



Online Sourcing Systems, Part I: Benefits and Costs

by Chris Duggan

If you or your organization already use e-tendering and e-bidding, you will be familiar with what it is and how it works. If you haven't, our two-part overview may give you some insight into the benefits and costs (Part I) as well as the risks and risk-mitigation strategies (Part II) of using the Internet for online sourcing.

What It Is

E-tendering is the Internet self-serve mechanism for user access to electronic bid solicitation documents such as Requests for Proposals (RFPs). E-bidding goes a step further, allowing vendors to submit bid responses electronically.

E-tendering has been widely available in Canada since 1996, coinciding with both advances in Internet technology and major public sector-initiatives aimed at improving trade liberalization among provincial jurisdictions. To a great extent, e-tendering was implemented as an efficiency measure to provide a single (jurisdictional) website location for posting bid notices and providing electronic access to bid documents. E-tendering was also recognized early on as an opportunity to reduce the time and expense associated with distributing hard-copy bid packages.

E-bidding is much more than simply submitting a bid as an attachment to an e-mail message. An e-bid is typically entered directly into a secure electronic "bid box" system and stored in the system's database. Just like traditional hard-copy bidding, true e-bids may be amended or withdrawn up to the closing time by the bidder, and are not accessible by the bid-posting organization until the closing time has passed.

Who Is Hosting It

Canadian examples of Internet applications that support e-tendering include the federal government's MERX (www.merx.com), the Alberta Purchasing Connection (<http://vendor.purchasingconnection.ca>), the New Brunswick Opportunities Network (<https://nbon-rpanb.gnb.ca>), Prince Edward Island (www.gov.pe.ca/tenders), BC Bid (www.bcbid.gov.bc.ca), and the City of Toronto's Online Call Document System (www.toronto.ca/calldocuments). Some of these e-tendering sites are also capable of e-bidding, which, although it is a more recent development, may well become a best practice in e-procurement.

BC Bid, which is owned and operated by the Province of British Columbia, is capable of both. B.C. began developing e-bidding capability in 2002, to help streamline

internal procurement processes and offer enhanced electronic services to vendors. The first true e-biddable opportunities were posted on BC Bid in February 2003. In 2004, widespread access to e-bidding became available to provincial ministries and broader public-sector organizations throughout the province.

Benefits for Buyers

While e-tendering and e-bidding systems can save significant time, money and labour for posting organizations, they still demand a substantial capital investment to develop and maintain (see “What It Costs,” below). But large (mostly public-sector) organizations with critical mass and the business case to support the technology can:

- streamline and automate the bid advertisement process,
- use an electronic service that is positively accepted by the vendor community,
- attract more vendors, thereby increasing competition,
- use a proven business process with an appropriate audit trail and greater accountability than hard-copy processes,
- make the process more responsive for vendors, and
- reduce the internal resources that are required to support the bid evaluation process.

Benefits for Sellers

By using online sourcing systems, sellers gain valuable operational and cost efficiencies by being able to access and submit bid documents electronically. Rather than printing, collating and binding multiple copies of bid documents and arranging and paying for delivery, sellers can simply submit a single electronic copy of their bid response.

By transferring large documents electronically, posting organizations and vendors can both reduce the environmental impact of doing business – something in which we are all interested.

Sellers who use the technology can:

- access a large number of public-sector bid opportunities in a single, trusted location,
- browse bid opportunities and bid results,
- access and download bid documents quickly in cases when it is preferable or necessary to submit traditional hard-copy bids,
- subscribe to value-added services (e.g., automatic bid-match notification and e-bidding privileges), and,
- streamline and automate the bid-submission process, thereby:
 - increasing the time available to prepare responsive bids and proposals,
 - improving bid-submission quality and compliance, and
 - lowering the cost of their bidding process.

What It Costs

As discussed above, there is a substantial cost to building and maintaining an online sourcing system. To establish a feasible business case, an organization might consider leveraging the use of its systems by allowing access and providing value-added services to other organizations within its public-sector jurisdiction. For example, provincial governments might allow access to their system by broader public-sector organizations in their jurisdiction such as municipalities, academic institutions, school boards, and hospitals.

While each system will be unique in terms of specific costs, the budget for a robust, functional and reliable system will be in the order of several millions of dollars to cover hardware, software, people, processes, and the ongoing costs of system hosting, maintenance, and functional enhancements. To justify this investment, organizations will need to establish a strong value proposition and develop a business model that identifies sources of adequate capital and operating funds. Funding could be budgeted internally as part of the organization's business strategy to attract and retain system users (i.e., both vendors and bid-posting organizations) or, through value-added subscription services that will generate revenues to recoup or partially defray setup and operating costs.

What the Risks Are

In the next issue of *The Legal Edge*, we will discuss the big risks for online sourcing systems – along with suggested risk-mitigation strategies. Key considerations revolve around how to prepare effective bid documents online, and how to implement secure and legal e-bid submission processes that will withstand public and legislative scrutiny.

Chris Duggan is CEO of NECI and Publisher and Procurement Editor of The Legal Edge.

Reprinted from *The Legal Edge* Issue 74 August – September 2007