

A large, 3D metallic sculpture of the company name 'CLYDE & CO' is displayed on a roll of white paper. The letters are made of a brushed metal and are arranged in a row, with the ampersand and the final 'O' being significantly larger than the other letters. The background is a dark, vertically-slatted wall.

CLYDE & CO

White Paper

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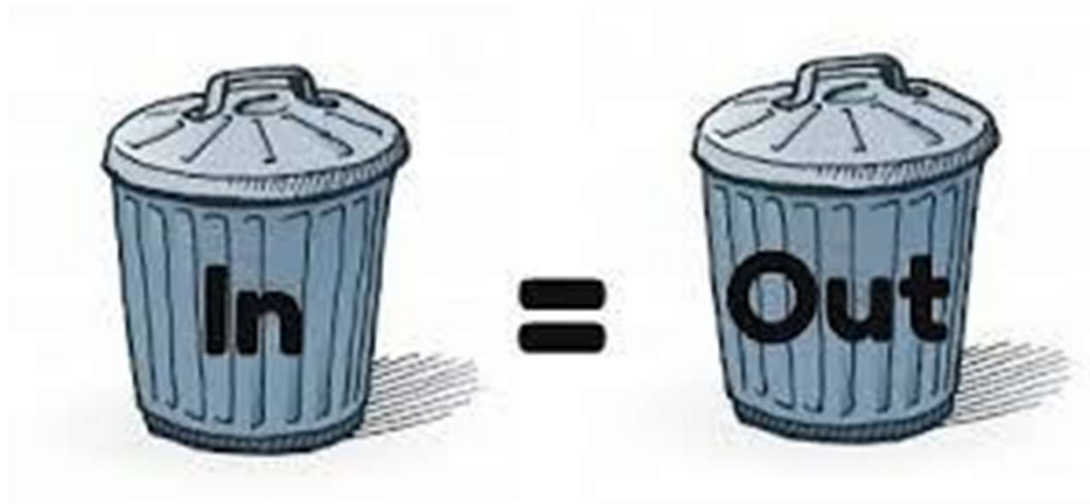
Getting the price right

- What creative models exist to go beyond traditional price/quality formulae and scoring methodologies?
- What are the issues with some of these models?

Coverage

- **The law:** MEAT; price only evaluation; and the case law
- **What works and what doesn't:** the problems with standard differential, and alternative models
- **Practical strategies** to design a model which works for your tenders

The golden rule



<https://cubebites.wordpress.com/2014/07/24/rubbish-in-rubbish-out/>

A lot of flexibility

Must ensure

Treat all operators equally, without discrimination and act in a transparent and proportionate manner

The design of the procurement shall not be made with the intention of artificially narrowing competition

Regulation 18 PCR 2015

Regulation 8 CCR 2016

A lot of flexibility

Must ensure

Award to Most Economically Advantageous Tender

Evaluation on basis of the price or cost, using a cost-effectiveness approach, such as life-cycle costing

May include the best price-quality ratio

Assessed on the basis of criteria linked to the subject-matter

Regulation 67 PCR2015

Note in CCR2016 – not MEAT but “*economic advantage*” to CA

A lot of flexibility

So can evaluate

On price and quality

- Price only (if base specification is set by you and beware ALTs)
- Quality only (if price/budget is set by you)

- Case law has focused on transparency issues

- “Relative” and “absolute” scoring models

Models to avoid

Awards not to the MEAT bidder

- Bidders should not be able to 'game' responses to score highly on core price offering and load up operational costs
- Ensure that splits between different elements of price don't allow most expensive overall bidder to win

| Bidder | Price (core services) (70% of Price marks) | Price (support services) (20% of Price marks) | Price (optional services) (10% of Price marks) | Total Price |
|--------|---|--|---|--------------|
| 1 | 550,000 | 750,000 | 0 | 1,300,000.00 |
| 2 | 650,000 | 350,000 | 50,000 | 1,050,000.00 |
| 3 | 350,000 | 1,200,000 | 10,000 | 1,560,000.00 |

Models to avoid

But which bidder wins on Price?

| Bidder | Total Price | Total score for price (based on a Standard Differential Methodology) |
|--------|-------------|---|
| 1 | £1,300,000 | 63.8% |
| 2 | £1,050,000 | 57.7% |
| 3 | £1,560,000 | 70% |

Models to avoid

Average pricing

Taking the average of all bidders' prices and awarding the bidder nearest to the average with 100%

| Bidder | Tender price | Winner |
|---------------|------------------|--------|
| 1 | £1000 | |
| 2 | £1500 | £1500 |
| 3 | £3000 | |
| 4 | £1250 | |
| Average price | £1,687.50 | |

- Not MEAT
- Depends on other bidders pricing

Models to avoid

Marking schemes that ignore the actual difference in price e.g

- “Cheapest bidder scores 100 marks, most expensive scores 0”
- *Case 15PA02953 Commune de Lognes “Systems where the score differences translate into a ranking classification that ignores real (price) differences”*

| Bidder | Price | Mark awarded |
|--------|----------|--------------|
| 1 | £942,000 | 100 |
| 2 | £950,000 | 50 |
| 3 | £950,001 | 0 |

Relative marking - “Standard differential”

Price score depends on other bidders’ prices

Many models in use in the public sector award full marks for cheapest bid, and then relatively lower marks for each more expensive bid

Lowest priced tender

Tender being scored

X Weighting for Price

BUT

“Standard differential”

| Bidder | Price | Weighing | Score for Price |
|--------|-------|----------|-----------------|
| 1 | £1000 | 70% | 35/70 |
| 2 | £750 | 70% | 46/70 |
| 3 | £500 | 70% | 70/70 |

What is wrong with standard differential?

Is it really MEAT?

The middle priced bidder has not scored half way between the winner and cheapest bid

How do the bidders know where they will end up relative to others?

Breach of equal treatment?

Is this really testing what you want to test?

ALTs

Absolute scoring models

What is it?

Where the price score does not depend on other bidders' prices

The authority sets the maximum price it is willing to pay and the minimum quality it is willing to accept

Furthest away from maximum price scores full marks

| Bidder | Maximum price | Bidder price | Price ranking and score |
|--------|---------------|--------------|--------------------------------|
| 1 | £100,000 | £90,000 | 2 nd – 75% of marks |
| 2 | £100,000 | £80,000 | 1 st – full marks |
| 3 | £100,000 | £101,000 | Disqualified |

Absolute scoring models

Other practical ideas

Set a maximum price and then price score is bidder's weighted % of the maximum price

| Bidder | Maximum price | Price weighting | Bidder price | Weighted score for Price |
|--------|---------------|-----------------|--------------|--|
| 1 | £120,000 | 30% | £91,000 | 24% less than target Weighted price score is 24% of 30 i.e 7.2% |
| 2 | £120,000 | 30% | £82,000 | 32% less than target Weighted price score is 32% of 30 i.e 9.6% |
| 3 | £120,000 | 30% | £101,000 | 0 marks (disqualified) |

Price/quality “ratios”

Regulation 67(1) PCR 2015

Evaluation “may include the best price-quality ratio”

Most public sector methodologies total up quality scores and then add to price scores

How much does each quality point cost?

Price submitted by bidder (£) ex VAT

Quality score of that bidder

Price/quality “ratios”

| Bidder | Price | Quality score (100) | Cost (£) per quality mark | Outcome |
|--------|----------|---------------------|---------------------------|---------|
| 1 | £120,000 | 85 | £1,412 | 2 |
| 2 | £132,000 | 95 | £1,389.50 | 1 |
| 3 | £79,000 | 52 | £1,518 | 3 |

Risk ratios

What is it?

Assessing the risk of the bidder's proposal and reducing price (and quality) marks

| Bidder | Tender price | Quality marks | Risk assessment | Risk assessed quality score |
|--------|--------------|---------------|-----------------|-----------------------------|
| 1 | £1000 | 75 | :2 | 32.5 |
| 2 | £1500 | 75 | :1 | 75 |
| 3 | £3000 | 90 | :1.25 | 72 |
| 4 | £1250 | 70 | :1.5 | 35 |

Whole lifecycle costing

Looking beyond lowest price

“A cost-effectiveness approach, such as life-cycle costing in accordance with regulation 68”

Part or all of the following costs over the life cycle of a product, service or works:

Costs, borne by the contracting authority or other users, such as **acquisition, costs of use**, such as consumption of **energy** and other resources, **maintenance** costs, **end of life** costs, such as collection and recycling costs”

The answer

- Flexibility to adopt models that generate what you actually want
- Models must work, and be fair when they do
- Relative pricing is not the only game in town
- Bidders can (and do) call out defective evaluation criteria

Your next steps?

- Ask your stakeholders what they want:
 - Cheapest?
 - Highest quality for a set budget?
 - Something else?
- Test your evaluation criteria using dummy models before you go out
- Model likely answers
- Try innovation on lower value/risk contracts first
- Get feedback from suppliers and evaluators afterwards

Q & A

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415

Partners

2000

Legal
professionals

3600+

Total staff

50+

Offices and associated
offices in 21 countries