

# *Selecting the Tenderers*

by Garth Ward

**T**his topic is part of the process of choosing the right supplier. It is not complex or difficult but it is one of the most important. If the wrong name(s) is on the tender list then problems are bound to occur later. In the same way that the successful execution of a project depends on the choice of individuals to form the core project team, so it depends on all of the other participants. The contractors, consultants, equipment manufacturers and material suppliers are all important when choosing the larger outer project team.

The subject can be divided into two parts. Firstly, deciding how to select those for the tender list and who to put on it. Secondly, pre-qualifying those on the tender list in order to decide whom to invite to submit a tender. The key to the whole process is experience.

I was fortunate on joining a company to be appointed as the proposal manager for an enquiry, and then to be the project manager when we were awarded the contract. We had worked out what and how most things were going to be organized during the tendering phase. Upon award it was important to maximize the advantage of having the same project team as the tender team and implement all of the administrative issues as rapidly as possible. Consequently, I was busy signing off lots of documentation, but then the project procurement manager gave me a whole stack of procedures. I was reluctant to rubber stamp the documents without being aware of their contents. In any case I was new to the organization and the procedures would give me a good insight into how the company worked. Consequently, I took the most unusual step (for me!) and took them home to read overnight. Whilst I was satisfied with the content of the vast majority of the procedures there were two or three issues where I thought; if I sign off on this, I will not know what is going on and, I will lose control. The primary issue, that I still remember, was that as project manager I wanted to authorize the tender lists before enquiries were issued. I wanted to ask why certain people were on the list, who had suggested the name and why, what experience did we have of the companies' performance or other relevant issues in controlling the budget and schedule and meeting our objectives?

## **THE TENDER LIST**

Effective procurement is crucial to completing projects on time and within budget. It is about knowing who the right supplier is, who will provide the right material of the right quality, and knowing who can be relied upon to submit acceptable offers and perform effectively (the right price with the right delivery).

However, the proposed tender list cannot be formulated until a key strategic decision has been made. Is the enquiry to be sent to local, national or international companies? Local companies may

be preferred when, say, a short call-out time is required. An international enquiry may be preferred when the client wants to take advantage of the tenderers' ability to raise local finance.

Finance is the other strategic decision that will affect the tender list, particularly for large contracts. Is financing to be part of the competitive process in order to take advantage of different national loan arrangements? If credit financing is to be part of an enquiry then it may not be necessary to invite tenders from more than one supplier per country, since the loan arrangements will be similar. If suppliers' proprietary processes are involved, or there are other technical reasons, then the financing arrangements may make a difference to the tenders.

If the project as a whole is financed by international loans, the nature of the loans concerned may dictate what materials are to be sourced in which country. I have never forgotten when, on one of my projects that had three international loans, we bought piping insulation material from India using our dollar loan whilst we had an excess of rupees on our Indian loan.

Potential tender lists are generated from a number of sources. The functional department responsible for the technology involved, the project procurement department (who will access the company procurement department database), project engineers and even, sometimes, the project manager. In the unusual situation when there is a complete absence of experience or any other information or data, one is forced back to basics, and today the Internet will be the first place to search. However, do not forget to peruse the 'yellow pages' of the particular business sector or industry; specifically, the professional institution journals and other trade publications. Further, do not forget company brochures and annual reports.

In whatever manner the list of names has been compiled, a company's website will also be the primary source of data. Comparable information and data should be collected on the technical, commercial and financial capability and suitability of the suppliers or contractors. The companies on the list can then be examined on a like for like basis. Typical information might be:

- ownership of the company;
- financial stability;
- company size – turnover;
- geographic location;
- extent of product and/or services offered;
- projects performed;
- technical expertise;
- manufacturing capacity or resources available;
- membership of trade and industry associations;
- contact details.

Despite much information being readily available on the respective organizations' websites there may still be unanswered questions. The recent history of corporate failures and high profile cases such as Barings and Enron have highlighted the need for risk analysis and assessment of the financial health of all companies, even the larger organizations. Consequently, it may be necessary to issue a Request For Information (also known as an RFI). A request for information will be simply a list of whatever questions that you, the client, wish to have answered, in order to fill in the blank spaces of the information available.

In general, any company that has been in business for a while, either awarding or performing projects, will have a purchasing capability. The purchasing or procurement department should have collected information about the performance of companies that they have used, and should be researching the market place for new suppliers or contractors.

If the sales and marketing personnel of suppliers and contractors have done their jobs properly, you should already be conscious of companies with relevant capabilities. They need to be aware of you as much as you need to know about them.

As a generalization, contractor clients (working for more and different owners in different fields) tend to have a broader information base than owner clients. However, owners have the vital operating and maintenance data.

Back in 1981 Bechtel already had a well established Supplier Information System, 'A computerized data base of 6000 suppliers and contractors throughout the world who offer some 2500 commodities and services.'<sup>1</sup>

It is interesting to note that it was a further 15 years before a leading owner organization created a similar database.

*<sup>2</sup>It was called the 'billion dollar challenge'. In 1996 BP, the international oil group, decided that it could save \$1 billion from the \$15 billion a year that it spent on goods and services.*

*The key was information. BP could only make the savings by getting an overview of all its spending decisions. Once it had the full picture, it could negotiate better deals with its main suppliers.*

*But two years ago, identifying those opportunities was difficult as there was no single place in which all the purchasing data was gathered.*

*There was a need to build a computer system to collate information about who was buying what from whom. BP tackled this problem by building a data warehouse - information from many sources in analyzable form.*

*Users as far afield as Australia, Alaska and Azerbaijan may interrogate the system to find if a potential supplier is doing business elsewhere in the group or if another supplier offers better terms. BP procurement managers may use this information to aggregate purchases and to negotiate better terms.*

*An important consequence is that BP can rationalize its supplier base. 'It could easily be seen as a big stick to beat suppliers,' But...it allows suppliers to develop a more collaborative mode of working with BP.*

*'The real value is in the second tier suppliers, '...'For heads and procurement, it is pretty obvious who are the top 20 suppliers. But look one level down, they don't actually know who are the next 20.'*

*Data from 20 countries is in the system, now used by 700 people all around the group.*

*Within a year of the system's introduction, savings of at least \$15 million were made; equivalent to five times the project's cost.*

Regular field research during quiet periods of work will save time when projects are active. Field research is essential if the organizations on a proposed tender list are unknown. Visit the companies, tour their facilities and meet key personnel. Meeting the managing director and senior managers helps to evaluate the management culture and provides personal contacts for future use. Carry out a Quality Assurance system audit. Ask for references, go and see some work that they have carried out and talk to their recent clients (projects, operations and maintenance personnel).

<sup>1</sup> *Shopping the Worldwide Market*. Bechtel Briefs July/August, 1981. Published for the employees and friends of the Bechtel group of companies, San Francisco.

<sup>2</sup> 'BP overcomes fear of the "too difficult" box', *Financial Times*, April 15, 1998.

Much of this work can be simplified in the process industries by subscribing to an organization called 'First Point Assessment'.<sup>3</sup>

First Point Assessment Ltd (FPAL) is a non-profit making oil and gas industry owned and governed company established in December 1996. Its purpose is:

*For purchasers: to provide objective information on the potential and actual capability of suppliers and contractors.*

*For suppliers: to enable suppliers to provide consistent and up-to-date information to potential purchasers in a cost effective manner.*

*All parties to minimize inefficiencies between major purchasers and suppliers through eliminating duplicated registration and assessment activity.*

*To provide opportunities for improvement throughout the supply chain through enhanced knowledge of strengths and weaknesses.*

*First Point Assessment essentially collects information on contractors and suppliers (Registered Suppliers), recording their capability over a number of different attributes in a central database (FPAL). The data is expressed graphically as company 'Profiles' and is collected by coordinating feedback of actual performance (Performance Feedback) and by conducting an assessment from the completion of a separate capability questionnaire. The database is made available to potential purchasers (Subscribers) who are subject to appropriate restrictions. Benchmark performances are made available to individual Suppliers and Subscribers.*

The Freedom of Information (FoI) Act can also be used as a mechanism to gather information. *The Financial Times* reported on August 30<sup>th</sup>, 2005:

*There are signs that the private sector is increasingly using the FoI regime to extract information about bids and contracts from public bodies such as local authorities and NHS trusts.*

*But many companies are reluctant to tell the authorities that they are seeking the information for fear of damaging their relationships with officials.*

*...companies are using private e-mail addresses or employing consultants to make requests for them.*

Whilst, at first glance, this may appear to be of main benefit to a supplier or contractor (which it is), it is also useful to see who other clients chose for their projects and how the successful tenderer performed.

With all of the data available from the corporate list of suppliers and contractors, it is now necessary to make choices for a project tender list.

## **The project tender list**

The project list needs to be compiled as early as possible. The objective of the project tender list is to determine the best choice of suppliers and contractors for the subject project.

It would be a mistake to compile the initial project tender list, covering all the goods and services required, in a routine manner. Your past experience may not be as relevant for an innovative project. It would probably be a mistake to use a high technology contractor for a low technology project – they will over-design and be too expensive. Further, a project manager might be reluctant to choose

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3 See *Additional Sources and Contact Details*.

new or unknown suppliers for a critical high risk project. New and unknown companies should be given opportunities to prove their capabilities on smaller, low risk repeat type projects.

Naturally, the list will depend upon the goods and services required. A supplier of standard products may not be appropriate if the project requirements are tailor-made to very specific requirements. Similarly, it may not be sensible to include someone whose capability is only peripheral to the technology of the project. Contractors like being able to extend their capability at the expense of their clients. There are times when this is acceptable but other times when it may put the delivery of the project at risk.

Suppliers of materials and equipment that are on the project's critical path need to be chosen for their reliability and proven track record of delivering on time. Materials and equipment that has significant float (spare time) within the project schedule can be chosen differently. For example: a manufacturer may produce good quality goods but have a poor delivery record.

At the stage of preparing the project tender list it is useful to survey the market place to find out what other projects are underway, and which suppliers and contractors are busy with other work.

The design department should have indicated the types and approximate quantities of materials and equipment that they anticipate being required. Similarly, the execution departments (manufacturing, installation or construction) should indicate the type of services needed. If not, then purchasing should take the initiative so that a start can be made on developing the project tender list.

If a contractor is working on behalf of an owner client then the owner may well wish to include or exclude certain names from a tender list. For example: in order to standardize on certain types of equipment. Rationalization of spares may dictate that a particular vendor's equipment should be chosen. Further, as a result of their own experiences, the contractor may also wish to exclude specific names from the tender list. In these circumstances it is unlikely that an owner client will override a contractor's recommendation. In addition, the owner client may well want to approve the proposed tender list for each enquiry. In order to reduce the bureaucracy the contractor may be given discretion to operate independently for purchases below an agreed value. It is sensible for the owner client to perform occasional checks to ensure that the contractor is not misusing this delegated authority.

Purchasing will then contact suitable suppliers who have experience in the particular type of materials, equipment or other work, to check whether they have the capability to submit a good competitive price and the capacity to achieve an acceptable delivery, for the proposed project. This process is called pre-qualification.

## **Number of tenderers**

The short list of tenderers should consist of between three and six potential tenderers. The number should reflect the fact that a tenderer may pull out at the last moment, or that a tender may be submitted that is unrealistic. To some extent this is a failure of the pre-qualification process. Nevertheless, it can still occur.

Tendering is an expensive process and only one tenderer will be successful. If there are too many tenderers they may feel that they do not have a realistic chance of being awarded the contract and may not submit realistic prices. If too few responses are received then the client faces the cost and, more importantly, the time involved in repeating the process.

Public bodies and international institutions will have specific requirements about the number of tenderers. However, the minimum number must be set to ensure that there will be at least two viable tenders. As already indicated, this is in case a tenderer withdraws, or in case it is not possible to reach agreement with the selected 'winning' tenderer.

There are a number of options available when you are unable to identify a sufficient number of potential tenderers:

- advertise;
- go international;
- ask the design department to break the work down into smaller elements;
- talk to the design department about redesigning the requirements;
- in conjunction with design, develop a potential supplier to become competent.

## **International issues**

When purchasing internationally it may be necessary to place an advertisement in some key publications. Project funding needs may make this a requirement or there may be insufficient local suppliers or contractors. The advertisements will need to be in the local language and will provide brief details of the proposed project and the materials and or services required. It will invite relevant suppliers and contractors to apply for a pre-qualification questionnaire. The pre-qualification process often corresponds to, what is entitled, requests for Expressions of Interest. Since any interested contractor or supplier is able to apply, it gives new or unknown tenderers an opportunity to compete for the work.

The following is a representative selection of the issues covered in advertisements in the financial press in 2006/7. The wording, though, has been modified for simplicity. However, the combination of issues and peculiarities of clients' specific requirements are extremely diverse. Any reader who wishes to study the details of the international tendering process further is recommended to peruse past and future advertisements over a significant number of months.

- [The Company] is inviting interested parties to submit an expression of interest to obtain the Request For Qualification information (RFQ). [The Company] reserves the right to reject or accept any expression of interest received on the basis of the criteria set out in the RFQ.
- Expressions of Interest (EOI) for pre-qualification for the supply and installation of equipment. Tenderers must:
  - be experienced in the type of project;
  - be experienced in the country region;
  - have people experienced in the type of project and in the country region;
  - sound financial references;
  - client and consultant references for projects completed;
  - demonstrate that the company has worked as a subcontractor for a main contractor.
- The tender documents shall be issued to tenderers who submit definite proof of owning plant [used to produce the material required].
- [The Company] invites expressions of interest from contractors wishing to qualify to tender for engineering, procurement, construction, testing and commissioning of the following works... These will be executed on cost plus design and build contracts.
- Pre-qualification is open to suitably qualified and experienced international contractors. Contractors who fulfil the following requirements shall be eligible to apply:
  1. A minimum average turnover over the last three years of...
  2. Experience in xxx project type in the last 5 years.
  3. Minimum net worth of \$ x m.
  4. Successful track record of timely completion of projects.

- In the case of foreign consultants, they will have to associate themselves by making a JV/ consortium with [national] firm/firms having experience in any of the areas.
- Interested contracting companies are requested to submit their Expression Of Interest (EOI) with a) company profile along with contact details/communication address; b) details of infrastructure and equipment; c) references of similar work done in the recent past and; d) financial details and other information that the company feels is relevant and may qualify them for being considered by [the company]. These details should be sent within 10 days from the date of this advertisement through e-mail and supported by a hard copy through courier.
- [The company] is interested in lease-in of three (03) [XXX] aircraft fitted with [XYZ] Engines on dry lease basis for a period of 5 years extendable to 7 years, from established leasing companies/owners/operators. Offers from agents/brokers will not be entertained.
- [The company] invites EOI. Detailed EOI document and required formats for data submission can be downloaded from the Tender Notice Section of [the company] website.

The embassies or consulates in your home country (for the prospective supplier country) should also be contacted since they should be able to suggest a suitable list of tenderers for the proposed commodity or service.

United Nations projects or public sector projects in the European Union will all have their own set of rigorous rules, that will need to be followed, for how and who to invite.

As already indicated, projects using loans from banks are similar. The bank will dictate where certain materials should be bought. After all, they make the loan so that the money should be spent in a particular economy. The International Bank for Reconstruction and Development (IBRD) and International Development Association (IDA); The World Bank states:<sup>4</sup>

*...four considerations generally guide the Bank's requirements:*

- (a) *the need for economy and efficiency in the implementation of the project, including the procurement of the goods and works involved;*
- (b) *the Bank's interest, as a cooperative institution, in giving all eligible bidders from developed and developing countries an opportunity to compete in providing goods and works financed by the Bank;*
- (c) *the Bank's interest, as a development institution, in encouraging the development of domestic contracting and manufacturing industries in the borrowing country; and*
- (d) *the importance of transparency in the procurement process.*

1.3 *The Bank has found that, in most cases, these needs and interests can best be realized through International Competitive Bidding (ICB), properly administered, and with suitable allowance for preferences for domestically manufactured goods and, where appropriate, for domestic Contractors for works under prescribed conditions.'*

The following exercise illustrates the difficulty of choosing the right organization for the proposed tender list. So as to avoid qualifying your choice by stating that 'it depends upon the price' assume that (for the purposes of the exercise) there is nothing between the proposed suppliers in terms of price or commercial terms. However, in reality at this stage (preparing a tender list) you would not be aware of this commercial information.

<sup>4</sup> *Guidelines, procurement under IRBD Loans and IDA Credits The World Bank, Washington D.C. USA Page 2. Revised January, 1999.*

## WHICH WOULD YOU PICK? by David Wright

You propose to place an order for the first part of what is likely to be a substantial purchasing exercise for new quality control and sampling and testing equipment. The project is high profile and the decision has been made to go for 'state-of-the-art' equipment. The technology is still slightly experimental, but the design technologists are insisting, and something new is needed anyway.

You are considering three companies for the contract, all of whom appear to meet your specification.

*Company A* is a prestigious manufacturer based in Tokyo, but with a small sales and service company based in Reading. They have a reputation as a totally reliable, but very conservative organization that does things well but in their own way. They are the main supplier to the Japanese market and have a number of active contracts for similar equipment worldwide.

*Company B* is a large UK manufacturer which has done roughly similar work in the past. However, the company has been doing rather badly over the last few years and has had a bad press recently. They have said that they are very keen to develop a long-term business relationship with you, and their technical competence is not in doubt. However, they are known to adopt a very aggressive marketing and commercial approach to customers.

*Company C* is a small, rapidly growing local company. Some of their technical staff are personally known to you, and some have actually been employed by you or by Company B in the past. The company has gone for growth and new technology and picked up some good contracts. It appears to be doing very well.

Which is your preferred candidate for the work and what are the factors that influence your decision?

### Discussion

This is all about perception and decision making. Theoretically decision making involves collecting pertinent and timely information and using your experience and judgement to arrive at a conclusion. Thus when we first look at a new supplier we make a decision about what type of company they are (in theory), using all the available marketing evidence. In practice, this is then modified by our instinctive feelings (experience and judgement).

Whilst suppliers A, B and C do not really exist, they represent the most common results from market research into what purchasers look for in a successful supplier.

A is the company in control of the technology, high prestige, government contracts, big research facilities, selling up-to-the-minute technology. The comfort factor that the buyer gets is the knowledge that the equipment will work.

B is the large group of companies. Their size and bargaining power with subcontractors and their staying power provides two comfort factors: price control and stability. They will be there when the buyer needs spares and servicing.

C is a small helpful user-friendly company. They are ready to leap into the future and the buyer remains in control.

The disadvantages to the three types of company are:

A is Arrogant – they will give the buyer what they know the buyer ought to want, rather than what the buyer thinks they need. Company A is also conservative in that they will offer the buyer a proven solution.

B is a Bastard – commercially and contractually adept. They are prepared to drive a hard bargain and perhaps to bully or blackmail their way out of trouble.

C is a Child – vulnerable to disasters. They have fragile finances and they are short on resources if things go wrong.

In asking training course delegates to pick A, B or C the usual mix is about 30 per cent A, 10 per cent B, and 60 per cent C.

David Wright's advice is that psychologically we start to deal from our preconceived view of a company. We then get to know people and establish a working relationship. However, if the contract goes wrong, so that we are under psychological pressure, then the way that we manage the relationship or contract will inevitably be coloured by our preconceived ideas.

## PRE-QUALIFICATION

The purpose of a pre-qualification questionnaire is to request information in sufficient detail so as to be able to select the companies to be invited to submit a tender. The questions must be sufficiently probing in order to eliminate unsuitable tenderers. Each pre-qualification questionnaire will have some common generic questions and some very specific questions focused on the project in question.

If a request for information has already been used to compile the list of potential tenderers for the project, then there will be fewer generic type questions and more project focused questions. However, if a request for information has not been used then the pre-qualification questionnaire may also serve to gather information and data.

Pre-qualification questionnaires can vary from one or two pages to 15 pages or more. Sometimes it appears, to the supplier or contractor, to be a process of free consultancy! The questions must be answered. Since, if the proposed tenderers do not pass this test then they do not receive the enquiry documents. However, the process should be matched to the scale and complexity of the project. It is unreasonable to put suppliers through expensive and complex qualification processes, on each and every occasion, for routine projects.

Thus, for standard repeat type supplies of materials and equipment, and in order to reduce the amount of work imposed on suppliers, it is not uncommon for clients to carry out single annual pre-qualifications.

The pre-qualification document will consist of facts and information about the project and a series of probing questions. The following information should be provided:

- the client's name and contact details;
- the project title and location;
- an indication of the size, capacity or dimensions of the project;
- any unusual features;
- the proposed contracting strategy;
- a brief description of the proposed work required by the supplier;
- the intended programme: contract award date, start of work date and contract completion date;
- the expected enquiry issue date;
- the intended date for the submission of tenders.

There are two principal areas of questioning. The first is simple and straightforward. Is the supplier or contractor willing to submit a tender on the terms indicated? There is no point issuing an enquiry for fixed prices if market conditions are such that suppliers are unwilling to tender on this basis.

A variant of this question can sometimes be asked at this stage or at the earlier request for information stage. I remember receiving a visit from a major client to discuss their proposed project and during discussions they asked, 'What type of contract do you think we should use?' I was well aware that they had their own very clear ideas. Consequently, this was a test question. At the time the company I worked for was very risk averse and I am sure the company response would have been, 'We prefer reimbursable contracts.' However, I decided to give a personal response and said, 'As a project manager I much prefer fixed price contracts.' This was the right answer. Why should a client let a contractor play with the client's money if the contractor is not prepared to risk their own money? Will they look after your money as if it was their own?

The second area of questions needs to be more probing. Does the proposed tenderer have the experience, expertise, capability, resources and financial stability? These are the factors that *qualify* an organization to be on the tender list.

As already indicated above, the pre-qualification questionnaire is similar to an exam. If the proposed tenderer does not answer satisfactorily then they will not pre-qualify and will not be issued with the enquiry documents. However, it is surprising how often people do not respond to the questions that have been asked but answer questions that they would like to have been asked! This is quite irritating since time is wasted chasing up the right information before the analysis can start.

How people respond to a pre-qualification questionnaire reveals a lot about the sophistication of their organization, understanding of the issues and potential behaviour on the project.

Typical information, together with explanations, that might be requested for suppliers of services is as follows:

1. Please confirm that your company will submit a tender in accordance with the proposed contracting strategy and in accordance with the attached terms.

It is important that the contracting strategy is very clear, since this is a make or break request. If the supplier or contractor cannot reply in the affirmative then they do not pre-qualify. The remaining responses then become irrelevant. However, some contractors try to have their cake and eat it by keeping their options open with phrases such as, 'We are willing to tender on any terms that are appropriate to the project.' If this is a response to a request to confirm their willingness to submit a tender on a fixed price basis, then it reveals an element of risk averseness. They have failed to realize that this is not an Invitation To Treat, and so their responses are not an offer. At this stage there is no contractual commitment in responding with a positive attitude.

2. Describe your capabilities, experience and resources with XYZ technology.

Every project has some facet of technology that is crucial to the project. It may or may not be very complex but it will be essential that the supplier has the necessary capability. Consequently, this can be another make or break situation if the tenderer fails to be convincing in their response.

The technology may involve a specialization where the tenderer has only one person capable of doing the work. In these circumstances you should question what happens if the specialist becomes unavailable through sickness or the demands of other projects.

3. List relevant and verifiable current and prior experience with similar projects undertaken in the last 3 (or 5) years. Provide their cost and schedule performance figures. Give reasons for any disparity between the original contract figures and final costs and schedule achieved.

This response should provide factual data that can be verified. This request for an experience list is limited to 3 years due to the turnover in personnel and the high proportions of agency staff.

Even with a more stable organization one will have doubts whether a company uses their historical records for older projects, even if they have them!

The question is very dependent on your attitude. Some clients like to be sure that the tenderer has the necessary experience of having done similar projects a number of times before. This can produce a 'Catch 22' situation whereby new contractors are not tried out because they have not worked with the client before. This is particularly true in the public sector. Whereas other clients take the view that people get bored doing repeat work, but excited at doing new things. There is merit to both approaches.

The important part of the question is, 'What is the reputation of the company for delivering on time and within budget?' What is the point of employing an organization that consistently delivers late?! Completion of projects on time is of prime importance regardless of contract type. Whereas, completion within budget is of more relevance for reimbursable type contracts.

The reasons for any differences in performance figures are of particular importance for Fixed Price type contracts. Does the company concerned have a reputation for making claims? Will they provide a low tender price in order to be awarded the contract and then submit claims in order to recover their costs?

4. List your experience of working in XYZ (the country of project execution).

This is another question seeking factual data. Perhaps it is of less relevance for material and equipment suppliers since they will use freight forwarding agents that specialize in the problems encountered in transport and shipping. Further, even if the vendor is involved with work on site, they will be working under the management and control of a contractor. Consequently, it is essential that a contractor has the capability and experience of dealing with cultural issues, as well as importing and exporting goods.

All clients like to see companies that show a commitment to working in their particular part of the world. A post office box address or just a sales office is hardly a sufficient demonstration of commitment to a locality.

In some cases particular location issues might be a deciding factor. For example: on a UK North Sea project it will be essential for the contractor to have an operations base in Aberdeen. Mainland European clients used to consider an office and experience on mainland Europe essential criteria.

5. Identify your production capacity under different operating conditions.

6. Indicate how this project will impact on your current and forecast staffing workload levels. Identify the proportion of permanent and agency staff.

You need to be confident that a supplier or contractor is operating in the middle range of their organization's resources and capability. An organization that is stretched will not be able to cope when the pressure is on or the work expands (as it does on all projects), or they take on additional work.

7. Describe your management structure, its relationship to the ultimate parent company, and how this project fits into the organization. Describe the project management departmental structure and the different authority levels.

If you are dealing with a subsidiary company (as one usually is nowadays) it is important to know who and where decisions are made, and what the various authority levels are. Changes in senior management may mean that the company's previous experience, performance or capability is no longer valid.

This question also serves to identify the ultimate holding company that will be requested to provide a parent company guarantee when the enquiry documents are issued.

8. Provide typical Curriculum Vitae for key project positions. Provide details of work experience, education and qualifications. Indicate the status of employment of key personnel.

What are the people like? Is the company concerned composed of an experienced but aging population, or full of less experienced but enthusiastic younger people? Have they held positions of responsibility on significant projects and filled the role for meaningful periods of time? I remember analyzing one CV that at first glance looked impressive. However, the individual concerned never seemed to have started or finished anything, and never filled a role for more than a few months at a time.

*The grasshopper manager, the executive who hops from job to job leaving a trail of destruction behind him, is under attack at the big oil companies.<sup>5</sup>*

*...Shell's chief executive, has imposed a job-tenure rule of four to six years for all but the most junior staff. Last week BP followed the Dutch company...In his first speech as chief executive [of BP]...a staff meeting [was told] that he wanted to stop the rapid circulation of managers, which prevented them from gaining on-the-job experience...Criticism of the rapid turnover of BP managers emerged in the Baker panel's report on the safety culture of the company's refineries in the United States after the Texas City disaster in 2005*

9. Provide sample procedures and/or standards for XYZ processes.

Sample procedures for some key processes (for example, change control) provide an insight to how well a supplier's or contractor's work methods have been thought through. Are they bureaucratic? Will the consequent slowing down of decision-making impact on project completion, or are they careful to maintain the work quality and avoid rework?

10. Provide documented evidence of financial capability together with financial reports for the last 3 years. Provide a letter from a financial institution(s) that can provide references as to the company's financial capabilities.

Alternatively, provide a letter from a financial institution willing to execute a performance bank guarantee on your behalf.

Annual reports are only 'a snapshot in time' of the financial status of a company. Consequently, it is necessary to get the accountants to carry out an analysis for trends over a period of time. However, recently established small companies may not be able to provide the run of accounts needed. Further, it is not uncommon to obtain a credit rating agency report for suppliers and manufacturers (again simply a snapshot in time) only to find them in financial difficulties during the project.

This is why it is important to have a mechanism whereby the parent company, or an insurance company, steps in and completes the contract.

11. Identify the elements of work that you propose to subcontract together with the reasons for your proposed contracting strategy.

The enquiry was issued to the chosen company, not to a whole group of subcontractors. Why have elements been subcontracted and what is the justification for it? Is it because the contractor lacks the skills or resources to do the work themselves? Further, have they the resources to manage the proposed subcontracts?

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<sup>5</sup> 'BP halts the managerial merry-go-round to improve its safety and performance', by Carl Mortished. *The Times*, May 7, 2007.

It may be that technology transfer or involvement of local contractors is a prime objective of project execution.

12. Explain how you will execute the following key aspect to this project.

There is always a special element to a project, some issue on which the success of the project depends. Find out now if you, the client, has thought it through. Do you need to amend the enquiry document to cover something you had not thought about?

13. Identify six problem areas or issues with the execution of this project and describe how you will solve them.

This question is an 'and/or' question with number 12. I always like this question. Get six tenderers to use their best brains to solve potential problems before you start. Again, you may have to amend the enquiry document before you issue it.

There are many other questions that could be asked. However, one should consider whether they are better forming part of the enquiry document itself. For example: security measures, procedures for the sustainable use of natural resources and the protection of the environment, and safety statistics. A typical request in the enquiry document could be:

Please provide an explanation of the company's safety organization and safety procedures and how they will be used on this project. Provide details of the proposed site safety programme including training programmes, meetings and inspections. Describe the medical facilities available and proposals for site security. Detail the normal procedures for recording site safety statistics and provide actual statistics from recent projects.

However, whilst an organization's safety performance should be part of the client's database of information about suppliers and contractors, the information will not be current. A deteriorating safety record could be a good reason for a failure to pre-qualify. In these circumstances it is unreasonable to ask an organization to go through the expense and effort involved in submitting a tender.

The danger with the pre-qualification process is that once it is complete, and the chosen few have been identified, it can lead to the conclusion that any of the qualified tenderers are competent to carry out the work. This is, after all, the purpose of pre-qualification. Consequently, the lowest priced tender is the winner. This is nonsense. As a result, an evaluation process is required that avoids this pitfall.

## **Local purchasing**

Once the main equipment and materials have been purchased, local purchasing in a foreign environment becomes much less formal. However, there is a tendency to get stuck in the formal procedural and high technology mindset. Since all projects impact on people, it is important to build relationships with the local community by making use of local ingenuity and capability.

I remember having strong arguments with the construction people who wanted to import marine plywood for use as shuttering for concrete foundations on a project in Egypt. Local contractors used any timber they could lay their hands on, since the appearance of the surface finish was not relevant once the foundations were buried.

Another argument occurred with the same people when they wanted to import steel scaffolding instead of the local custom of using bamboo. Bamboo scaffolding can be used up to amazing heights and may be safer due to its flexibility.

On a different project the construction people hired some lifting capability to string out lengths of piping similar to large tree trunks. Our safety officer was then informed that there was some equipment in use without displaying a safe working load notice, only to discover that it was the local elephant.

It can be argued that these are outside the terms of reference of a project manager. However, the project manager's job is to get the project accepted by the owner. Consequently, this may mean taking a more pragmatic or political approach to some issues, particularly if it involves getting a project finished.

For example, someone in the home office had forgotten to order the chemicals that were needed to commission and operate the water clarification and treatment plant. It was clearly going to take too long to go through the whole ordering and importation process. Fortunately, I knew that my project controls manager was, by qualification, a chemist and I gave him the task to find appropriate chemicals. He solved the problem with some innovative expertise; for example, the local custom of using crushed and baked coral to make lime (I regret that we were not sufficiently aware of the environmental impact issues at that time).

## **The final choice**

Having pre-qualified organizations for the proposed project, a final selection needs to be made for those that will be asked to submit a tender. This selection process is carried out on the basis of the *quality* of the qualification factors, namely: experience, technical capability, resources and people, and relationships. If all things are equal and you have a surfeit of proposed tenderers, choose the ones that demonstrate that they really want the work – the hungry ones. They are the ones most likely to submit a competitive tender.

Despite the above selection and pre-qualification processes, you can still proceed on the basis of choosing a supplier that you know, like and most importantly trust. In these circumstances it is worth emphasizing, once more, that you need to be sure that you are still dealing with the same people as previously.

Again the current philosophy is to get closer to fewer suppliers. We will increase our business with you in exchange for more competitive prices. In addition, with the increased volume of business we can work together to improve productivity and reduce costs further. Eventually this may lead to a longer term partnering arrangement.