

## Understanding the Bidding Process and Procedures for the Procurement of Goods Work and Services

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### ABSTRACT

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*What and how to understanding the bidding process and procedures for the procurement of goods and services is one of the most important decisions that an organization makes. It is a major cost containment strategy that is being applied across all business activities. As a result supply and contracting still sets to gain maximum advantages and reduce risk when act on sourcing activities. This paper focuses on the areas of expertise needed by those involved in the outstanding bidding an negotiations process so that the primary objectives of outsourcing and bidding process will be met. The necessary data used in this paper was collected through secondary source; include textbooks from reputable authors, journal and newspapers. The paper has offered some recommendations aimed at improving the bidding process in supply outsourcing.*

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### I. INTRODUCTION

In business is a recognized way of competing with other business for a contract to do a project. The hiring company or organization examines and compares bid proposals from the different businesses to choose the firm with the best overall from proposal. Bidding is used for many types of business work and supplies that range from construction projects to needed equipment. Compares inviting bids from contractors or supplies usually specify how the winning bid will be chosen. If a company is only interested in a low price for products or services, it will often ask for competitive bidding. This term indicates that the winning bid will be selected on the lowest price quote only. A price quote is the fees for which a contractor or vendor will provide the requested goods or services knowing upfront that the bidding is competitive saves bid write a lot of work since other detail aren't going to be as important in the proposal as the price quote. Open competitive bidding is a business term that means all who want to view the opening of the scale bids may do so. Closed bidding proposal situations are those in which only selected individuals in the bid receiving, company or organization, view the bid. A bid is also called a tender. An invitation to tender usually placed on a company or organization website or in the trade journal or news papers. When be request aren't specified as competitive, other factors beside financial ones will be considered for the type of tender proposals, a company or organization may use a bid form or template. This kind of request for proposal (RFP) requires bidding vendors or contractors to fill in information on a standard form the company uses for all its bid request; non-competitive (RFP) typically ask for detail such as turn around time and product specifications. The company then compares each bid proposal sheet to choose the best overall product or service offer.

Sometimes, the bid requesting firm doesn't decide the winning proposal from the bids alone instead, the creates a short list of possible vendors or contractors. This procedure is much like a job interview process in which the interview narrows down the search for candidates. In a request for proposal (RFP) bidding process company or organization on the short list usually prepare an in-person presentation. The winning businesses are often, the one that shows visual evidence such as testimonials or photographs to prove why it's the best choice for the project. Bidding and negotiation is a tool for effective procurement of goods works and services. One a buyer or sourcing teams of an organization has identified the potential suppliers to be invited to submit bids (or proposal) a decision must be made whether to use bidding or negotiation (or the two together) as the basis for sourcing selection. When bidding is used bidding by private organization requests for bids are traditionally sent to three to eight potential suppliers depending on the naira size and complexity of the purchase. Request for bids as supplies to quote the price at which will perform in accordance with the terms and conditions of the contract, should they be successful bidder? Government buyers generally are not to restrict the number of bidders to only eight, rather, all suppliers desiring to bid are permitted to do so (for large purchase, the number are literally in the hundred under competitive bidding industrial buyers generally, but not

always award the order to the lowest bidding. By law, government buyers are routinely required to award the order to the lowest bidder provided the lowest bidder is deemed qualified to perform the contract. Bidding can be defined as the highest price any buyer is willing to pay for a given security at a given time, also bid price or quoted bid is a maximum price a market maker will pay for a security.

An offer of a specific amount of money in exchange for product and services as in auction.

In some cases this term also refers to maximum that an acquiring company is willing to pay for a take over target e.t.c.

## **II. FIVE REQUISITES FOR EFFECTIVE BIDDING**

The proper use of competitive bidding is dictated five criteria. When all criteria prevail competitive bidding is an efficient method of source selection and pricing. The criteria are:

1. The naira value of the specific purchase must be large enough to justify the expenses to both buyer and seller that accompanies this method of source selection and pricing.
2. The specifications of the item or service to be purchased must explicitly clear tooth buyer and seller. In addition the seller must know from actual previous experience, or be able to estimate accurately from similar post experience, the cost producing the item or rendering the service.
3. The market must consist an adequate number of sellers.
4. The sellers that make up the market must be technically qualified and actively want the contract and therefore, be willing to price competitive to get it. Frequently criteria 1, 2, and 3 prevail, yet there is no real competition, because the sellers are not anxious to backlog of work in some potential supplies plants may prevent competition. Under such circumstance, additional orders, would entail overtime operation and its attendant problems of scheduling difficulties and premium wage payment. Under such circumstance, if bids are made at all, they are not at price that include numerous contingencies.
5. The time available must be sufficient for using this method of pricing supplier competing for large contracts must be allowed. Time to obtain and evaluate bids from their sub contractors before they can be calculate their best price. Bidders must also have time to perform the necessary cost analysis required within their own organization and to assure themselves of reliable sources of materials. The time requires for preparing mailing, opening and evaluating bids is usually considerable longer than does unfamiliar with this system would expect that thirty days is not on uncommon time.

There are four to five situations where bidding should not be employed.

- 1) Situation in which it is impossible to estimate costs with a high degree of certainty such situations frequently are present with a high technology requirement with items requiring, a long time to develop and produce under condition of economic uncertainty.
- 2) Situation in which price is not the only important variable; for example ,quality schedule and service may well be negotiable variable of equal importance
- 3) Situation in which purchasing from anticipate a need to make changes in the specification or some other aspect of the purchase contract when unscrupulous suppliers anticipate changes; they may "buy" in with the expectation of getting well; and even wealthy on the resulting changes.
- 4) Situation in which special tooling or set-up costs are major factors. The allocation of such cost and title to the special tooling are issues best resolved through negotiation.

## **III. COMPETITIVE TENDERING AND OUTSOURCING**

Tending by negotiation for the supply of facilities and /or services has been a common activity in the procurement goods work and services for many decades. The high level of current interest in the topic stems from the growing tide of economic reform in services sub-sectors where the level of subsidy from consolidated revenue has become unacceptable. The "new" emphases on last recovery, productive efficiency, and the private sector in area of services provision, commonly the domain of the public sector, has spawned a healthy debate on the merit of competitive tendering of services in order to reduce the financial burden or escalating deficits on the state. The debate on competitive tendering (or competitive bidding) recognizes that markets and forms are alternative instruments for completing a related set transactions ought to be executed between firms (across markets) or within a firm depends on the relative efficiency of each approach.

The costs of writing and executed contracts across a market vary with the characteristics of the decision markets who are involved with the competitive tendering process on the one hand and the objectives properties of the market on the other such as the number of potential competitors. A competitive tendering (CT) can be defined as a bid for a contractual promise to supply a pre-defined services during a pre-determined period of time in exchange for a contract fees, which allows for the level of anticipated cost or revenue generated by the service.

### **DISTINGUISH BETWEEN COMPETITIVE TENDERING (CT) AND COMPETITIVE FRANCHISE (CF) WITH PROCUREMENT OF GOODS WORK AND SERVICES**

The difference is inherent in the specification of the end-services to be supplied. In the case of competitive tendering (CT), the end-services pre-determined. All potential bidders compete for the right to supply a common service. A competitive franchise (CF), by comparison, require each potential competitor to design their own end-service supply. There has been a tendency to opt for competitive tendering (CT) in the goods work and service because it is view as an administratively easier alternative. The ability to evaluate the bid and to arrive at a minimum cost supplier for the given level of service removes complexities associated with evaluating a heterogeneous set of proposals. Tendering is the process of making an offer, bid or proposal or expressing interest in response to an invitation or request for tender. Organizations will seek other businesses to respond to a particular need; such as the supply of goods and services, and will select an offer or tender that meets their needs and provides the best value for money. Tender request documents also referred to as invitations to tender. Requests for tender (RTF) requests for proposal (RTP) etc. outline what is required, that is what the requesting organization's needs are. These documents also outline the particular requirement criteria, and instruction that are to be followed.

Future tenders are generally widely advertised to offer opportunities to a number of suppliers encourage competition and provide a greater pool of offers to select from interested suppliers will then prepare a tender the documents that outline the offer that they are making and will include price, schedules as well as their eligibility for the project or procurement, they will outline their advantage over competitors; provide information on qualifications, competencies and experience. Further, they have to demonstrate how their bid offers the best value for money. The submitted tenders are then evaluated with regard to defined criteria. In normal tendering situation, this process should be conducted fairly and honestly, and in a manner that is free from bias or favour. The offer that best meets all of the requirements outline in the request, and provides value for money should win the contract.

The tendering process is generally utilized for procurements or contracts involving substantial amounts of money. Tendering is utilized by:

- (1) Government departments offices and agencies
- (2) Private sector companies and businesses
- (3) Overseas markets and businesses.

While the concepts of tendering may seem daunting at first, it can be easily tackled by having a plan of attack. When becoming involved in a tendering process, it is important to understand your business suitability for the project. Whether your business current situation will allow you to tender; as well as your ability to manage the contract, if you are successful in winning the tender. By understanding these points and ensuring you can demonstrate that you are able to meet the criteria and offer a competitive bid, you will increase your chances of success,

Which may be based on different services levels?

There are two major categories of competitive tendering (CT): a cost-only contract and a minimum-subsidy contract, the former involves the tendering authority paying the operator for supplying a specified service, with receipts in part or full remitted to the tendering authority or netted off against cost. In submitting a bid for procurement of a business service, in mufaty procurement and General Service limited, for example, the applicant is supplied with a service specification for days of operation, timetable, route, type of vehicle and inter-working requirements with other service. The risks associated with services supply are largely carried by the tendering authority. The minimum contractor to satisfy a service and a return for an obligation from the tendering authority to provide a subsidy in line with the level of receipts collected. Cost-only contracts and minimum-subsidy contracts can be either scaled-bid tendering or bids open to public scrutiny. In the latter situation, the prices and the range of tender received and the successful tenderer are usually published. There are many variations on each type of contract however there are some broad specifications that we now focus on.

#### **IV. THE COMPETITIVE TENDERING APPEAL**

It is essential that there is a clear set of responsibilities between the contractor and the client (or tendering authority), and that the criteria for evaluating the bids are both simple and unambiguous to all parties. The experiences in a number of countries serve to highlight some of the more important issues, which are briefly summarized below.

- [1] The client has the responsibility for determining the appropriate areas for competitive tendering, designing appropriate contracts, pre-screening the contractors, undertaking the tendering process, evaluating and selecting the successful tender, monitoring performance, and controlling the contractor. An internal tendering unit has the task of determining the competitive range for unit costs and preparing a programme for reducing internal units costs to the competitive range.
- [2] Since work practices condoned/supported by an employee union influence the productive efficiency of service supply, it is critical to time the competitive tendering (CT) process on the client side to the contractor schedule for negotiating reduced costs with the union (s). This is a major source of cost reduction and is essential where the threat of competition could result in a loss of activity to a non-unionized (or different union-based) supplier. There are a growing number of instances where union have been increasingly willing to negotiate in the interest of preserving jobs for the majority of the incumbent-workforce.
- [3] Quality gain often accompanies competitive tendering due to the increased emphasis on performance standards, as well as job requirements by both management and staff. The quality gain in highly dependent on the quality of implementation of competitive tendering (CT). The ability to terminate contracts and to monitor performance not only reduces costs, but also increases the quality of performance.
- [4] The growing popularity of contract hire and rental to cover specific requirements.
- [5] A detailed specification may be very costly to prepare and many discourage the less articulate the size of recoverable cost, the length of the contract, and the perceived probability of success will be critical factors in determining how many bidders come forward that is the selection process could be anti-competitive if made too complex. The large incumbents are likely to do everything legal to reduce the competitiveness of the selection process. This latter situation has encouraged a view that incumbent dismemberments is often a desirable pre-condition to successful competitive tendering. For example, the development of independent public business operations at the department level or the braking up of a rail network or airports and ports is likely to be necessary if some competitive threat is to be achieved from a range of potential sources (existing industry operations, worker and /or management group buy-outs) without any actual ownership profile necessarily arising as the service providers becomes productively more efficient.
- [6] In contexts where public or privately regulated-monopolies have existed for more periods to time, it is likely that the tendering authority will have a symbolic relationship with the main tender. This relationship, real or perceived, will take time to eliminate through staff changes. This can create some major obstacles for a transparent tender bidding systems that at the very least will be viewed suspiciously by potential new entrants.
- [7] A less desirable but alternative approach could follow a modification of the French gerance contract in which management teams bid for the right to run a private company to supply services in which the financial risk is taken largely by the public authority.

#### **V. A BRIEF STATEMENT ON THE THEORETICAL EPILATES**

The discussion up to this point has identified the salient features of competitive tendering documented some of the points of principle and practice that procurement of goods work and services has tried to accommodate in a number of application of competitive tendering. These experiences can be used to assist in identifying the strands of a theoretical framework that may help us to better understand the process of a competitive tendering (CT), if for no other reason, theoretical insight may eventually provide guidance on the relationships which need to be identified between the actors in the process and the process itself, the success or failure of competitive tendering is strongly linked to the behavioural motivations and abilities of human beings. The opportunity for strategic game-playing, incentives involved, and opportunism behavior may very easily make a mockery of traditional interpretations of the way market operate. This is the Australia school of thought on markers at work transaction cost theory , developed many years ago; has long recognized that a transaction (e g a deal ; a contract; e t c ) can be accomplished through either market or internal procurement . The choice of source of supply is tied in with the relative transaction cost. These costs are an important component of the assessment procedure and must enter into the calculation of the net efficiency benefit of alternative approaches.

The renewed interest in transaction cost economics coincides with the growing interest in determining the role of competition and ownership in the supply of many services which have traditionally been the domain of the public sector. Transaction cost economics is nothing more than a comparative institutional assessment of alternative means of contracting (Williamson, 1987) including the real possibility of internal contracting.

## **VI. RECOMMENDATION & CONCLUSION**

Competitive tendering (and franchising) provides an opportunity to introduce competition into contract negotiation and in so doing should contribute to improving the overall efficiency of service provision. The success of any form of competitive tendering will be very dependent on the existing level of potential competition and the ability of the tendering process to encourage the emergence of competition through time. We anticipate a growing commitment to competitive outsourcing in procurement of goods and services markets as a way of reinforcing the conservative nature of the procurement industry, where complete reliance on the market through economic deregulation is still viewed with great suspicion.

It is thus essential that any proposal to consider the introduction of competitive tendering pay special attention to the following.

- [1] Contracting out the supply of goods and services involves a two step decision process. The first is whether to make or buy; the second is how to structure the contract so that performance will be sustained over its life time. The former decision involves a straight forward comparison of costs; the latter is more subtle and requires consideration of four essential elements. First, specifications of the services or product will need to be determined, together with the design of the competitive tendering mechanism that will be used to identify potential operators. The theoretical implications of using different bidding schemes are comprehensively surveyed in Me Afee and McMillan (1987) and discussed also by Waterson (1988).
- [2] The selection of the winning bid. This turns out to be a more complicated decision than would appear at first sight. For example, selecting the lowest bidder in a sealed tender auction can sometimes result in serious performance problems after the contract is awarded. Dombarger et al. (1982) discuss some of the evidence when a very detailed pre-registration process is not in place to ensure that the lowest price is reflective of a cost efficient operation and not one which struggles to survive because of poor costing in arriving at a bid price.
- [3] To ensure contract compliance the supplier will have to be monitored during the contract term. This involves collecting and interpreting information that can be used to determine whether the specified goods/ services are being delivered. Finally to correct deviations of actual from desired performance the contract will have to be enforced. Enforcement will be based on incentives and penalties that will be applied when such deviations are observed.
- [4] The uncertainty associated with contractor selection arises from two sources. The contract specifications will need to be precise, but it may nevertheless be difficult if not impossible to encompass all the required performance characteristics in them. Hence the contracting authority will need to ascertain the other source of uncertainty, which is potentially more troublesome, is that the output or service contracted for is not observable at the time of purchase; Hence the quality of the prospective contractor is essentially unknown and the contracting authority has to rely on performance as a proxy, that is, on reputation. The use of reputation process for goods and services whose characteristics are difficult to ascertain at the time of purchase is a widespread phenomenon. Its importance has been recognized and explored in the theoretical contributions of Klem and Leffler (1981) and Shapiro (1983), among others.
- [5] In these circumstances contracting authorities resort to screening devices, the most important and ubiquitous of which are pre-qualification restrictions a preliminary vetting process of potential contractors. Prequalification allows the contracting authority to sort potential operators into those of high and low completed quality before the tendering actually takes place. Such separations is important because if low and highly quality contractors bid simultaneously, difficulties will arise in distinguishing low bids that are due to cost efficiency from those that involve reduced quality of service. Moreover the trade-off between price and expected quality is not one that can easily be made explicit. It is therefore preferable to establish the minimum level of quality expected from the contractor, identify those contractors that are deemed to satisfy those requirements, and only then invite this group to submit a tender. This two stage process ensures that tendered prices are strictly comparable and do not reflect element that is refrained will also ensure that the cost of provision does not stay far from the minimum consistent with the required quality standard. Where tendering occurs frequently because contractors are short lived, there will be economies in using an existing pre-qualification list. It is also worth noting that the costs of bidding incurred by potential contractors are

- sun they cannot be recovered if the bid is unsuccessful. Hence by screening out contractors who are unlikely to be selected irrespective of their bid, price, total sun costs can be significantly reduced.
- [6] Another potential problem to be addressed at pre-qualification stage is known as the winner's curse. This occurs in common-value' auction where bidder's have to estimate the value of the object that is bid for. In the context of publicly contracted services, a serious under estimate of the costs of provision could lead to serious deterioration in performance after the contract is let. Pre-tender screening allows the contracting authority to select those contractors whose previous performance record makes such outcomes unlikely.
- [7] The problems face by a public sector organization in its efforts to secure contract compliance fall into the classic principal agent mould. The principal is the contracting authority (the contract and the agent is the contractor hired to perform a pre-determined level of service. The agent can have an incentive to reduce the degree of input effort, particularly where a highly competitive bid resulted in slim profits. This in turn jeopardizes the quality of service provided by the contractor, asymmetric information the principal's difficulty in observing the agent's actual activities serves to exacerbate the incentive problem. Some variations in the agent's contractual performance may be beyond it control due to random factors. A result the principal will not always be able to disentangle the effect of the agent's efforts from the consequences of random factors. Rewarding or penalizing contractors according to service performance under these circumstances becomes a serious issues of effective contract enforcement.
- [8] To mitigate information asymmetries and adverse incentives, specific monitoring, pricehansion, should be written into contractors. The most common are regular inspections, the use of performance indicators, and citification of contract compliance period to payment. To further align incentives with respect to specifications, contracts might include renewal clauses that are conditional on satisfactory performance over the contract term.
- [9] The structure of the existing supply which is planned for complete tendering (CT) needs to be well understood. Will effective competition require dismemberment to a size that is attractive to potential entrants? What are the consequent trade-offs if economics of scale network density, and scope exist? An implication of these questions that reasonable time is required to enable effective negotiation with the incumbent so that suitable preparation and compromise can be achieved maximize the efficient implementation of competitive offers from internal units. What responsibilities should the tendering authority and the contractor have? For direct procurement of goods work and services it is essential to consider the trade off between the size of the tendered entity and the objective that the tendering authority wishers to accommodate e.g. maintenances of an integrated pricing policy, subsidization of certain non-commercial services the size of the irrecoverable costs, the length of the contract, and the perceived probability of success will also be critical factors in determining how many bidders come forward as well as the type of contract.
- [10] Innovation in contracts is always encouraged but it must be balanced against increased barriers to entry. For example, an opportunity via the specification of contracts of broaden the specification condition to include environmental and social obligations (ESOs) has been implemented in Sweden performance of it is desirable that the tender evaluation committee comprise members from withi the industry as a whole and that each member should make on independent assessment according to a small number of well – defined common criteria, competitive learning is essential and can be achieved by a further set of well-defined feedback rules so that committer is not overburdened.

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