

# Low Bid Vs. Best Bid

By John Dolce

*Is the lowest bid the best bid? When bids for a functional specification are received, they must be evaluated for the best value. Lowest price is important only for a technical specification because the purchaser assumes full liability.*

When it comes time for a fleet manager to replace a vehicle, it's time for him or her to upgrade the replaced vehicle's capabilities.

The fleet manager has a maintenance and operations cost/expense audit trail for all equipment and vehicles broken down by component, year, class, and application (on and off-road, city, suburban, and rural) for historical review. When change is agreed upon as an initiated action item, the supplier and fleet manager can exchange pertinent data to explore as a means of making a better product. The fleet manager and supplier must have a partnership and a mutual interest to foster improvements.

Manufacturers, distributors, and suppliers must communicate to maximize lifecycle periods and product improvements. However, those players are competitive when it comes to price because when a vehicle is spec'd out and put out for bid they assume that the low bid will be the winner. But the lowest bid is not always the best bid.

Technical specs put the liability on the spec writer. With technical specs, the low bid is the best bid because all bidders must supply an identical application-specific vehicle.

Performance specs allow the bidders to distinguish their products from the competition. The difference makers are the capabilities or value-added benefits that could generate cost benefits for the user.

Writing vehicle specifications is a process that often requires much more than a blank sheet of paper. In fact, it involves both a detailed evaluation of fleet needs as well as an effective relationship with suppliers and manufacturers to ensure that the correct specifications are determined and the most efficient and productive application-specific vehicle is purchased.

The primary role of all specifications is to detail the service a fleet expects its vehicles to perform. Fleet managers also need to look at the vehicles they are replacing to see what maintenance warranty and operating issues have arisen and to determine if any changes are needed to components to lower costs and extend vehicle life. Among the things that should be addressed are load-carrying capacity, configuration, weight distribution, speedability, and gradeability.

## **Pre-Bid Meeting**

When the chassis, body, and mounted equipment specification are drafted, each vendor that is supplying a system or component should be brought in for a pre-bid meeting by the fleet manager in the presence of the user to review the specs and make recommendations. This will help ensure that all questions are answered and any problems that have been experienced with existing vehicles are corrected to everyone's satisfaction.

Once the vehicle specifications are written, the next step is to solicit bids. Whether a fleet is committed to one make of vehicle or open to various makes, managers need to communicate with as many bidders as possible.

To this end, each component should have "or equivalent" stated after each item to open bids to as many vendors as possible. The more competition, the better value a fleet can expect.

To pursue this goal, include this activity in the pre-bid conference. This allows everyone to address any questions in the full presence of all the bidders. Circulate the functional specification prior to the meeting and review, line item by line item, the functional items required. The more complex the vehicle, the more time is needed to clarify items and coordinate the chassis, body, and mounted equipment installation process.

When a single body manufacturer has to order, assemble, and mount the body, one matter of concern is chassis construction time and delivery date. Final installation of the mounted equipment needs to be scheduled after chassis delivery and/or during the body specifications review and approval. Body and chassis sub-frames and the assembly process need to be reviewed and coordinated to ensure proper fit and functionality.

Warranty expectations should also be clearly defined. There are the standard warranties supplied by the manufacturer or custom coverage to support a fleet's particular needs. Another area of concern is vehicle latent defects. These are failures due to poor workmanship or poor materials and/or design defects that could not ordinarily be found during a normal inspection process by the manufacturer or by the subcontractor supplying the body, mounted equipment, or components.

Fleet managers also need to define the format and timetable of the specification, bid, assembly pre-paint inspection, and delivery process. This practice will encourage the manufacturer to provide a timely delivery and use the fleet's specifications as a guide to inspect their work to the customer's standards.

Even if a fleet has had success with vendor delivery of light, medium and heavy-duty vehicles with no in-service problems, managers should be cautious about additional requirements. In most cases, to address people processes and material problems by the manufacturers, it is important to quote and define delivery expectations to ensure timely and cost-effective in-service process.

The more detail in a vehicle specification, the more room for misunderstanding. At the same time, the more detailed a specification and the more comprehensive the process, the more likely the fleet will receive equipment that is perfectly suited to meet its application-specific operational needs, and provide long, cost-effective and reliable service. Evaluation of the bid will provide the basis to get the best value for the best price.

If no policy is written than it is understood low bid is best bid, A senior manager must write a policy detailing the following format of matrix analysis. Language is arbitrary, words have meaning, people have meanings for words so rather than a subjective word evaluation we should use a textbook objective matrix evaluation.

Now with a proper spec and a detailed vendor communication of our expectations with specific terms and conditions attached to our spec in a standardized boilerplate format, let's go through an analysis of a solicitation.

### **Initiation of Bid Process**

Once a specification, whether technical or functional, is written and approved by the user, the transportation department, and the manufacturer, the bid is published. Manufacturers can then submit bids, including cost clarification. A bid should include a detailed description. The expectations of the

purchaser should be addressed in the bid, in terms of performance, operating costs, maintenance costs projected for the life of the vehicle, and warranties, both expressed and implied.

The written specification, because of its detail, and the manufacturer's ability to meet the required detail precisely requires some clarification. Explanations and discussions are required before bid price responses. The companies bidding for the vehicle assembly can more exactly meet the user's needs by fully understanding the requirements. Include this for prospective bidders in a pre-bid meeting and answer their questions.

### **Solicitation of the Bids**

Although specifications have been written, the bid process should also incorporate the customer's expectations. Expectations about turnkey vehicle delivery times (liquated damages), assembly sequence, chassis, body, and mounted equipment assembly timetables, pre-paint inspection warranties, penalties, latent defect qualifications, and payment term should be addressed. Other standard purchasing criteria and terms should be included along with the date, time, and desired format for returned quotes.

Bids should be solicited from as many firms as possible. Increased competition will ensure the lowest price possible. If a specific brand has been selected, bids should be solicited from many dealers that offer the brand. A highly competitive environment gives the fleet manager the optimal bargaining position. The bids should require line item pricing for each component. This allows the buyer to compare competing bids on an item-by-item basis. Moreover, items can be deleted if necessary to reduce costs. Two copies are required - one copy with pricing to purchasing, the other with no price to the fleet manager for component "or equivalent evaluation.

### **Bid Evaluation**

When the bills for a functional specification are received, they must be evaluated for the best value. Lowest price is important only for a technical specification because the purchaser assumes full vehicle liability. The functional spec responses are evaluated for technical accuracy and for the respondents' reliability and ability to support their products in future use. Respondents should also be evaluated for their facilities, materials, process, personnel, and historical product performance, in addition to their price. A functional bid evaluation contains three components:

- Technical. Does the vehicle perform? Does it conform to the written specification? (Figure 1.)
- Quality. Does the bidder support vehicles previously supplied? Is the vendor in good financial health? (Figure 2.)
- Price. The lowest price receives the highest mark. (Figure 3.)

**Figure 1: TECHNICAL REVIEW FORMAT**

Elements	Weight Factor	Vendor A		Vendor B		Vendor C	
		Rating	Score	Rating	Score	Rating	Score
Conformance to Spec	30	4	120	5	150	4	120
Previous Performance	20	4	80	5	100	4	80
Service Maintenance	5	5	25	5	25	4	20
Product Reliability	20	4	80	4	80	4	80
Spare Parts Support	10	5	50	4	40	4	40
Technical Support	5	4	20	4	20	4	20
Ease of Maintenance	5	5	25	4	20	4	20
Service Manual Quality	5	4	20	4	20	4	20
	<b>100</b>		<b>420</b>		<b>455</b>		<b>400</b>
Rating Defined:							
5- Excellent, 4- Good, 3- Acceptable. 2- Fair, 1- Poor, 0- Unacceptable							
The vendors are summarized by normalizing their totals. This is accomplished by dividing each total by the highest vendor total, so the normalized scores are between 0 and 1.							
<b>Vendor Summary</b>	<b>Score</b>		<b>Normalized Factor</b>			<b>Final Score</b>	
Vendor A -Technical	420	divided by	455	=		0.92	
Vendor B -Technical	455	divided by	455	=		1.00	
Vendor C -Technical	400	divided by	455	=		0.88	
The fleet manager reviews the functional bid for technical integrity. It is reviewed line-by-line with no prices delineated and a go/no-go provided by the fleet manger for each line item and an overall element rating.							

**Figure 2: QUALITY REVIEW FORMAT**

Elements	Weight Factor	Vendor A		Vendor B		Vendor C	
		Rating	Score	Rating	Score	Rating	Score
Warranty/Compliance	10	5	50	5	50	4	40
Field Service	10	4	40	4	40	4	40
Inventory Effect	5	5	25	5	25	4	20
Training Technical	5	4	20	4	20	4	20
Training Operating	5	5	25	4	20	4	20
Geography	10	4	40	4	40	4	40
Delivery Performance	15	5	75	4	60	4	60
Quality Program	20	4	80	4	80	4	80
Manufacturing Cap.	10	5	50	4	40	4	40
Management Support	5	4	20	4	20	4	20
Conformance to Bid	5	5	25	4	20	4	20
	<b>100</b>		<b>450</b>		<b>415</b>		<b>400</b>
Rating Defined:							
5- Excellent, 4- Good, 3- Acceptable. 2- Fair, 1- Poor, 0- Unacceptable							
The person who visits the manufacturing site would score the last 5 line items with transportation scoring the first six line items through past experiences.							
<b>Vendor Summary</b>	<b>Score</b>		<b>Normalized Factor</b>			<b>Final Score</b>	
Vendor A -Technical	450	divided by	450	=		1.00	
Vendor B -Technical	415	divided by	450	=		0.92	
Vendor C -Technical	400	divided by	450	=		0.89	
Quality ratings are based on vendor support in the past, in particular, their due diligence in meeting the fleet's needs reliably. The first six lines are Fleet's responsibility and the last five are Purchasing's and/or Fleet's responsibility to rate.							

**Bid Award**

With the technical, quality, and price evaluations in place for a functional specification, the bids can be prioritized. The project should be offered to the best-value vendor. The best-qualified bidder should meet with the fleet manager and purchasing to discuss each line item, verifying the cost. Any discrepancies and questions should be addressed during the discussion. Delivery times, penalties, and warrantor's support services should also be verified.

Once the customer is satisfied with the vendor's proposal, the bid is officially awarded to the best-qualified vendor. Should the first vendor not be clear in technical, quality, and price information, the second or third vendor should be called. The fleet manager must be satisfied that the specifications are met by the bid quote. In the case of a technical specification, the lowest price is the sole determiner of an award. This is because the purchaser who wrote the bid assumes the full responsibility for the vehicle's desired performance and absolves the manufacturer from any liability. With a functional spec, the manufacturer assumes the full liability for the desired vehicle performance through its design. A functional spec says a vehicle will do a task; such as move 15,000 lbs. of dirt at 55 mph on a road with 10-percent grade. With a technical spec, the writer designs each component and through this act accepts full responsibility for this vehicle's performance and liability.

**Figure 3: PRICE REVIEW FORMAT AND EVALUATION SUMMARY**

Vendor A - lowest price per unit	\$90,000 divided into \$90,000 = 1.00				
Vendor B - second price per unit	\$93,000 divided into \$90,000 = 0.97				
Vendor C - third price per unit	\$96,000 divided into \$90,000 = 0.94				
Lowest price gets the highest mark, which is 1.00. The change here is the lowest number becomes the numerator in all calculations, and the three prices become the denominator.					
Normalizing the price information	A =	\$90,000 is 1.00			
	B =	\$93,000 is 0.97			
	C =	\$96,000 is 0.94			
Normalizing the technical information	A =	455 is 1.00			
	B =	420 is 0.92			
	C =	400 is 0.88			
Normalizing the commercial information	A =	450 is 1.00			
	B =	415 is 0.92			
	C =	400 is 0.89			
The final stage is the percent balance multiplied by the normalized information. The final evaluation puts price and technical at 40 percent each. This allows for a 3% to-5% price variance to be best value. Price and technical should be equal in weight.					
		<b>Score</b>		<b>%</b>	<b>Summary</b>
Vendor A	Price	1.00	X	40%	0.400
	Tech.	0.92	X	40%	0.368
	Comm.	1.00	X	20%	0.200
				<b>A Total</b>	<b>0.968</b>
		<b>Score</b>		<b>%</b>	<b>Summary</b>
Vendor B	Price	0.97	X	40%	0.388
	Tech.	1.00	X	40%	0.400
	Comm.	0.92	X	20%	0.184
				<b>B Total</b>	<b>0.972</b>
		<b>Score</b>		<b>%</b>	<b>Summary</b>
Vendor C	Price	0.94	X	40%	0.376
	Tech.	0.88	X	40%	0.352
	Comm.	0.89	X	20%	0.178
				<b>C Total</b>	<b>0.906</b>
The best value is offered by Vendor B, who received the best technical rating and proposed the second-lowest price.					
Yes, you can have change without improvement, but you won't have improvement unless you have carefully planned change. The fleet manager is the author of carefully planned change.					