



## **E-Government for Government**

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Distribution: All Local Unit Chief Administrative Officers, Chief Finance Officers, School Business Administrators, County School Business Administrators, and Purchasing Agents.

### **The Basics of E-Procurement**

This Notice is intended to serve as a primer to help local units understand the different procurement services that are available through Internet and related technologies. These issues should be considered along with the Division's other Notices on the E-Procurement Pilot Program, and E-Procurement Practices.

At present, the services can be classified into three generic categories: E-shopping or E-catalogues; E-quotes or E-marketplace; and E-bidding.

#### **E-Shopping or E-Catalogues**

Targeted at larger local units (because of the startup costs), E-shopping uses technology to make goods and services from vendors, already chosen through normal procurement practices (i.e., bids or quotes), available to buyers through the local unit's computers, or a service provider's system. The process works as follows:

- The vendor provides the local unit with the hardware and/or software to manage its procurement process online.
- The vendor, with the help of the local unit, builds a database of catalogues of the contractors that the local unit uses to make purchases of goods or services.

- An employee of the local unit is then able to go online and shop for goods or services.
- A purchase order or requisition is created and sent through the proper channels for approval by the appropriate local unit official.
- Once the purchase order or requisition is approved, the purchase order is released to the contractor for processing.

This process is merely automating the local unit's current procurement process. The benefit of using the system is to improve the efficiency of the manual system by placing the process online thus saving time and money and taking advantages of the economies of scale that may be generated.

Systems for E-shopping may be procured using a local unit's normal procurement procedures. Pricing models for these services vary. Depending on the service provider's business model, they may either charge an upfront fee followed by per purchase order costs, a percent of the procurement volume, or a combination of the two. The estimate of the cost to the local unit for the services drives the procurement model: either quotes if the costs to the local unit (in direct, percent, or other charges to the local unit and/or vendors) are below the bid threshold, or public bidding or competitive contracting if the charges exceed the bid threshold.

## **E-Quotes or E-Marketplace**

The E-quotes or E-marketplace model replicates the quote system currently used for purchases that do not require formal public bids (below the bid threshold) and can also be used for purchases that do not require quotations (below 15 percent of the bid threshold). Use of this model allows a local unit to expand its reach in obtaining competitive quotes and providing price and time savings.

The process works as follows:

- The service provider provides the local unit with software and/or hardware for its use, or access to the provider's Internet-based system.
- The local unit posts its request for quotes online.
- Service providers recruit vendors to become members or provide them access to the system so vendors can respond to requests for quotations.
- Vendors use the system to submit their quotes.
- The local unit reviews the quotes and awards a contract to the vendor who is most advantageous, price and other factors considered.

Local units should be careful when reviewing these systems to make sure they meet their needs. Some vendors do not want the local unit to be able to accept quotes or award contracts outside of their system because the award of contracts as a result of the system is the way the service providers stay in business. Regardless, the local unit should maintain the discretion to make its own decisions on use of the system and how it makes the awards.

Another consideration in selecting a service is the fee structure. Service providers use

different pricing structures. For example, some charge a flat fee to a vendor to submit a quote, some charge a flat rate per year to register and participate, and some charge a percentage of a contract award. Some service providers may also charge fees to the contracting unit. In addition, because the business is still developing, fee structures may change over time.

The different services also use different quoting procedures. Some offer a traditional quotation system where the individual vendor does not see the quotes of other vendors. Other service providers offer "reverse auctions" over a set period of time for submission of quotes, where the vendors see each other's quotes, but do not know the name of the other vendors. Both of these processes are acceptable to use. However, under no circumstance should a system allow vendors to identify which vendor submitted a specific competing quote; that can lead to illegal vendor collusion.

Further, a local unit considering these services must make sure there is a suitable way to communicate the associated terms and conditions to vendors submitting quotes.

Please see EGG #4, "Local Unit E-Procurement Practices" for additional details on this process.

## **E-Bidding**

The E-bidding model substitutes a secure, online process in lieu of sealed bids. Normally, the process works as a "reverse auction" where pre-qualified bidders compete against each other in a real-time environment until the bidding stops. Some service providers will provide the technology and the local unit runs the auction. Other

service providers will run the auction for the local unit.

This process generally works as follows:

- The local unit selects a service provider to provide the bidding technology.
- The local unit prepares its bid specifications and instructions to bidders in a format to be placed online. The specifications and instructions to bidders are placed on the website in a downloadable format that bidders can access. The specifications and instructions to bidders should be in a "read only" format.
- The local unit then posts a notice of Request for Bids or Request for Proposals online and in its official newspaper. The advertisement in the official newspaper must include a statement that the bid is being handled only online, and the website address for downloading the bid/proposal specifications and ancillary documents.
- There is a "two envelope" system. The bonding, affirmative action, corporate disclosure, and related statutory requirements are submitted first. The bidders that meet the requirements (i.e., deemed to be responsive and responsible) are then given secure access to the bidding, and the date and time of the auction.
- The auction takes place with only those bidders. The service provider charges a fee for vendors to register to participate and may also take a percentage of the contract award, or a percentage of a previously established savings benchmark.

This procedure can only be used by local units under the provisions of the E-Procurement waiver process authorized under P.L. 2001, c. 30. Please see EGG # 3 on "E-Procurement – Bidding Over the Internet" for details of this procedure, and how to apply for a pilot program.

## **Value of Cooperative Purchasing**

It is important for the local units to consider cooperative purchasing with other local units in conjunction with E-procurement services. Local units should pool their purchasing needs to create volume that can result in deeper price breaks. When doing so, local units must pay particular attention to cooperative purchasing when using reverse auctions, because the reverse auction may involve costs to the local unit. These costs are lower to each local unit when there are larger quantities and more buyers. The commitment of cooperative purchasing participants to procure through the reverse auction method is key to making it a success.

## **Making Service Provider Choices**

Local units should keep the following issues and considerations in mind when evaluating their E-Procurement needs and the services available to them:

- Will the service providers provide the service or software and/or hardware for free or is the local unit charged a fee? Does the local unit's fee offset any savings that may accrue from the service?
- Will the service providers provide sufficient training to local unit employees?
- Some service providers' systems can be tied into the local unit's fund accounting system. Does the local unit want this? What internal controls need to be implemented?
- Local units must be careful to ensure that an appropriate audit trail is available to internal and external auditors.
- How will vendors react to the vendor fee structure? Will the vendor's fees be reflected in increased costs to the local unit? Will those costs offset the benefits?

While considering these issues, it is also important to keep in mind that in order to gain the potential benefits of the technology, local units have to use it. This is a classic "which came first, the chicken or the egg" conundrum in that if no one uses the services, any possible advantage will be lost. We strongly encourage local units to examine the feasibility of using these services based on their own cost/benefit analyses and procurement history."

The Division will provide regular updates on the experience of local units in using these services. Local officials are asked to share their successes and failures with us. In addition, our staff is available to assist local units with their questions. We will also be posting E-Procurement reference information on the Local Procurement web site.

Questions regarding E-Procurement can be sent to the Division at [lpcl@dca.state.nj.us](mailto:lpcl@dca.state.nj.us), or calling us at 609.943.4724.

