



**Associated General Contractors
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**Foundation of the American
Subcontractors Association, Inc.**

NEWS RELEASE

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New Study Suggests No Cost Savings on Construction Services From Use of Online Reverse Auctions

ALEXANDRIA, Va., Feb. 14, 2005 — The Associated General Contractors Education and Research Foundation (AGCERF) and the Foundation of the American Subcontractors Association (FASA) released a new study that suggests online reverse auctions do not deliver promised savings in markets in which they are being used.

In recent years, business and government leaders have seen tempting headlines in trade publications such as “Reverse or Forward ... Auctions Save Dollars.” This new study, by two professors from Louisiana State University (LSU), reviewed published literature on reverse auctions and concluded that “there is no data supporting the claims of cost savings for construction services.”

In the first phase of the LSU study, “Online Reverse Bid Auctions for Construction Contractors and Subcontractors,” authored by James H. Gill, Jr., J.D., AIC, and Yilmaz H. Karasulu, Ph.D., COSS, the researchers reviewed hundreds of published articles, papers and reports relating to the “auctioning” of commodities and services, with an eye to the use of cost-savings data that could justify the use of reverse auctions. A bibliography of the materials reviewed is available online at www.cm.lsu.edu/reverseauction.htm. The review, which excluded advertising materials, revealed 11 primary areas in which online reverse auctions are being used: airline tickets, computers, construction services, cost of utilities, legal services, office furniture, raw materials for manufacturing, removal of nuclear waste, specific machine parts, surgical operations, and U.S. government treasury transactions.

The LSU study’s analysis of these published materials exposed a scarcity of information supporting cost-savings claims in all industries, including the construction industry: “The majority of research efforts concentrate on development, implementation and optimization of the method from technical and technological perspectives. Although the discussion of the usage, calculation

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of savings, principles of application, ethical issues, and advantages/disadvantages is noted in few publications ... these efforts are very limited.”

The LSU study uncovered only one document that included aggregated data/analysis of cost savings of reverse auctions in the construction industry: “U.S. Army Corps of Engineers Pilot Program for Construction Projects,” a report published by the Army Corps of Engineers in the summer of 2004. The Corps report did not associate cost savings with online reverse auctions for construction services.

“Contractors want to save time and money on projects and have a tool belt of options to help them achieve these results,” said Associated General Contractors of America (AGC) CEO Stephen E. Sandherr. “This study should encourage owners to consider whether reverse auctions are a viable option for procuring construction services and what if any advantages are offered in an auction environment.”

“Every once in a while, information comes along that shatters a myth,” said Rick Wanner, president of the Foundation of the American Subcontractors Association, Alexandria, Va. “The LSU study on reverse auctions is one of these moments. If there are any costs savings associated with reverse auctions for construction bids, someone’s keeping a big secret. If there is any information out there confirming the cost-savings of online reverse auctions, the industry needs to know.”

AGCERF and FASA urged individuals with proof that reverse auctions of construction bids reduce costs to submit the information to the researchers online at www.cm.lsu.edu/reverseauction.htm.

AGCERF and FASA commissioned the study and provided the primary financial support for it. The study received additional funding from the Associated Specialty Contractors Inc., the Canadian Construction Association, and the Construction Management Association of America.

The second phase of the LSU study will gauge the impact of online reverse auctions in the construction industry, such as the impact on bidding processes, project relationships and work quality.

The AGC Education and Research Foundation was founded in 1968 as a non-profit charitable organization dedicated to improving the science of construction. Since that time, the Foundation has provided more than \$5 million for nearly 2,400 college scholarships (undergraduate scholarships and graduate scholarships) for construction management and civil engineering students in over 80 universities across the United States.

The Foundation of the American Subcontractors Association was established in 1987 as a 501(c)(3) tax-exempt entity to support research, education and public awareness. Through its Contractors’ Knowledge Network, FASA is committed to forging and exploring the critical issues shaping subcontractors and specialty trade contractors in the construction industry. FASA provides subcontractors and specialty trade contractors with the tools, techniques, practices, attitude and confidence they need to thrive and excel in the construction industry.

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