Bid price strategy in contraction bidding

Business, Strategy

The bid price is the most important factor that is used to determine the successful bidder in a competitive tender. Sometimes the bidder submits a high enough bid price that the bidder can make a profit, but he loses the job. Sometimes the bidder submits a low bid price and gets the job, but he loses the profit. The bidder determines the bid price is based on the business objective. If the bidder wants to enlarge the market share, he will give a low bidder price to achieve that goal.

If the bidder wants to make more profit, he will submit a reasonable high bid price. Therefore it is needed to be considered and discussed how to use the right price strategy to submit a bid price with lowest price and maximum profit. In this essay, a review of the bid price will be provided that includes the review the bid price and the factors that the contractors need to consider when set bid price. After that a discussion about the bid price strategy, which enable the bidder to submit a bid price with lowest price and maximum profit, will be provided.

Review of bid price According to A J Smith(1995) stated, the Bid price is the sum of net project cost estimate, the overheads, the additional project financing costs, the required profit and the risk margin. And Spence Geddes(1985) stated that the project net estimate includes the plant, labour and material cost of the work. The plant cost is the cost of small plant & tools and mechanical plant. The labour cost is the cost of the staff and the supervision of the labour.

A J Smith(1995) stated that the material cost is the cost of all material that is used to build the project. The overhead represent the fixed costs of running the company regardless if whether the company does any work or not. According to Merna and Njiru(2002), the additional projectfinancecost is includes the interests of project debt and bonds. If it is a international project it also includes the exchange rate of different currency. Then a required profit is needed to be determined. The purpose of business is making profit.

It is also same to build a project. After estimating the cost of the project, the bidder company will provide the bid price strategy and determine the optimum profit based on the bid price strategy. Park and Chapin (1992) indicated that the reasons for variations of optimal mark-up could be listed under two heading: (1) lower than optimum bids; (2) higher than optimum bids. Usually the bid price should cover net project cost estimate, the overheads, the additional project financing costs, the required profit and the risk margin.

But in some cases, the bidder will give the price lower as the reasons that Park and Chapin (1992) indicated as above. Therefore the bidder company not only needs to provide good project cost estimation, but the company also needs to consider some factors that influence setting the bid price. After the estimation and consideration of those factors, the bidder company will determine a right price strategy to set the bid price.