



EPFL

**Selection of
Contractor/Supplier**

**Lowest Bidder
vs
Best Bidder ?**

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Ready to launch a new project?

Why do you need sub-contracting to carry out all or part of it?

Because your own organisation does not have:

- the necessary competences / skills / experience / know how
- the right technology, the necessary material resources
- the sufficient human resources

to guarantee the fitness for intended purpose, to achieve the required performances, to properly manage the associated risks

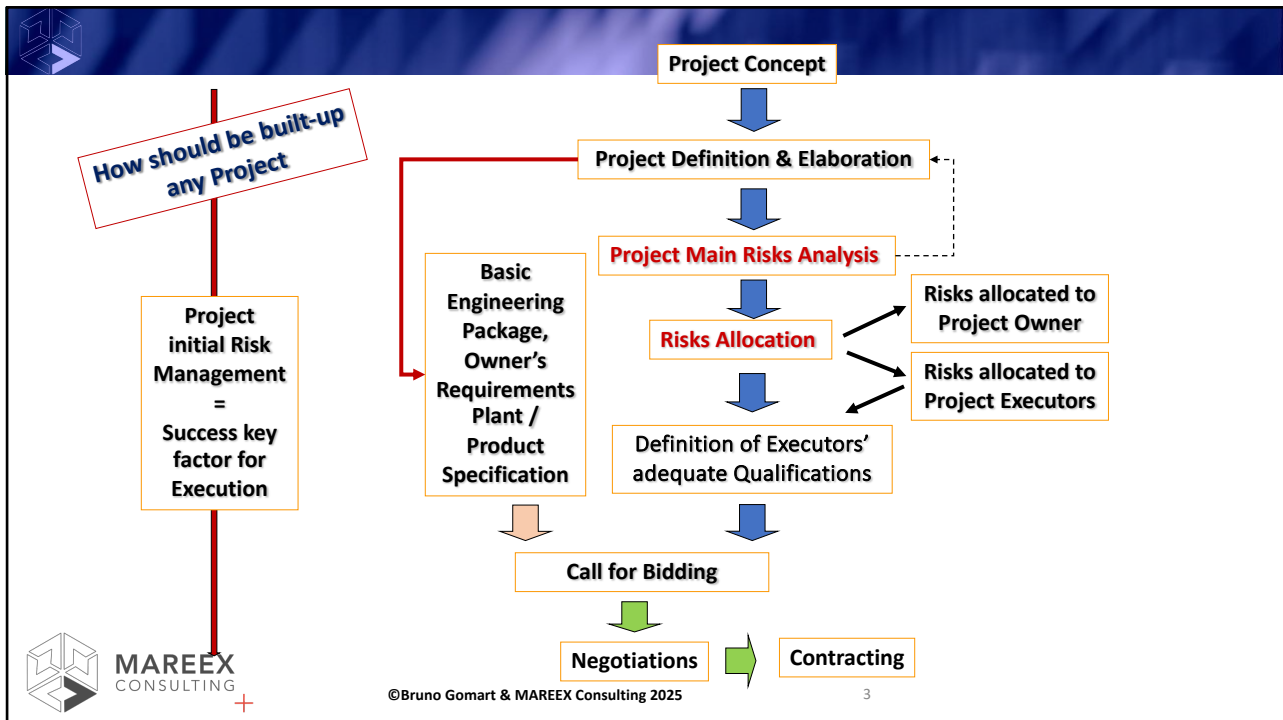
→ You have no choice but to select another entity to do the job !

→ and “hopefully” to secure the most appropriate one

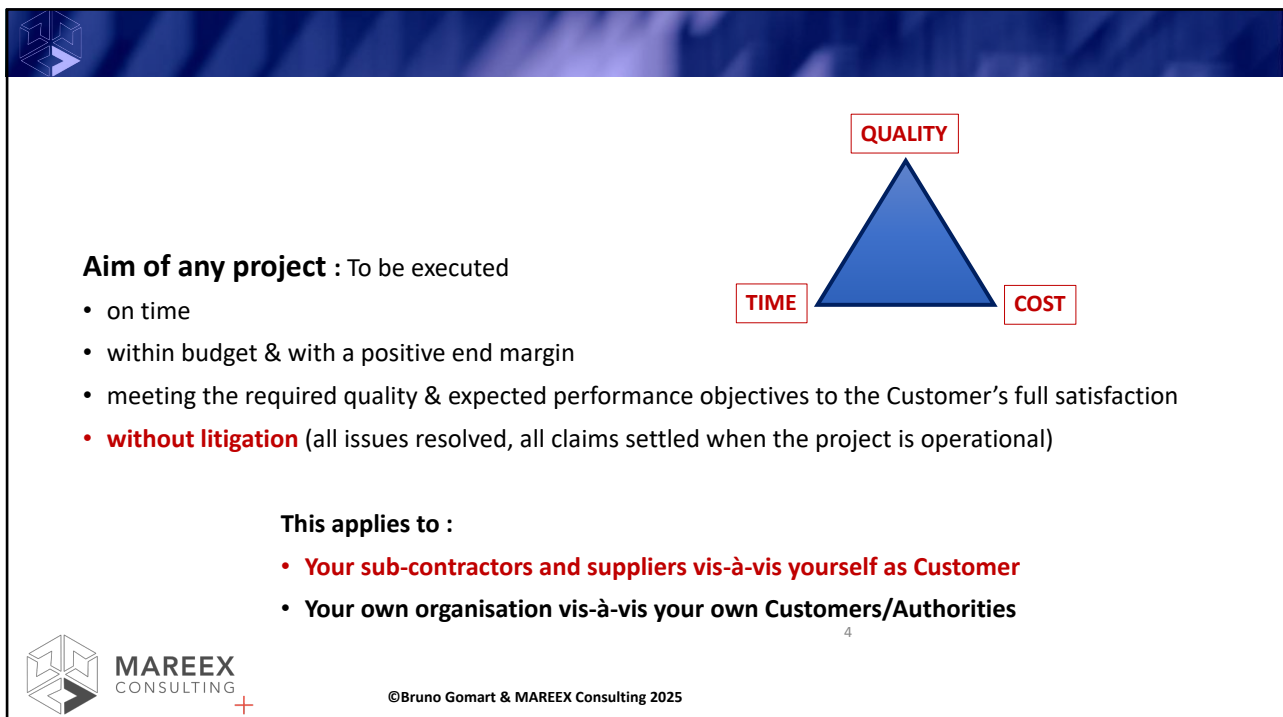

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How to achieve those four objectives :
Time, Cost, Quality, no pending claim ?

There are four basic questions to answer before you sign:

Q1: Do you know exactly what you are actually contracting ?

- What is the purpose of the order/contract, what are the required performances
- How were allocated the risks that may arise during the project execution

Q2: What is your understanding of the implementation environment constraints ?

- The regulations in force
- The specific constraints (physical, neighbourhood, climate, etc.)

Q3: Which are the stakeholders will you work with on a daily basis ?


- The Authorities, Owner/Client, Partners,
- The agents, subcontractors, suppliers and third parties

Q4: How familiar is your organisation with the rules of the game?

- The Contract & the applicable Law

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Three main categories of Bidders

1) The true professional!

Its Skills, Experience, Knowledge Management ... have made its company able to:

- understand the real needs of its Client
- detect and point out any flaw in the project specifications
- accurately define how to manage successfully the project
- properly budget required manhours and materials
- launch permitting
- anticipate allocated risks, implement risk management and minimise contingencies
- ensure an efficient project management : studies, purchasing, assembly, commissioning, training, assistance


to fulfil its contractual obligations (obligation of results, best advise duty)

And the Client will benefit from that!

*Occasional ! Sometimes rare !
But we can still expect to find it*

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Three main categories of Bidders


2) The company having a sound contract management culture ... with a Claim mindset

- It will do whatever it requires to secure the order
 - ready to sign at low (even zero) sale margin
- but it will seek later to increase value from the outset:
 - by using at best its contractual rights
 - by exploiting:
 - the slightest defects in the specifications (imprecision, vagueness, inconsistencies, errors...)
 - the slightest shortcomings of its Client, subcontractors and suppliers
- It may be a **champion of claims!**
 - It knows all the tricks to make a profit during the project
 - Systematic claims strategy
 - Reversal of the burden of proof
 - 3-payment rule
- It puts a **strong pressure on its own chain of subcontractors/suppliers**

More and more frequent !

But, anxious to consolidate his market, it may ultimately deliver a product that meets its Client's needs


But the Client will pay for that !



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Three main categories of Bidders

3) The thoughtless, the lax :

- It has improperly built up its price by forgetting or underestimating :
 - materials & equipment
 - related services
 - corrective/multiplicative coefficients (such as VAT, customs fees,...)
- It has been **lax in costing** (too many approximations, lack of grounded cost breakdown)
- It has been **victim of cognitive biases** such as:
 - Excessive confidence in one's abilities
 - Underestimation of remaining developments
- It has **failed in getting consolidation/firm commitments** from own subcontractors and suppliers' chain


*Occasional !
But not excluded*

Its only real objective after signing?
→ **To minimise his loss, possibly restore his margin**

How to do it?

- By saving on quality: materials, equipment, labour, quality control,...
- By claiming for any reason, on any subject
- By reacting in bad faith


**What are definitively sure:
the project will suffer !
the Client will pay for that !**



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How to select the Best Bidder among all bidders?

How are usually selected the Subcontractor or Supplier?

Two methods:


The cheapest offer

- This is the bid with the highest score in the single-criteria analysis on price: the PRICE
- The “Lowest Bidder” is the bidder having submitted the lowest offer in Price

The best tender


- This is the bidder with the best result in the multi-criteria analysis
- The “Best Bidder” is the bidder whose bid obtained the best result in a multi-criteria analysis

**Unfortunately, the Lowest Cost Bid has usually won
and is keeping winning in most projects**



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How to select the Best Bidder among all bidders?

Multicriteria Analysis

Such analysis defines a set of technical, qualitative, economic, social and/or environmental criteria
Of which price is only one component


These criteria must be based on the Client's determination of its purchasing needs, as defined in its specifications

The choice of the most economically advantageous offer must be made only after having duly screened the offer as per each one of the contract award criteria (as previously identified and decided)

The tender should be analysed:

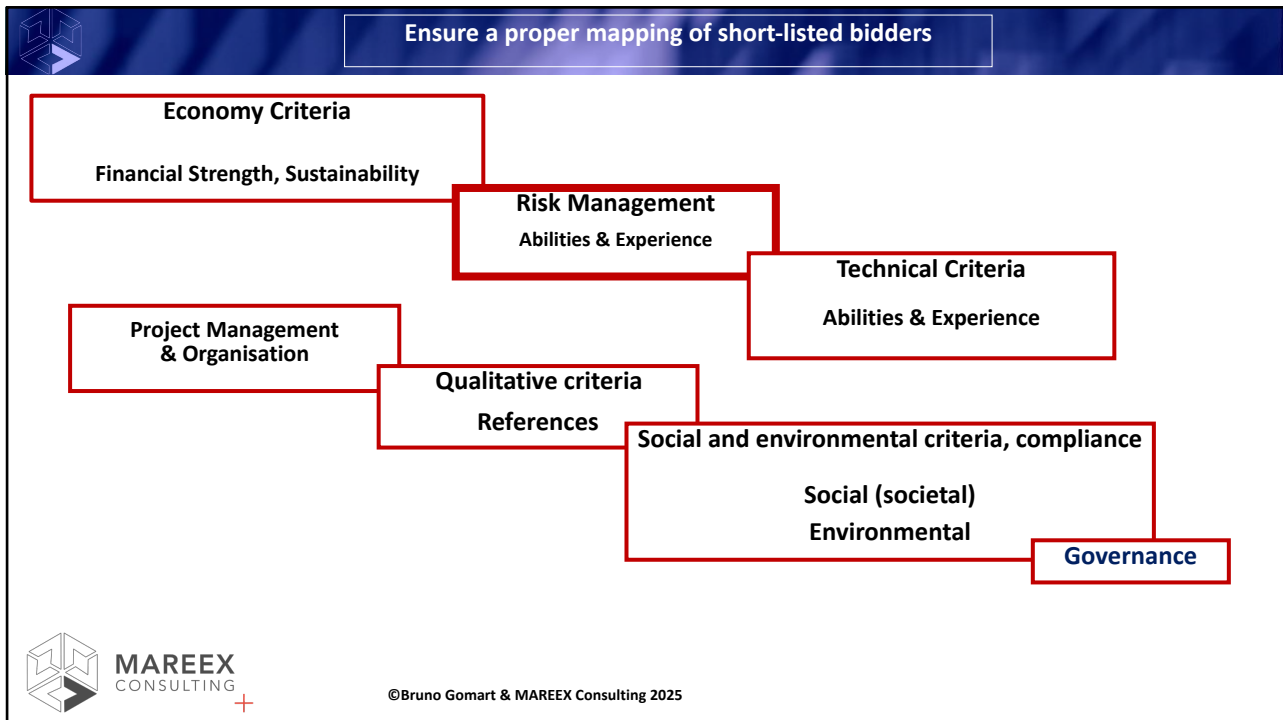
- First, according to the set of award criteria: this is the quality of the offer
- Secondly, according to the advertised price: this is the cost of the offer

The award criteria must be objective, well-founded (documented) and non-discriminatory, otherwise they may be challenged later by unfortunate bidders



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Lowest Bidder *versus* Best Bidder ?

It's your final choice, but during the Selection Process:

THINK about the RISKS you would take from one bidder to another one !

Whatever is your choice

- ***Keep in mind what has led you to do it, keep in mind the risks you have taken when selecting that contractor/supplier***
- ***Monitor and implement the right mitigation actions during execution***

The bitterness of low quality remains long, long after the sweetness of low price is forgotten !

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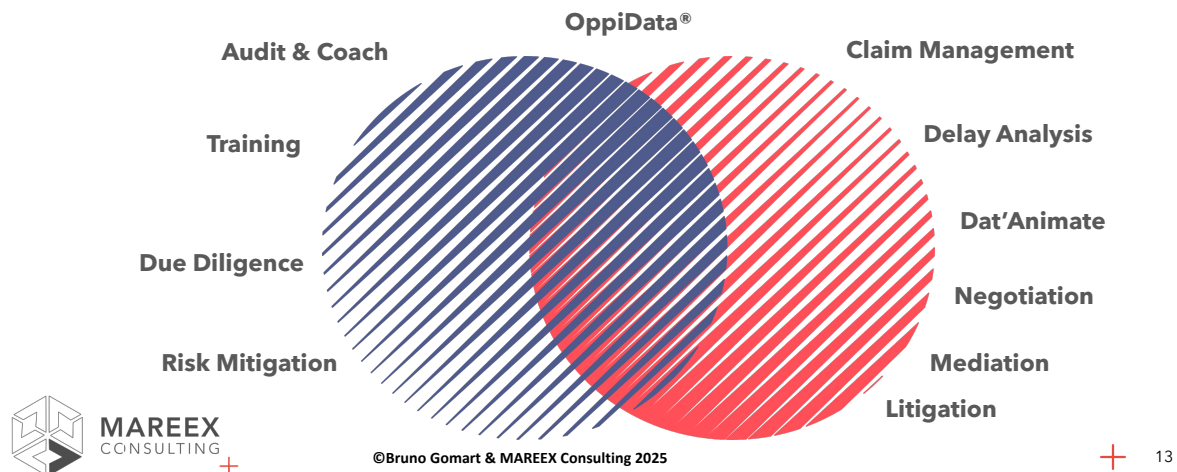
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➤ ABOUT MAREEX

Our comprehensive set of services

From Preventive

To Curative



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To know what we may face is alarming

... but to ignore it is terrible!

Victor Hugo

**Thank you for your kind attention
and please do enjoy
Contract Management !**

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GUIDE DU CONTRACT MANAGEMENT OPÉRATIONNEL

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Préface de
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