

The Cost of Abortive Tendering

By R G Daniels

An edited version of an address given by Roy Daniels, Director, The Builders' Conference, London to a joint IQS/IOB/RICS meeting, organised by the Sussex Branch of the Institute of Quantity Surveyors.

Most of you here tonight will probably have a passing knowledge of the Builders' Conference although it is more likely that firms based in London and the Home Counties will be more familiar with our presence, as well as some of the reasons which have sustained both member interest as well as steady growth and influence during the last forty-five years.

"Turning back the clock" so to speak, to 1935, shows an uncomfortable similarity to today's prevailing condition. Stagnation in production, high unemployment, labour unrest and political uncertainty, all contributing to a recession in the industry. As now, gloom and doom was a popular and widely held view, whilst the characteristic pastime of the building industry: price cutting, completed the similarity of too many businesses chasing too little work.

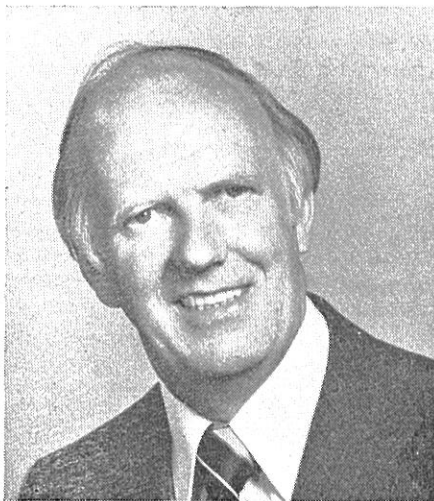
March 1935 saw a group of long established and respected building contractors band together to devise a method of tender reporting, co-ordinated through an independent body.

The well known firm of City accountants with an international reputation, Thompson McLintock & Co was engaged to create an organisation capable of supporting and expanding the aims and ideals of its founding fathers.

A former Permanent Under Secretary to the Treasury, Sir Alfred Hurst, was appointed independent Chairman in 1936 and it is he who devised the Fair Price Scheme which was widely used thereafter in competitive tendering. He also laid down ethical guidelines for the handling of confidential information and many of the common ideals which are still as relevant today as they were forty odd years ago. And so The London Builders' Conference was born.

It says much for the beliefs and member loyalty that, apart from the intervening war years, the reporting arrangements remained virtually unchanged until 1954, when, following debates in Parliament, the Monopolies Commission was invited to investigate the Fair Price Scheme operated by the Conference. The Monopolies Commission's report applauded the motives of the scheme but found that, on balance, it was not in the public interest. The Conference, having dropped the word London from its title, sought a new role. The provision of the pre and post tender information service operated today was created which enjoys the approval of the Office of Fair Trading.

Although the pre and post tender reporting service provides the corner-stone for the Conference's existence, we also seek to become recognised, by Government and Industry alike, as the central authoritative organisation for developing the body of



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knowledge about estimating, tendering, and bidding strategy.

Tender Reporting Service

To describe the Tender Reporting Service is the prime purpose of my appearance here tonight.

The *modus operandi*, cleared under our new Agreement with the Office of Fair Trading, differs significantly from the original "Fair Price Scheme".

No longer can any hint of collusion on tender prices be allowed. Nevertheless, the information gathered is still very instructive.

The service is in two parts. First, the tender reporting service, operated through members, reveals the names of firms invited to tender. Secondly, *after* the tenders have been submitted, details of the prices submitted can be obtained and circulated to those participating in the tender.

This information is very important indeed to contractors.

There is a vital gap in tendering strategy, namely, up-to-the-minute information on results achieved in successive competitions. It is an aid to decision making on future results.

One of Britain's greatest construction firms, at its bi-centenary, pinpointed 'skill in tendering' as the factor which really keeps staff employed and firms in business.

I suspect such a reason would not have been given ten, or even five years ago. It is symptomatic of an industry rapidly moving from production orientation, to market orientation.

Whether it is regarded as essentially market information or pricing feed-back, the information must be both prompt and representative, to be of much use.

The advantages of knowing who is going to tender are obvious, but it is not just a question of keeping it cosy, as some critics might claim. An intensive study some years ago, revealed that firms were significantly

more profitable when specialising and using their own particular experience and flair.

On the other hand, others might equally say, less elegantly, that firms have the right to decide whether they wish to, or have the capacity to, compete with particular firms in a particular combination of circumstances. Whatever the reason, knowing the kind of competition is enlightening.

Knowing the results speedily is at least as important. By eliminating the P.C. items involved, the sums attributable to suppliers and sub-contractors and examining the main "in-house" variables of labour, plant, project overheads and risk, the contractor can judge his own competitive performance in that particular bid situation and draw lessons for the future.

But, what about the "Code for Selective Tendering"? An admirable document—I only wish more members of the professions took notice of it! If they did, and with minor modifications, there would probably be no need for the Builders' Conference.

Take for example Clause 3 "The List of Tenders" Sub-clause 3.1 deals with:

Size of Contract	Maximum number of tenders
Up to £50,000	5
£50,000 to £250,000	6
£250,000 to £1 million	8
£1 million +	6

and to quote, "It should be appreciated that because of the cost of preparing tenders, the larger the tender lists become the greater will be the cost of abortive tendering, and this must be reflected in building prices".

And Sub-clause 3.2 which sets out the criteria for selection—

"When selecting the short list the following are among the points which should be considered:

- 3.2.1 the firm's financial standing and record
- 3.2.2 whether the firm has had recent experience of building at the required rate of completion over a comparable contract period.
- 3.2.3 the firm's general experience and reputation in the area in question.
- 3.2.4 whether the management structure of the firm is adequate for the type of contract envisaged, and
- 3.2.5 whether the firm will have adequate capacity at the relevant time".

The object—to reduce the cost of abortive tendering (which currently costs the industry several million pounds per annum), and to ensure that any one of the firms on the list can be entrusted to do the job.

But what happens in reality:

—Lists of 10, 12, 15 and 20, and in one instance 52, and in another 60—both

Public Authority clients, let me hasten to add.

—And firms invited to tender ranging from the Wimpeys of this world to the one man and a barrow, who set up in business a few months ago with a £100 capital and has managed to “con” his way on to the list.

Let me quote an extract from a survey report carried out by the Bartlett School of Architecture and Planning on the “Cost of Competition”.

“For example, between one and fifteen contractors may be competing for a contract of £10,000 or less in the northern region, and six to eighteen contractors for a £1 million plus contract in the south-eastern region with a bias towards the larger numbers. The costs of such lunacy must be enormous. Nor is this all. A subsequent response from contractors and professional firms revealed even longer lists: £20,000 maintenance contract—40 firms invited to tender: 154 dwellings, value approximately £1½ million—23 firms asked to tender: 52 dwellings—52 firms invited to tender: a divisional police headquarters—60 firms invited, 43 submitted tenders.

This last example drew a quote from the local NFBTE, “. . . the successful tenderer would probably have been the same firm if tendering had been carried out in accordance with the Code of Procedure for Selective Tendering instead of occasioning work to over 40 other firms to prepare tenders”.

A firm of quantity surveyors (not contractors) highlighted the cost of this ridiculous level of competition citing the case of 38 contractors submitting tenders for a 60-house contract. They point out, “On the assumption that each tender was properly prepared and assuming an average preparation cost of £500, this gives a total expenditure on tendering costs in the region of £20,000 of which some £19,500 is totally wasted. No wonder so many builders find themselves in difficulties these days”.

The tender list *can* be a problem, particularly where the architect or client has said, “Make me up a tender list, but include firms x and y”.

Some junior in the office then refers to that bulging file of stereotyped letters (received from several score of hopeful builders who, having read an advance “sales lead” two years ago when the project was in the planning stage, have written in, begging to be included on the tender list) from which he or she selects a handful of applications at random to make up the list.

Fact, not fiction. But my criticism is not only levelled at you, but also at the client in a reverse situation. I know of clients (large companies) who admit to having picked their architect for a large project by turning to the Yellow Pages!—then wonder why the job cost twice as much as the budgeted figure—and the front entrance is on the 7th floor!

Little wonder then that the contractor is anxious to find out who else is on the tender list before committing himself to the costly business of preparing a serious tender.

But, as we all know, the tender list to the architect is sacrosanct—the early revelation of which, he believes, would be tantamount

to an open invitation for “collusion”.

Certainly a valid point, but nevertheless—balderdash!

Firstly: Through the specialist contractors and suppliers involved at the design stage, the word soon gets around on the industry’s efficient grapevine, as to the likely contractors to be invited to tender.

Secondly: There also exists today some dozen or so *commercial* organisations who collect and peddle this highly confidential information to any Tom, Dick or Harry who cares to take out a subscription to their broadsheet, with little regard to the confidentiality of the information gathered.

Thirdly: The insurance industry gets to know for the potential liability must be declared before the underwriter accepts a share of the burden.

Finally: Whether you like it or not the contractor is going to find out one way or another who his competitors are, and I believe it is better for this information to be controlled by a non-commercial, non-profit making organisation whose stringent set of Rules and Code of Practice ensure that the information is only given to bona fide tenders. An organisation whose activities have the approval of the Office of Fair Trading and are open for inspection at any time by Office of Fair Trading staff.

On the important point of “collusion”. If two people decide to put their heads together and strike a deal, then there is no way, I know of, of finding out, let alone proving it. It’s when all those on the tender list put their heads together (the price ring) that the trouble starts.

I know of no “price rings” amongst builders in existence in the South of England today. If ever such practice were brought to my notice, I can assure you I would not hesitate to alert the Office of Fair Trading to its existence.

But bordering on collusion is the problem of “covers”. I am not, and I am sure you are not, naive enough to believe that the practice of taking “covers” does not exist, on the contrary, your own survey confirms this.

But let us examine, for a moment, some of the reasons why, on occasions, a contractor resorts to this deplorable practice—a practice to which, I can assure you, the Conference does not subscribe and would never be a party to.

Permit me again to read an extract from a report by one of your own members following a survey of the industry and professionals on the question of “cover prices”.

1. “Cover prices are taken notwithstanding attempts to prevent the practice. The response showed a marked measure of unanimity.
2. Cover prices are rarely, if ever, taken when a “respected” client is involved. In almost all instances the documents are returned with an explanation. In the vast majority of cases this is accepted by the client without detriment to the contractor.
3. A high standard of ethics in clients is expected by contractors. Should these fall then the client drops out of the class

which is respected into another category from whom contracting is undertaken on an arms length basis.

4. Contrary to opinion, in some quarters cover prices do not distort market prices. It is pointed out that cover prices tend to be more realistic than less realistic. When taken they may serve to save a contractor from assuming a burden he does not wish to accept but at the same time the cover price donor will be seeking to improve the legitimacy of his bid. If the gap is too large the donor contractor may have his bid disallowed for inadequacy or incompetency. On the evidence cover prices reduce rather than widen competition.”

There are problems in this area. It is true to say, by and large, that the majority of architectural practices accept a contractor’s explanation for the return of documents without detriment to the contractor, but they often fail to communicate the reasons to others lower down the line in the practice. Consequently, on the next time round someone in the office says, “It’s no good going to firm x—he returned the documents last time”, and the contractor finds his name has been deleted from the architect’s list.

Where this has happened—and contractors, like architects, keep their own black book—the contractor may well decide to seek a “cover” on the next occasion, not to offend the architect or run the risk of being penalised on the next job out to tender.

Ethics breed ethics and I don’t believe the contractor is entirely to blame for a “cover” situation.

Turning to Clause 5 of the Code: “*Assessing Tenders and Notifying Results*”. Again, if I may quote:

—Sub-clause: 5.3 It is important that all but the three lowest tenderers should be informed immediately that their tenders have been unsuccessful, as this information is *critical* in relation to a contractor’s tender planning.

—Sub-clause: 5.4 Once the contract has been let every tenderer should be promptly supplied with a list of tender prices.

—or in Scotland *5.4 Once the contract has been let every tenderer should be supplied with a list of the firms who tendered (in alphabetical order) and list of tender prices (in ascending order of value).”

Why?—Why not a straight list of names showing the appropriate bid?

Do you imagine that the building industry works in total isolation?—no telephones? No contacts? No friends in the professions?

My most valuable source of information is through the specialist sub-contractor, product manufacturer or supplier who seem to have this information almost on the minute past the hour of tender opening—possibly because that section of the industry is highly market orientated.

There are of course enlightened practices in England—more in Scotland—and certainly on the Continent, where the contractors involved are invited to a “tender opening ceremony”—and are actually served wine and cheese whilst the

tenders are opened and the results read out to those in attendance.

The snag here is "Alternative 2", since this presents the charlatan contractor with a heaven-sent opportunity to contact the QS to either:

- raise his price where he is lowest on the list, on the pretext of an error—what he really means, is he thinks he's left too much on the table, or
- to reduce his price on the same pretext, where he is in the running and the amount involved is not too great.

I would like to see "Alternative 2" amended, making it obligatory for Bills to be deposited with the tender where this Clause is used.

Similarly, with the "Contract Period". Rarely are "alternatives to clients time" requested, which is one of the biggest deterrents to the introduction of new technology.

Returning to the question of tender results, it is vitally important to the contractor that he should know as soon as possible after the "closing" whether or not his bid has been successful.

The majority of builders analyse tender results and carry out intensive post-mortems.

A lot of firms also use sophisticated computer aided techniques in their price and bidding strategy evaluation and tender bid analysis. You have only to cast your eyes over the list of courses and seminars currently being run on the subject, to realise the importance attaching to estimating, tendering and bidding strategy by the industry. Substantial research work is currently being undertaken in these areas by universities like Loughborough, Strathclyde and Reading.

We need to know, and if you don't tell us, then, make no mistake, we will find out for ourselves!

I believe, you need the Conference as much as the contractor, since the service is built on mutual confidence and trust. The information passing through my offices is dealt with on a strictly confidential basis and is not, and never will be, divulged to an unauthorised party.

At this point reference should be made to a recent Action Paper by Professor John Bennett of Reading, on the "RICS/DCMUR Research Study UK and US Construction Industries", in which he stresses the "Need for Change".

- Change in the archaic structure of the industry
- Change in the protective nature of professional conditions of engagement, fee scales and rules of conduct.
- Change in the delegation of responsibility for the organisation of projects.
- Change in the Standard Form of Contract, which is more concerned with excusing failure rather than allocating responsibility. (The new JCT which came into effect on the 1st July is moving in the right direction but still has some way to go).
- Change in the slow claims orientated payments system of the industry.

—Change at the detail design and construction phases of a building project—the missing links at present are advice on buildability and on the time to construct. Current procedures do not require designers to take construction requirements into accounts despite the fact that this information is available from quantity surveyors and construction managers. On rare occasions, this advice is sought at the tender stage—after the design has been completed—but not often.

It is indeed "Time for Change" and I believe we shall see a number of fundamental changes over the next few years.

The "Package Deal" is moribund. "Consultant Construction Management" is where the future lies but who will eventually emerge as the UK equivalent to the American "Construction Manager"—the architect, quantity surveyor or the consultant contractor?—is a matter for conjecture.

On current form, and bearing in mind the conclusions drawn in the RICS Study, I would hedge my bets on the contractor and the quantity surveyor, both of whom seem to be alive to the opportunities and prepared to grasp the nettle.

Having dealt at some length with how the Conference provides practical help to its members through the pre and post tender reporting services, may I say just a few words about our second, and in many ways equally important objective, namely the encouragement of improving the standards of professional excellence among the estimating fraternity through the Builders' Conference "Educational Trust Fund".

The Trust has been established:

- to assist the achievement of self-development and provide the means for satisfaction.
- to encourage development rather than reward attainment.
- to move progressively away from the concept of 'prize money'.

On this last point, the Conference has over the years awarded very considerable sums in prize money to universities and other educational establishments by way of rewards to students on individual results, including, I might add, the RICS.

The aim of the Trust Fund is to give independence and autonomy to the educational arm of the Builders' Conference incorporating the Building Estimating Research Group (commonly known as B.E.R.G.) which was established by the Conference in 1976 and which works in close co-operation and harmony with the Estimating Section of the I.O.B.

Whilst assisting the work of B.E.R.G. by funding studies, commissioning of research and the running of seminars and competitions—in the interest of better estimating, the prime purpose of the Trust Fund is to permit the making of grants to individuals rather than to institutions and the like.

This, we believe, is a practical expression of the Conference's concern for professionalism among successive generations of estimators and the consequent benefit this will have upon the companies employing them, and the industry as a whole.

New media conversion bureau service provides painless way of "Getting into Word Processing"
Many professional practices handling large volumes of paperwork, such as solicitors, accountants and quantity surveyors, are attracted to the idea of investment in word processing systems but deterred by the task of "converting" a vast amount of existing records to a new system.

A new media conversion bureau service just established in London provides the answer to this problem. Operated by Lexiscan Ltd., the bureau service will handle records kept in any typed or printed hard copy form, or on magnetic cards, and convert these into data suitable for storage directly on to word processing memory.

The centrepiece of these conversion operations is a Burroughs "Context 1210" OCR page reader maintained by Lexiscan. Existing texts, typewritten or printed in any font, are swiftly re-typed in OCR-8 font by Lexiscan's 20-strong team of skilled typists. The resulting pages can then be "read" at high-speed (up to 200 pages an hour) by the Context machine directly on to the disc of Lexiscan's in-house CPT word processor for editing and subsequent transfer to any desired storage medium.

Alternatively, if records are already held on magnetic cards, these will be converted by Lexiscan's specialist mag card reader, which reads the cards to provide print-out in OCR-B form. This can then be fed into the Context page reader for transfer to the word processor and final editing.

Ambassador to Ivory Coast meets British Consultants

H. E. Mr. M. F. Daly, HM Ambassador to The Ivory Coast, Niger and Upper Volta, discussed prospects for British Consultants with members of the British Consultants Bureau (BCB) at a meeting in London in April.

Asked whether the recent BCB mission to French West Africa had proved useful, Mr. Daly pointed out that there are substantial consultancy opportunities in the Ivory Coast for which consultants from several other countries are competing. The BCB mission, accompanied as it was by its President, HRH the Duke of Gloucester, and backed by the worldwide experience of British consultants, was bound to play a part in securing contracts.

There was considerable discussion on the question of European Development Fund policy on allocating funds for consultancy. While several members believed that the EDF tended to allot contracts to consultants in member countries roughly in proportion to the contributions made by those countries to the Fund, Mr. Daly said he opposed such a policy and believed that contracts should be awarded to the consultants most suited by experience to each particular project.

Mr. Daly concluded by saying that he hoped to encourage British participation in projects in Niger, whose first five-year development plan was expected to be published soon.