to fill unused capacity on an immediate basis. Since it is known capacity that is being filled, delivery times are faster, quality is not compromised and both suppliers and buyers benefit.

Professor Wyld writes that using reverse auctions for appropriate commodities and selected services could save the federal government between \$7.5 billion and nearly \$15 billion annually. Reviewing past auctions by federal agencies, the competitive bidding competitions have saved 11.9% per purchase. With AVS, those savings would climb to between \$11 billion and nearly \$22 billion annually for the federal government and the savings per purchase would average 42%. In government speak, this means between \$110 billion and \$220 billion in savings would be achieved over 10 years.

Given this data, AVS Technology[®] is an option that should be included in any thorough study of procurement methods. The results would show clearly that the best option for optimal savings and efficiencies is AVS.

About e-LYNXX Corporation

e-LYNXX Corporation patented the technology integral to e-commerce. Endorsed by Educational & Institutional Cooperative Purchasing (E&I) and Printing Industries of America (PIA), e-LYNXX drives results through its three divisions. • AVS Technology[®] licenses the patented* automated vendor selection procedure used in e-commerce and procurement systems. • American Print Management provides web-based system, services and patented AVS Technology[®] to reduce substantially the procured costs of direct mail, marketing, publications, packaging, labels and other procured print. • Government Print Management offers effective U.S. GPO bid services and strategies. www.e-LYNXX.com – 888-876-5432

*U. S. Patent No. 6,397,197, Patent No. 7,451,106, post-*Bilski* Patent No. 7,788,143, and Continuing Application 12/855,423 (collectively, the AVS Technology[®]) – This thicket of patents covers all custom goods and services, not just print. To inquire about licensing, contact Anthony Hawks at 888-876-5432 or Michael Cannata at 905-773-2207.

About the Author



William Gindlesperger is a nationally recognized entrepreneur, inventor, author and consultant. He founded ABC Advisors and its successor, e-LYNXX Corporation, in 1975. Profit, non-profit and government organizations alike have benefited from his strategic insight and innovation that result in measured and substantial cost reduction.

Mr. Gindlesperger's sound advice and counsel have yielded results for those with fiduciary responsibility and the authority to take action to reduce costs. He has directed major initiatives in both the private and public sectors. He has testified before the U. S. Senate Committee on Rules and Administration regarding government print and procurement policy. He has worked directly with numerous Congressional and Senatorial members and staff and has advised Congress on the development, operations and future of government procurement.

He has been a lead fund raiser for senatorial, congressional and gubernatorial elected officials. He was a founder and chairman of Printing Industries of America's (PIA) PrintPAC (political action committee) and has been recognized for his contributions to PIA and services to the printing industry. He was inducted into PIA's Ben Franklin Honor Society of print industry leaders in 2009 for his lifetime contributions to the print industry. *Supply & Demand Chain Executive* honored Mr. Gindlesperger by including him in its 2010 listing of the most influential leaders in the supply and procurement profession in North America.

Mr. Gindlesperger invented the Automated Vendor Selection (AVS) Technology[®] -- the technology that is integral to e-commerce and optimizes cost reduction in the procurement of *all* customized and specification-defined goods and services. He has been granted a series of Automated Vendor Selection patents, including Patent No. 6,397,197, Patent No. 7,451,106, and post-*Bilski* Patent No. 7,788,143 (collectively, the "AVS Technology[™]").

Under Mr. Gindlesperger's leadership, e-LYNXX has grown into the leading print management and procurement licensing firm in North America. e-LYNXX has been exclusively endorsed by Printing Industries of America (PIA) and has been named one of the top 100 procurement firms in North America by *Supply & Demand Chain Executive* magazine.

His firm handles more than 200 on-going consulting assignments at any given time. Among its contracts is one with Educational & Institutional Cooperative Purchasing to assist colleges, universities and other institutions nationwide with procurement and spend management.

A native of Chambersburg, Pa., Mr. Gindlesperger is a graduate of Dickinson College in Carlisle, Pennsylvania.