Procurement

The Low Bid Model – Time to Go?

Executive Summary. Although great in concept, the low bid model of construction proposal award is severely flawed. Here's a quick evaluation of the two primary evaluation methods used by Owners in the award of construction projects. You evaluate which is best for you, and for the industry.

Construction procurement – one or the other. From an Owner's standpoint, there are two primary methods of proposal evaluation from a Contractor: low bid wins and qualification-based.

Low bid wins. This model provides one set of Owner-generated documents (plans and specifications) and requires all bidders to provide a price on the project described in these documents. The award of the project goes to the offeror with the lowest price.

In this model, it is a *fact* that all bidders used the same documents to prepare their bids, and it is an *assumption* that on bid day the Owner is looking at apples-to-apples prices for the described work. This is a quick and easy evaluation – the lowest price wins.

The only real qualification, when used, is the inclusion of a bid bond in the proposal package (followed with final bonds at time of contract execution). Bonding is primarily a financial tool; it is primarily a quantitative measure of the Contractor's bank account and ability to survive.

Qualification-based evaluation. This method of award requires the evaluation of many aspects of a Contractor's historical performance:

- Financial condition – this may require anything from a letter from a bank, or a partial disclosure of financial reports from the Contractor's CPA.
- Project history – a certain number of projects within a certain number of years ago which compare favorably to this project in the way of contract size, scope of work, and geographical location.
- Management team – both the qualifications of the proposed staff as well as the confirmed availability of the staff for this project.
- Quality control methodology – the existence, or not, of an effective and proven quality control program.

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- Timeliness of project completion – a proven history of timely completion of projects plus an absence of liquidated damages payments.
- Litigation history – some companies regularly file claims and change orders which lead to anything from mediation to the courtroom.
- Company age – a company's age confirms that the people and existing controls have been in place, and proven effective, in the management of the work. Few owners want to be the "guinea pig" for a start-up company.
- Reputation – letters of recommendation from other project Owners serve an evaluating agency well in the true performance of a Contractor.
- Price – price is usually a factor in construction projects (usually not in professional services evaluations) and is weighed differently between Owners.

My story. The vast majority of my career as a contractor was low bid wins. As a contractor, to me it seemed like a great method for the main reason of expedience. There was a date for documents issuance, a date for rip and read (the time and day when the envelope containing the bid documents was ripped open and the price read aloud), and then the contract would follow days or weeks later. It was quick and simple. However, the gargantuan flaw in this is the Contractor's desire to feed the machine thereby eating itself. A Contractor is his own worst enemy, he will cut out costs and make stupid, unrealistic assumptions during the estimating process which prove impossible come time of project execution. This lethal combination of desperateness to maintain cash flow, plus an ego the size of Dallas, drive many contractors to take work at or below cost. Frankly, this method is stupid.

Now having worked on the Owner's side, I see the light. I see why it's so important to have a cooperative, quality-based, and competent Contractor. Owners pretty much want their project completed on time with minimal change orders. When there are changes, Owners just want to be treated fairly.

To me, as having served as an Owner's representative now, my preference is by far a qualifications-based approach. The only problem with this is the human element. With a qualitative evaluation, the grading of evaluation factors can be skewed and people (not agencies) find ways to get "their guy" into the pole position. And, all of us being human, sometimes it involves money. Like the kind that comes in a brown paper bag. Work safe!

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