

A Degree of Competition

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Free enterprise thrives on competition and the construction industry is no exception. How best to obtain truly competitive tenders for construction projects is somewhat less straightforward.

The company's willingness to tender should not be mistaken for keenness and perhaps the best and most readily understood indicator as to a contractor's future competitiveness will be that of past performance. However, companies have differing overheads and profit margins and this too has an impact on their success rate along with other market factors.

It is this authority's practice to invite tenders from a select list.

In looking at the problem afresh it is necessary to devise a straightforward method of appraisal which can be readily understood. Thereafter more sophisticated weightings to take account of a multiplicity of impinging factors can be devised if they were proved to be important. The aide devised is essentially simple to operate and capable of intelligent interpretation once the data has been collated.

There are three essential source documents:—

- (i) A general select list of contractors drawn up each year for both building and civil engineering projects.
- (ii) A final short list of tenderers for individual projects drawn up from the general list.
- (iii) A record of all tender opening results.

Consider firstly the tender opening results of a single project with contractors arranged in order of lowest first:—

Contractor	Project 1 Value of Tender	% above lowest
P	£315,151	
D	£323,755	+2.73
K	£328,154	+4.13
G	£338,444	+7.39
O	£341,127	+8.24
J	£343,128	+8.88
A	£343,285	+8.93

Average competitiveness of list = 5.76%.

Analyses of past tender results on projects can be summarised indicating a contractor's past performance and his degree of competitiveness relative to the lowest tenderer.

To simplify things there could be four categories within certain percentage bands. Category 1 "most competitive" (0% to 5%), Category 2 "competitive" (5% to 8%), Category 3 "satisfactory" (8½% to 12%), Category 4 "unsatisfactory" (above 12%). Thus rearranging the order, from most competitive downwards, it is possible to run a "league table" of contractors' past performance as follows:—



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Thus it will be seen that it is not necessarily the number of projects won that measures contractors' "competitiveness", because there can only be one winner. The important point is how close they came to winning, and this is one of the factors that should be taken into account when considering whether or not they should be invited to tender on subsequent occasions.

Pre-supposing that tenderers in category four have been given a fair chance to compete on representative projects, arguably the lowest of them could be removed from the general list of select tenderers to make way for others at the start of the new financial year.

Assuming that contractors particularly suited or unsuited for a certain type of work have been identified, the question of short listing on specific projects arises. This is perhaps the most critical stage of the selection process.

Acknowledging that we are dealing with probabilities rather than certainties, it is important to achieve a reasonable, competitive balance between tenderers. By setting up model short lists showing historical competitiveness this may be considered further on individual projects.

Contractors Tendering Record Contractor D

Project	No. of Tenders	Value of Tender	Position in List	Value of Lowest Tender	% Above Lowest Tender
1	8	£177,367	3	£170,410	+ 4.1%
2	9	£416,841	2	£410,150	+ 1.6%
3	7	£191,510	2	£191,326	+ 0.1%
4	10	£472,565	2	£447,340	+ 5.6%
5	8	£323,755	2	£315,151	+ 2.7%
6	8	£384,324	1	£384,324	
7	6	£125,227	5	£108,907	+15.0%

Contractor	Tenders		No. of Tender in Position		Average Rate of Competitiveness	Average = 4.2% Historical Rating
	Submitted	Successful	2nd	3rd		
P	19	12	2	—	1.74%	1
N	5	2	—	—	1.9%	1
M	3	1	—	1	2.36%	1
B	21	4	5	6	2.53%	1
L	5	3	2	—	2.6%	1
D	7	1	4	1	4.2%	1
G	18	5	4	3	4.46%	1
C	11	—	2	2	6.77%	2
K	11	—	1	1	6.82%	2
H	10	1	2	4	6.90%	2
F	9	1	2	—	7.35%	2
E	12	3	1	2	9.2%	3
A	13	—	2	2	9.27%	3
J	27	2	2	3	11.68%	3
I	3	—	—	—	12.56%	4
O	24	1	7	3	14.85%	4

Example 1

Contractor	Competitiveness %	Rating
I	12.56	4
A	9.27	3
K	6.82	2
J	11.68	3
O	14.85	4
P	1.74	1
Average 9.49		Average 3

Example 1 is weighted towards the "unacceptable", making it unlikely that the most competitive tenderer will ever be sorely pressed by the others. This can only be to the client's disadvantage.

Example 2

Contractor	Competitiveness %	Rating
P	1.74	1
B	2.53	1
D	4.2	1
F	7.35	2
K	6.82	2
E	9.2	3
Average 5.31		Average 2

In example 2 there is a good balance between tenderers which, whilst weighted in favour of those who appear to try "harder", still allows those less fortunately placed to improve their position.

Free enterprise thrives on competition and the construction industry is no exception. How best to obtain truly competitive tenders for construction projects is somewhat less straightforward.

To speed up the selection process, particularly when short listing contractors for several projects within a short space of time, this method of evaluation has been placed on a micro computer and is run periodically as required. This aide to the selection of tenderers has been used in both forecasting and monitoring tender results and has been a good indicator.

When considering the reality of live tender results one is forced to the conclusion that those who try harder win or get very close to winning and those who continually fail to be competitive may owe their apparent misfortune to something other than bad luck.



"In my view, the more invitations to tender sent out for one contract, the better".

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