

# The bidding process cannot be a rushed exercise

There is a need for a shift in businesses' perspective of pricing in the project services industry. The dichotomy of pricing and costing may sound complicated, but it is essential people in the business and at large understand the intrinsic cost of any service and the markups.

How does one conclude that the price of a particular service is high, low or appropriate without applying a logical assessment of related costs, its components, and markups?

Just benchmarking some standards without valid credentials is not sufficient to arrive at any pricing conclusion. There needs to be a proper evaluation of criteria to come at the price of whatever services are on offer. However, in recent times, the basis for price setting has often faltered.

In the context of procurement and bids, the industry needs to realign based on pricing fundamentals. The tender processes are not always in line with best practices, and pricing assumptions are greatly influenced by the previous purchase costs, historical baseline budgets or comparative data. And not just on the service level requirements.

It is erroneous as instead of applying costing fundamentals, comparisons are drawn with inadequate parameters. Either the previous pricing does not include all the services or the baseline budget data is not consistent. These approaches fail to provide a real cost insight as the comparative analysis may have different drivers and influences.

They significantly impact the industry's performance, which is anyway under the scanner to streamline the process of fixing costs. It is true that to fix the price of a specific service, one needs to understand the key costing levers. When it comes to service, it is the people cost and its related components that form the basis.

These include the relevant experience and competence, the cost to the organisation, the scope of work and service levels, the time needed to perform, operating expenses, etc. It is critical that all other factors connected to these are factored in to provide an accurate cost estimate. All industries have enough published data and internal benchmark analysis on costs that can help arrive at the intrinsic value of a service.



## Worldly Wise

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### Colossal problem

We are noticing the service industry is facing a colossal problem of cost-cutting that has assumed epidemic proportions. All companies, local and multinational, have a one-point agenda — cut costs. The sourcing departments have been mandated to cut costs, but with little or no strategic mapping of operational needs, sustainability and stakeholder alignment.

How often is a bidder tossed aside by a tender issuer because it is not within their budget or much higher than the other bidders? And with no consideration of the merit of the bid requirements? How often is it that just a number drives the fate of a bid?

There are too many inconsistencies undermining the goal whereas the strategy should be to ensure price rationalisation and not just a bargain.

Cost rationalisation is another misunderstood jargon as without the requisite capital injection this may remain a distant reality. To empower technology and provide necessary support, additional capital inflows are a must. To achieve the much-needed rationalisation results, all fast-track approaches should be avoided.

These don't work as organisational preparedness is critical to prevent a half-baked solutions scenario. Data analytics should follow proper processes alongside stakeholder engagement.

Therefore, organisations should invest in a credible database to arrive at the necessary costs of each component and based on fundamental analysis. Based on specific needs, these benchmarks can be handy to reach a near zero cost conclusion.

The tendering exercise needs to be revisited to fill in the gaps. Bid evaluations must ensure that technical evaluations cannot be compromised. And zero tolerance must be applied when it comes to the bare minimum technical requirements such as deployment schedules and capability of the service providers.

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