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Dealer fumes over car bidding

State's 'reverse action' criticized

By Andrew McIntosh -- Bee Staff Writer
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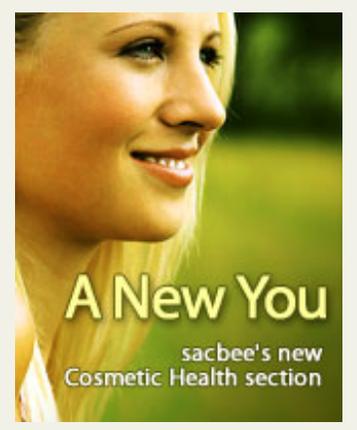
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Downtown Ford President Ray Enos is angry that his company's low bid in a state "reverse auction" was rejected by the Department of General Services.
 Sacramento Bee/Owen Brewer

A newly adopted state contracting method that aims to save taxpayers money has triggered a dispute between a Sacramento Ford dealership and the Department of General Services.

Under the new method, the state is trying to use its buying power to squeeze lower prices from suppliers. After adopting the method last year, state bureaucrats in January used what they call "a reverse auction" for the first time to seek bids for a \$20 million contract to



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supply new patrol cars for the California Highway Patrol.

Downtown Ford of Sacramento won an intense on-line bidding war to supply 1,000 cars to the CHP - by undercutting rival Folsom Lake Ford by just \$1 per car.

A few weeks later, the state changed the bidding process again, and Downtown Ford ended up losing the deal to Folsom Lake Ford.

Ray Enos, the president of Downtown Ford, and Dave Forbess, his fleet sales manager, said their experiences with the state's new contracting methods - known as strategic sourcing - made their blood boil.

"Our beef is not really with the state. It's with the strategic sourcing method itself and the company the state hired to help them run it - CGI-AMS Inc.," Forbess said.

What happened to Downtown Ford offers a case study of how a cash-strapped government's efforts to cut spending can cause bitterness and resentment among some companies affected by the changing business climate.

After he lost the contract, Enos complained to General Services that the deal was improperly awarded to the Folsom dealership.

His dealership's formal protest, though, has generated nothing but hefty attorney fees, Enos said.

Downtown Ford's loss is also a financial one for Sacramento. The state pays sales tax on each car it buys and part of the tax is shared with the city or county in which the dealership is located.

Depending on whom you talk to, Downtown Ford's experience is proof the strategic sourcing effort is saving taxpayers' money or is instead a flop that is alienating the business community.

Until this year, the Department of General Services, the state's contracting arm, bought patrol cars for the CHP using the traditional sealed envelope bid process. The lowest bidder was awarded the

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CHP contract, as long as its bid met state financial and technical requirements.

This year, General Services decided to use a reverse auction to purchase new CHP cars. The new method was recommended by its strategic sourcing adviser, CGI-AMS Inc. of Virginia.

A reverse auction operates much like an eBay online auction. Instead of buyers bidding up an item for sale, government suppliers undercut each other to supply goods at the lowest price. Competing dealers can see the prices offered but do not know who is bidding.

In a report that preceded the auction, CGI-AMS said there was little competition in the CHP patrol car market in California.

A reverse auction, its report predicted, would drive down dealer margins and generate significant savings for the state.

"The current CHP pursuit vehicle market is a monopolistic environment, as only one original equipment manufacturer (Ford) is able to meet the rigorous CHP requirements," CGI-AMS stated in the report dated Nov. 11, 2004.

Under its 2004 contract with the state, CGI-AMS is paid a fee of 10.5 cents for every dollar it helps save.

The reverse online auction won by Downtown Ford unfolded over 12 hours. When it was over, Downtown Ford had offered cars for \$21,794 each, \$1 less than Folsom Lake Ford's cars at \$21,795 each.

General Services and CGI-AMS considered the auction a flop.

"The state felt it didn't get the best pricing through the reverse auction," according to a confidential post auction bid evaluation report dated Jan. 26, 2005.

Indeed, Downtown Ford's winning reverse auction bid was higher than what General Services had just paid a few weeks earlier for 150 identical or similar Crown Victorias in a sealed bid process. The price per car was \$21,540. In both cases, the winning bids came from Downtown Ford.

Forbess of Downtown Ford said he questioned the purported benefits of a reverse auction for CHP cars from the start, based on his 29 years in car sales.

The method encouraged car dealers/suppliers only to play a game of

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bid chicken amongst themselves, he said.

"You're only prompted to bid lower than the other guys and watch them drop out, not to give your lowest price," Forbess said.

Dan Raimondi, the fleet sales manager at Folsom Lake Ford, also felt the state's reverse auction was ill-considered.

"It was just a big game of chicken. They should have realized the closed bid system was saving them more money," he said.

Forbess said Downtown Ford's sale of 150 cars to the CHP in December included 2004 model year cars and year-end sales incentives by Ford Motor Co. This price was then used by General Services and CGI-AMS as a benchmark in the reverse auction.

The 2004 price should not have been used as a benchmark for the price of 2005 model cars, Forbess said.

Raimondi said the real problem was not prices, but the fact that the state failed to properly inform dealers about reverse auctions or consult the auto manufacturers, who play a big role in car sticker prices.

"They did not understand how the dealer and the manufacturer interact to arrive at a price the state gets," Raimondi said. "They thought our margins are high. They're just not."

The reverse auction flop put CGI-AMS in a tough spot.

It looked as though the state would see no savings on the larger CHP patrol car purchase when compared to the smaller 150 car purchase. With no savings, CGI-AMS would get no fee.

That's when the firm and General Services officials invoked the state's Public Contract Code to open a new round of negotiations with all bidders.

This time, though, General Services asked the dealers to submit their best, final bids on paper and send them in using an unsecure telecopier, rather than traditional sealed envelope bids.

The move infuriated Enos and Forbess, who said additional negotiations on final price should have taken place with Downtown Ford because it had won.

"They made up the rules as they went along, and they changed them

to suit their needs," Forbess said.

Matt Bender, a General Services spokesman, said state contract rules allow officials to reopen negotiations with all vendors when procurement officers are dissatisfied with bids.

After the second round of faxed bids was reviewed, Folsom Lake Ford won. Its price dropped to \$21,465 per car, below Downtown Ford's \$21,686 per car.

Bender said the process worked. Taxpayers and the CHP paid less for the police cars.

Raimondi of Folsom Lake Ford said he was sympathetic to his opponents because the process was fraught with stumbling blocks.

"I understand the anger of Downtown Ford," he said.

Glenn Peterson, an attorney hired by Downtown Ford, wrote in a letter dated Feb. 7 to General Services officials that the state had breached its own regulations when it reopened bidding after the reverse auction to consider new information collected outside the auction.

"Doing this unfairly converted the transparent live auction process (promised in the solicitation) to a secret sealed bid scenario (not disclosed in the solicitation)," he wrote. "It rendered the result inherently unfair - much the same way it would be inherently unfair to change the rules of a poker game in the middle of a hand."

General Services defended its own and CGI-AMS's conduct as well as the reverse auction, saying it ultimately saved taxpayers and the state \$75,000.

"The Legislature has recognized that new tools are necessary to allow state officials to break the tradition of paying too much," Michael Barth, a senior staff counsel for General Services, wrote in his response to Downtown Ford's complaints.

Sen. Tom McClintock, R-Thousand Oaks, praised General Services officials in a January letter for trying new business methods.

He also expressed concern to General Services director Ron Joseph that opening new negotiations with vendors after bidding ends was problematic. It might reduce the number of vendors willing to bid on future contracts.

"The overarching concern is that (CGI-AMS Inc.) may have a perverse incentive to maximize savings on a contract for immediate reward, but actually unintentionally inflate the state's long-term costs," McClintock said.

Enos said Downtown Ford's only remaining option is to go to court - and he's considering it.

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