

The Tender Trap

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*“Gettin’ good players is easy.
Gettin’ em to play together is the hard part.”*

Casey Stengel

Scenario

- You're managing a tender response for the introduction of a new enterprise management system to a public company. You will also assume the PM role if successful.
- Project replaces existing accounting, inventory management and payroll systems and there are legacy systems that need to interface with the new system
- The conditions of tender forbid contact between tenderers and the company
 - This arms length approach is designed by the public company to ensure consistency of information and a level playing field
- In your view this isn't a problem because the customer's tender documentation is well written and quite clear.

- Three months after receipt of the tender you're ready to submit your proposal.
- You planned well and consulted widely with your team. Although the sales department cut back your contingency, you still feel good about it.
- And with good reason...four weeks later you're the preferred tenderer, invited to contract negotiation.
- Two weeks after that you secure the contract, and you celebrate well.
- You're feeling very satisfied and looking forward to your kick-off meeting the following week.

- The kick-off meeting is held at the client's premises.
- The user representatives are present. You are meeting them for the first time.
- As the meeting progresses it becomes evident to you that some are not ready for the project or the change that's coming.
 - Some complain that they're too busy to learn a new system
 - Others tell you that the rollout is happening at the worst possible time for them
- You start to feel uneasy.....

- At the first coffee break a prominent user representative takes you aside and tells you that he never agreed with the project in the first place.
- Another tells you in confidence that the project team rode roughshod over her concerns just to get the tender out on time.
- Your anxiety increases.
- That night as you toss and turn you wonder how all of could have been avoided.

Road Map

- This presentation attempts to deal with the question of how to achieve PMBOK ® ideals under arm's length competitive tendering arrangements.
- It is structured around selected PMBOK® Chapters that are either relevant to the scenario, or that offer an opportunity for amendment, namely
 - Chapter 3: Project Management Processes
 - Chapter 4: Project Integration
 - Chapter 6: Project Scope Management
 - Chapter 7: Project Cost Management

Introduction

- Why Tender?
 - The pressure of competition drives down cost when the cost of tendering is small in relation to the overall procurement
 - Competitive pressure encourages quality and innovation
 - The tendering process presents a vehicle to fully document the buyer's decision making processes
 - Important for government bodies and public companies
- So the problem is....?
 - The competitive tendering process imposes limitations upon the project planning process.
- These limitations are a consequence of the usual 'arm's length' arrangements put in place to assure probity and fairness objectives.
- The PMBOK® comprehensively covers procurement from the buyer's perspective, but does not acknowledge planning challenges faced by the seller under these circumstances.

- This presentation aims to describe how competitive tendering under arm's length conditions can force deviations from the planning ideals set out in the PMBOK® Guide, and propose how the resulting risks and issues may be treated.
- Presentation is premised on the scenario where:
 - Sellers offer a solution on a fixed price basis.
 - The solution involves more than the sale of just material, goods or common products.
 - Conditions of tender do not permit consultation between buyer and seller beyond a formal briefing session and written questions of clarification, ie *'arm's length'*.

PMBOK® Guide Chapter 3 Aspects – Project Management Process

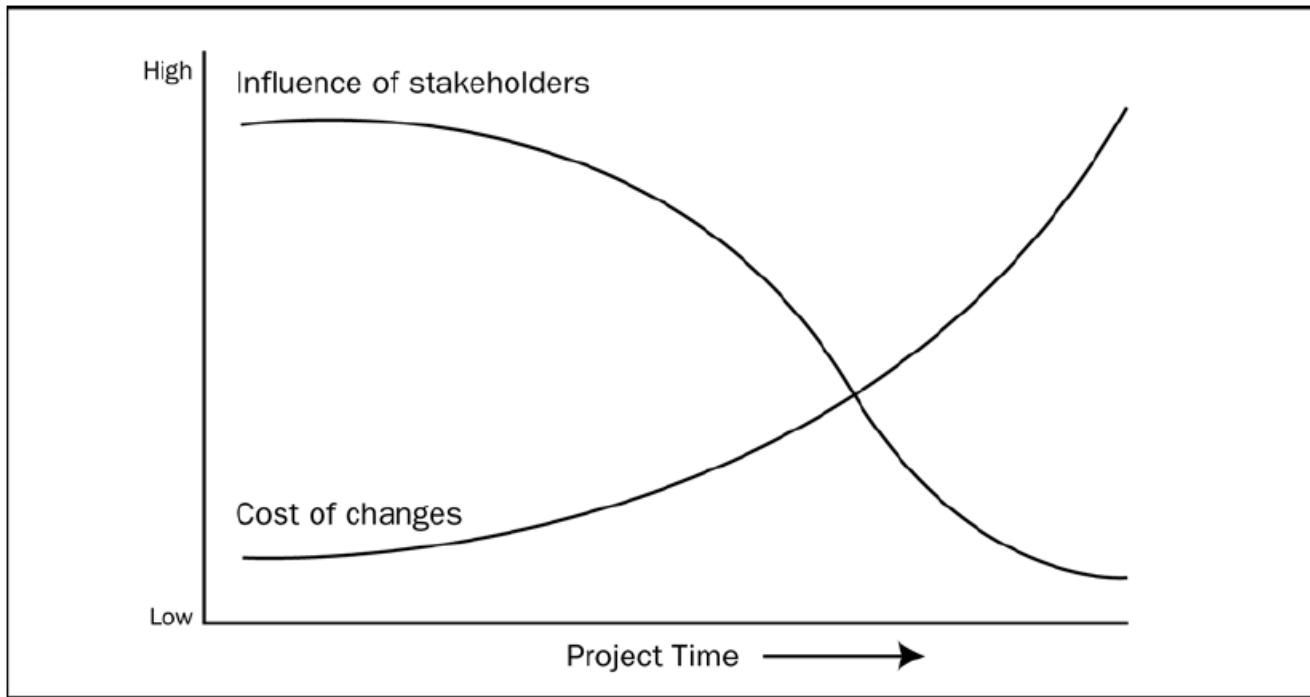
- PMBOK® Fact 1: Involving customers and other stakeholders during initiation generally improves stakeholder satisfaction.
- PMBOK® Fact 2: The Project Team should use stakeholders in project planning since they have skills and knowledge that can be leveraged, but:
 - Competitive tendering process severely limits the extent to which the buyer and seller stakeholders can interact in the initial phases of a project.
 - Impact may be reduced by:
 - Scheduling a post award consultation phase where new knowledge is addressed in a contract variation
 - Allowing shortlisted competitors the opportunity to consult with buyer stakeholders during the tender phase
 - Unconventional
 - Would require tenderers to waive certain rights
 - Attractive in that risk of misunderstanding stated and unstated requirements is (in the opinion of the authors) greater than the risk of receiving variable advice

PMBOK® Chapter 4 Aspects – Project Integration Management

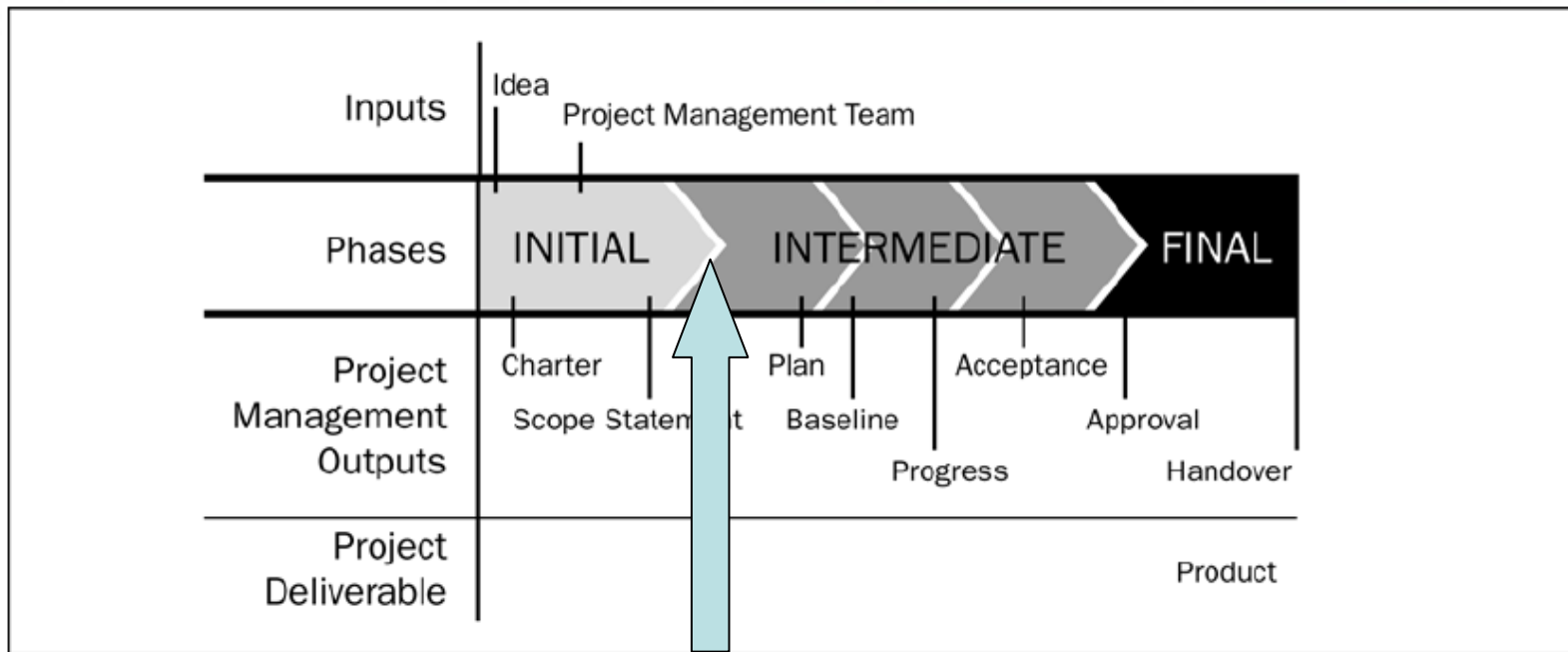
- PMBOK® Fact: Virtually all projects are planned and implemented in a social, economic and environmental context.
- However, when planning at arms length, it is only some time after contract award that the seller truly understands ‘how the project affects people and how people affect the project’.
- Sellers must learn as much about the buyer’s organisation as possible.
 - Direct contact with the buyer prior to the release of tender documentation, and use of good market intelligence to understand the buyer.
- The buyer organisation releasing its own project charter and project management plan with the tender documentation to accelerate alignment.

PMBOK® Chapter 5 Aspects – Project Scope Management

- Ability of stakeholders to influence the project's product and the final cost decreases as the project continues, as per PMBOK® Figure 2.2



- In competitive tendering scenario, release of the tender usually occurs at around the boundary between the initial and intermediate phases below as per PMBOK® Figure 2.3.



- Consequently the seller is reliant upon the buyer to conduct the stakeholder analysis during the Initial Phase and to accurately reflect it in the tender
- To minimise the risk of constructing the wrong requirement, expressing requirements in functional and scenario based terms is recommended for the buyer.
- Inadequate consultation may be partly overcome by permitting interaction with stakeholders during the negotiation phase.
- Where the costs of tendering are relatively small, consider a staged process that includes a Request for Proposal phase, which provides an opportunity for sellers to shape the scope of work and exert stakeholder influence earlier in the project life cycle.

PMBOK® Chapter 6 Aspects – Project Time Management

- The PMBOK® considers rolling wave planning whereby:
 - Near term work is planned in detail.
 - Far future work is planned along high level WBS planning lines.
- The distinction can be blurred under competitive tendering arrangements:
 - tenderers correctly indicating uncertainty may be unfavourably compared with those that give a false impression of precision.
- Buyers may consider rewarding truth in scheduling by reflecting it in the evaluation criteria.

- The PMBOK® calls for reserves to be documented but competitive tendering can force them underground:
 - Seller's project team fear that contingency will be slashed by its sales department
 - Seller's sales department fear that transparent contingency line items will be a soft negotiation target
- Consequently both parties can lack a common appreciation of the risk landscape.
- Buyers may consider including quality of schedule risk analysis as an evaluation criterion.

PMBOK® Chapter 7 Aspects – Project Cost Management

- Under the conditions that we've described, the seller will never be able to base its price on the full risk picture as the buyer will have knowledge that the seller can't make itself aware of.
- Buyers should share their risk registers to the greatest extent possible.
- Buyers should also consider releasing their own project budget ceiling to ensure that the scale of the offered solution is commensurate with the available budget

Conclusions

- Competitive tendering has clear and proven benefits, but....
- When conducted at arm's length these benefits are greatly offset by lack of consultation in the planning stage.
- The PMBOK® Guide does not yet consider the practicalities of planning under these conditions.
 - Worthy of revision
- Experiment with dispensation of the arms length approach on low value projects – avoid getting caught in “The Tender Trap”

