

1. Pre-bid Activities:

1.1 Concept and introduction

In construction, an estimate, bid, quote, and proposal can take on different meanings depending on who is using the term. Some construction professionals use the words “estimate” and “quote” interchangeably, while a bid or proposal may turn into a contract if a customer signs it.

Putting all of the confusion, below is what we consider the most widely accepted definitions.

Quote

A quote is a figure that a client/contractor gets from a supplier for the price of materials they need for a job.

Quotes are often only good for a certain period of time—generally about a month—which means the builder has only that amount of time to buy the materials at the given price. Outside the given timeframe, the price of materials may change. This is why there is often a timeframe associated with quotes. Quotes expire because the materials involved in a construction project are commodities and their prices fluctuate based on supply and demand.

Estimate

Client/Contractors use estimates to calculate their expected costs to complete a project. They look at the specifications for a project and determine the raw materials and labor they need. The contractor then goes to their suppliers to get quotes for the raw materials, which they use to calculate the estimate.

An estimate may also include an accounting of taxes, overhead, subcontracts, and equipment costs. Contractors generally work up estimates before or during the process of drafting a bid or proposal.

Estimates are usually free, but some contractors do charge for the time it takes to provide a thorough and accurate estimate.

Those who charge for estimates often have a formal education in construction and you can expect a much more detailed document where everything is spelled out. As a client, if you're receiving multiple estimates, sometimes the more detailed one will help you find items that less detailed estimates may have overlooked.

Bid

The word “bid” in construction may refer to a document that offers to perform a specific job at a specific price within a certain period of time (also called a proposal). It may also refer to the specific price offered in that document.

Here's an example of how the term might be used:

Jack: ABC construction submitted their bid today (referring to the document)

Jill: Oh. What did they bid? (referring to the price)

A subcontractor might also submit a bid to a general contractor to perform a certain part of a project.

Tender

The term “tender” is often used interchangeably to the term bid. However, “Bid” is increasingly being used by the Offerer (the supply side) and the term “tender” used on the procurement side (the buyer).

Proposal

A proposal is a detailed document submitted as part of a competitive process to win business. It includes quotes received from suppliers for raw materials, proposals from subcontractors for their portion of work on the project, and estimates of labor costs, taxes, and other overhead. It also includes a markup of the contractor's profit.

Some proposals also include a place for the customer to sign in order to represent their acceptance of the proposal. Some contractors may also refer to this type of proposal as a "contract." Others simply ask for a signature to acknowledge receipt of the proposal.

While the difference between a construction estimate, quote, bid, and proposal may be confusing to understand, knowing the difference is crucial to the success of your projects.

What Is Construction Bidding?

A construction bid is the process of providing a potential customer with a proposal to build or manage the building of a structure. It's also the method through which subcontractors pitch their services to general contractors.

In order to create successful construction bids, Start with highly accurate cost estimates, and submit the lowest bid of all the competing contractors. The process of forming a bid begins with examining construction plans and performing material quantity takeoffs.

First, it's important to distinguish between a *bid* and an *estimate*, terms that are sometimes used interchangeably. The definitions of the two are somewhat elastic. Generally, an estimate is the calculation of the contractor's internal costs (including materials and labor), while a bid is the final price charged to a customer. We consider a bid to be a firm

offer to the customer. The difference between the bid amount and your expenses is your profit.

In construction bidding, price is always a key consideration. On many projects, especially in government construction, the owner must choose the lowest bid. On other jobs, however, qualifications or other factors can be equally or more important than price. The selection process depends on the project delivery.

The basic construction tender process involves the following activities:

- **Bid Solicitation** (□□□□□): The owner seeks bids and provides a package of material with drawings, specifications, and other scope documents. This is also known as making a *request for proposal (RFP)* or a *request to tender (RTT)*,
- **Subcontracting:** General contractors take bids from subcontractors for pieces of work. Depending on the project method, this may occur after a general contractor wins a bid.
- **Bid Submission:** Builders submit bids by a deadline.
- **Bid Selection:** The owner reviews bids and chooses a winner.
- **Contract Formation:** This phase finalizes the terms and lays the legal groundwork for the project.
- **Project Delivery:** Construction takes place.

1.2 Pre-bid activities of owner or the client

(From conceiving of the project to receiving the bids from the bidders)

The Client/ Owner: Client may be owner, occupier, developer, implementing agency etc. Client may be a government department, ministry, a public corporation; private limited organization, partnership organization, NGO's INGOs, an individual – entrepreneur, user etc.

These are the activities involved in Pre-tender/bid stage

- Setting clear objectives
- Communicating objectives to all parties – preparing a good project brief
- Providing clear direction and timely decision
- Taking responsibility in selecting project team
- Consultant selection – two envelope system, PQ, short-listing
 - Quality based selection - top ranking consultant is called for negotiation and award
 - Quality cost based selection– separate weightings for technical and financial proposals, which may vary from 60/40 to 90/10
 - Pre-Qualification and acceptance of lowest proposal
- Appraisal and review including risks
- Involving in the design process contributing positively
- Making the team clear about funding aspects and authority in handling the fund
- Avoiding frustrating bureaucratic procedures in the organization
- Putting faith on his expert advisors

1.3 Pre-bid activities of the Consultant

(for offering services to the owner, for organizing consultant to receive bids from contractors – from the date of consultant agreement to date of receiving contractors bids.)

The Consultant: An individual – engineer/architect, an independent professional organization, practicing consulting firm, a government entity, in-house engineer/architect.

These are the activities involved in Pre-tender/bid stage

- Design – professionalism
- Research and investigation for design
- Be responsible for his design, in case of professional negligence
- Preparing Cost estimate at different stages
- Preparing specification, drawings and tender documents
- Appraising the client all pros and cons of the project
- Impressing the client and obtaining faith and be faithful
- Having expert knowledge in quality and workmanship requirements
- Producing alternative solutions with cost analysis
- Acquiring knowledge about new products and materials
- Issuing of tender document for short listed vendors.
- Conducting pre bid meeting and clarifying queries raised by the vendors.
- Collecting filled tender documents and making comparative statements.
- Attending negotiation meetings and giving guidance on selecting of correct vendor to the client.

1.4 Pre-bid activities of Contractor

(from date of tender notice to the date of submission of bids.

Proactive contractors)

The contractor: Those who are to supply, construct/erect and commission the project equipment or provide respective service.

Pre-bid Planning is a contractor planning activity that takes place prior to bid submission. While formulating their proposal, the contractor will review the scope and construction documents released by the owner to assess the project, estimate their proposed cost and schedule duration, and identify initial project execution information and resource allocation. Research showed that effective contractor planning during the pre-bid phase results in higher productivity, lower cost, and shorter schedules. However, this planning during this phase includes little active

owner involvement. Instead, each bidding contractor develops their proposal plan based on the owner's specifications, construction documents, or request for proposal.

Bid preparation from contractor's point of view

- Purchasing of tender documents
- Study of tender docs.
- Visit to architect for details – questions related to drawings, investigation details, tests etc.
- Construction site inspection
 - Site conditions, access, traffic conditions, obstacles, overhead and underground services, surrounding environment and adjacent buildings, location and availability of water, electricity, telephone, local catering and transportation facilities, availability of materials and quarry sites, local authorities – by-laws, restrictions, local taxes etc.
- Decision –to bid or not
- Preparation of prime cost
- Calculation of indirect cost
- Preparation of cash flow and schedule of work
- Final preparation of tender including final bid price
- Bid bond
- Bid submission

Bid or No Bid Decision

Be patient and wait for the tender opportunity that is right for your business – it is a waste of time tendering for contracts that you are not going to win. The most common reason for lack of success is poor choice of tender opportunity.

The decision to bid or not to bid for a contract should be a carefully considered process balancing the opportunity, against a realistic evaluation of the likelihood of success. The approach should be systematic, incorporating a scoring matrix or key bid/no bid questions

this will help evaluate the decision and remove any emotion that may be associated with the opportunity.

Bid/No Bid Questions

What are the mandatory requirements (for example financial stability, quality accreditations) and can we meet them?

Buyers generally ask for (audited) accounts from the last three years. Has your business seen year-on-year growth and if not is there a valid explanation for why not? If requirements are not mandatory then can you demonstrate that your business is operating to a set of standards that are equivalent? For example, your business may not be ISO accredited, but may use an internal quality system.

Can we show relevant experience? Have we done this type of work before? Do we need to partner?

Buyers like suppliers who can prove they can do the job, therefore references from similar organizations for similar work are ideal. If you haven't got these, you will need to show you have transferable skills from customers with similar needs. If the experience is not a 'core competence' (in other words it represents only a small element your business's work) think carefully. If there are some areas that your business cannot manage, the chances of qualifying or winning the tender are seriously reduced. You may need to consider partnering.

Who is the competitor?

Do you know how many others will be competing with and who they are? How do your strengths and weaknesses compare with theirs? Does a competitor have an existing contract with the Buyer? Who is currently servicing the contract?

Is the contract the right size for my business? Will this clash with any existing or upcoming work?

It is risky to bid if a tender value is more than 25% of turnover. Buyers will check that the tender contract value will not be too much for the company to handle. Do not overstretch the business to the point where service or quality issues will arise.

What is the profit potential? What impact will there be on the business cashflow?

Winning a contract can put a strain on a business's financial resources. It is important to fully understand and assess the risk of the working capital requirements of the contract and whether your business can support any peaks that may occur. A careful assessment should be made at this point of the potential profit to be made. Is it likely that you will be forced to bid low? If so, is it still worthwhile to take on the work, even at a marginal price to perhaps reinforce your position in the sector?

Do we have sufficient resource to respond professionally within the deadline?

Tender writing is time consuming – you will need to invest a significant amount of time and resource to creating a winning bid. There is no minimum limit on the deadline for tenders, but typically the timeframe falls between two and four weeks. Depending on the type of contract and Buyer, the bid/no bid decision can be quite straightforward or may take some consideration, balancing a set of points for and against. To help with the process it is useful to have a consistent procedure in place to ensure that time and money are not spent wastefully on contract opportunities which are to no economic or strategic benefit. A standard bid/no bid form can be a useful tool to assist with the decision. If you decide not to bid, and you were invited to do so directly by the Buyer, tell the Buyer as soon as possible of your intention. Explain carefully, in a conscientious way, the reasons for your decision, being careful not to prejudice your chances of being invited to bid for other work in the future.

1.5 Pre-bid Meetings

Prebid” meeting: it is a meeting that happens prior to bidding.

Pre-bid meeting as part of Tendering / Bidding process. While a company or department wishes to execute a project it starts with a Tender Notice. In case of private organizations they generally send out the Tender Notices to specialties contractors or company in that field. These days most of the Government departments do publish these via E-procurement. Subsequent to the Tender Notice (or sometimes along with Tender Notice) Tender documents will also be released. The interested parties can attend the Pre-bid meeting as specified in Tender Document after a preliminary study of such documents.

Most of the times, the client asks the interested parties to send the queries prior to this scheduled meeting. In these Pre bid meetings, the interested parties (Tenderers/ Bidder)

- can seek clarifications
- point out any contradicting information/ clauses
- suggest some alternate ideas
- try to understand the client and the objective of project in question
- can seek additional information justifying why they need such information
- in case of construction/ civil works depending upon type of contract form, design issues can also be discussed
- Time frame for bid submission, expected time of award etc.,

Such discussions take place and will be recorded as Prebid clarifications / Amendments (if required) and will be issued to all Tenderers.

The Prebid meeting initiates interaction between the parties with respect to the particular project. Helps the Tenderers in understanding and

obtaining clarifications first hand during the meeting. Also the Tenderers can gauge the competitors and their seriousness for the project. This helps in pricing strategy.

These Prebid clarifications later on become part of the Contract Agreement. Study of these clarifications is also very important for bidding and later during execution after award of Contract.

At times, these clarifications becomes major evidences / backups for claims and disputes (especially in civil construction works)

Purpose of Pre-bid Meeting:

The objective of pre-bid meetings is to explain the details of the solicitation documents to interested bidders. Prospective bidders are permitted to request clarifications on the invitation for bids or request for proposals by a stipulated date, and the pre-bid meeting is held within that period.

Why are pre-bid meetings held?

When preparing solicitation documents, especially the terms of reference, technical specifications and scope of work, it's important to determine if there is need for a pre-bid meeting. The complexity of these documents should be taken into consideration and a decision made in consultation with the departments involved in contributing to the preparation of the solicitation documents.

Pre-bid meetings are held to clarify the technical and procurement aspects of the solicitation documents. They are arranged for more complex procurements in order to discuss the technical and procurement requirements with prospective bidders, listen to their concerns, and take them into consideration in order to improve the solicitation documents. The intent is to give bidders sufficient information to help them submit a bid or proposal that responds to the requirement.

Who conducts pre-bid meetings?

Pre-bid meetings are organized and held by the procuring entity at a venue agreed together with the requesting entity. The procuring entity, with the participation of the technical team that contributed to the preparation of the terms of reference or technical specifications and scope of work, prepares the agenda for this meeting. While attendance should not be mandatory, prospective bidders should be encouraged to attend.

When are pre-bid meetings held?

Pre-bid meetings should be held one week or more after the initial announcement of the invitation for bids or request for proposals. The reason for this is to allow prospective bidders enough time to get, read and study the solicitation documents, and prepare a request for clarification, if any.

It is also better to hold the pre-bid and respond to request for clarifications about two weeks before the bid or proposal submission date. This is to allow the procuring entity to prepare and send responses to bidders request for clarification after concluding the pre-bid meeting, and give bidders enough time to take the responses into consideration when preparing their bids or proposals.

Where are pre-bid meetings held?

The venue of the pre-bid meeting should be easily accessible to the target bidders. It could be a rented venue or a government provided facility. Although bidders will assume the cost of attending a pre-bid meeting, effort must be made to keep the cost as low as possible because it is logical to assume all cost incurred by bidders will be reflected in the bids or proposals submitted. So holding the pre-bid nearest to where target bidders are located would help to reduce the overall cost of the bidding process

How are pre-bid meeting conducted?

An agenda should be prepared to arrange how the pre-bid meeting will be carried out. An indicative pre-bid meeting schedule follows:

- Opening remarks and introduction
- Presentation on the procurement aspect of the requirement
- Questions and answers on the procurement aspects
- Presentation on the technical aspects of the requirement
- Question and answers on the technical aspects
- Closing remarks

A representative of the procuring entity should be present and should discuss the entire solicitation document. A summary of each section should be given and bidders allowed asking questions.

The technical aspect of the requirement should also be discussed, giving bidders the technical details of the requirement, and they should be allowed asking questions.

Questions and answers could also be left until the end of both the procurement and the technical presentation.

There should also be someone at the pre-bid in charge of capturing all questions and answers so they can be put into the minutes of the pre-bid meeting, which is sent to all bidders that attended and those that requested or obtained the solicitation documents. Although it may not be possible to answer all questions raised at the pre-bid meeting, a written response addressing all questions, must be sent to all bidders by the date stipulated in the solicitation documents.

Checklist for an Informal Project Pre-Bid Conference with Contractors

I. Pre-Bid Conference Agenda

- ❖ Open Meeting: Construction Management PM
 - Distribute plans and specifications
- ❖ Introductions: Construction Management PM
 - Pass around sign-in sheet
- ❖ Present Overall Project Scope of Work: Consultant Designer
- ❖ Discuss Individual Plan Sheets and Details: Consultant Designer
- ❖ Discuss General Notes and General Instruction Sheets: Construction Management PM
- ❖ Conduct Project Walk-Through: Consultant Designer / NC State Design PM
- ❖ Discuss Attached List of Mandatory Topics: Consultant Designer
- ❖ Discuss bid sheet, bid breakdowns, and bid alternates: Construction Management PM
- ❖ Contractor Questions and Concerns: Contractors
- ❖ Discuss Addendums: Construction Management PM
- ❖ Announce Bid Date and Time: Construction Management PM
- ❖ Close Meeting: Construction Management PM

1.6 Consultant Selection

What should be the procedure for selection of consultants?

The selection of consultants should be based on the appropriate method to be chosen from among the alternatives listed below:

- **Quality and Cost based selection:** - This method requires the applicant firms to clear the minimum threshold criteria. The financial bids of all the applicant firms who clear the threshold are

opened and the lowest applicant firm is awarded the contract. This method can be used where additional weightage for the technical expertise of a consultant is not considered necessary and all those who cross the threshold are to be regarded as equally competent.

- **Combined Quality-cum-Cost based selection:-** This method of selection should be used for projects where weightage needs to be given to a higher level of expertise.
Public Private Partnerships (PPPs) being complex projects with longterm implications, the Combined Quality cum-Cost based selection method that applies appropriate weightages to technical and financial capacities is generally preferred. The applicant firm scoring the maximum combined score is awarded the contract.
- **Quality based selection:-** This method of selection may be used in the following circumstances:
 - The outcome of the assignment will have a high impact and, hence, it is essential to engage the most qualified consultant;
 - or
 - The assignment is very complex or highly specialised where it is difficult to define the scope of work with accuracy.
- **Cost based selection:-** This method of selection may be used for assignments of the following nature:
 - Assignment where any experienced consultant can deliver the services without requirement of specific expertise; and
 - The cost of assignment should not exceed Rs. five lakh.

What is the ‘two-envelope system’ of bidding?

Consultancy services are normally procured through a ‘two-envelope’ comprising a technical bid and a financial bid. The technical and financial bids are submitted in two separate sealed covers duly superscribed and kept inside a bigger cover which should also be duly sealed

and super scribed. The technical bid comprises the information relating to the experience and qualification of the consultant whereas the financial bid comprises the financial offer made by the consultant for performing the services as per the Terms of Reference. The technical bid is to be opened first.

A technical evaluation should be carried out by an evaluation committee constituted by the Project Authority for all cases having a financial implication greater than Rs. twenty lakh. A list of applicant firms qualifying the technical criteria should be prepared at this stage, based on pre-determined criteria. The applicant firms should be ranked according to their respective technical scores. Only the applicant firms scoring the minimum prescribed marks should be pre-qualified and not more than five applicant firms should normally be short-listed so that the final selection is restricted to the five applicant firms who have the best expertise.

In the second stage a financial evaluation is to be carried out. The financial bids of only the short-listed applicant firms should be opened for the purpose of further evaluation

What should be the evaluation criteria?

Details of the evaluation criteria must be clearly specified in the invitation notice. Normally this would relate to the experience/credentials of the applicant firm, the key personnel proposed to be deployed on the project, the proposed methodology and the work plan. The applicant firm should be required to submit sufficient documentary evidence for meeting the evaluation criteria.

The consultants could be evaluated on the basis of the following information:

- Experience and past assignments of the firm, its revenues from consulting assignments and other relevant factors;
- details of recent assignments in the relevant sector or similar fields which demonstrate the required expertise;

- details of relevant experience and qualifications of the project team members including the CV of all team members;
- other terms and conditions of contract, especially fees; and
- Details of any actual or potential conflicts of interest or any pending investigation by any governmental authority.

1.7 Selection contract strategy and type of contract – Risk allocation

- Traditional contract
- Management
- Turnkey
- BOT

Type

- Lump-sum
- Unit rate
- Target cost
- Reimbursable

Packaging of work is to be done based on the nature, size, contractor capability, stage construction etc. Fulfillment of regulatory requirements is also very vital like license, registration and regulatory approval of the project etc.

Methods of contractor selection

- Direct invitation from selected list of contractors
- Nomination by the client and direct negotiation
- Competitive bidding – PQ or without PQ, Post qualification
- Direct labor or forced account

Pre-qualification or Post qualification

- Pre-qualification of contractors
- Preparation of PQ documents
- PQ notice
- Preparation and approval of PQ criteria
 - Experience, financial capability, personnel, equipment and other general abilities.
- PQ submission by the interested contractors

- PQ evaluation
- Notice to pre-qualified contractors – only pre-qualified contractors are allowed to bid.
- Post Qualification
 - Two envelope system -Bid and Post Q.
 - Single envelope – Bid + PQ

1.8 Tender Documents

Tender Documents consist of the following:

A. For service Procurement(Selection of Consultant)

Standard EOI Document

Sample 1

- I. Request for Expression of Interest
- II. Instructions for submission of Expression of Interest
- III.Objective of Consultancy Services or Brief TOR
- IV. Evaluation of Consultant's EOI Application
- V. EOI Forms & Formats
 1. Letter of Application
 2. Applicant's Information Form
 3. Experience
 4. Capacity
 5. Key Experts (Included details of Key Experts only)

Standard Request for Proposals
Selection of Consultants (Lump-Sum)
SUMMARY DESCRIPTION

Sample 2

PART I – SELECTION PROCEDURES AND REQUIREMENTS

Section 1: Letter of Invitation (LOI)

This Section is a template of a letter from the Client addressed to a shortlisted consulting firm inviting it to submit a proposal for a consulting assignment. The LOI includes a list of all shortlisted firms to whom similar letters of invitation are sent, and a reference to the selection method and applicable guidelines or policies that govern the selection and award process.

Section 2: Instructions to Consultants, Data Sheet

This Section consists of two parts: “Instructions to Consultants” and “Data Sheet”. “Instructions to Consultants” contains provisions that are to be used without modifications. “Data Sheet” contains information specific to each selection and corresponds to the clauses in “Instructions to Consultants” that call for selection-specific information to be added. This Section provides information to help shortlisted consultants prepare their proposals. Information is also provided on the submission, opening and evaluation of proposals, contract negotiation and award of contract.

Section 3: Technical Proposal – Standard Forms

This Section includes the forms that are to be completed by the shortlisted consultants and submitted in accordance with the requirements of Section 2.

Section 4: Financial Proposal – Standard Forms

This Section includes the financial forms that are to be completed by the shortlisted consultants, including the consultant’s costing of its technical proposal, which are to be submitted in accordance with the requirements of Section 2.

Section 5: Eligible Countries

This Section contains information regarding eligible countries.

Section 6: GoN/DP Policy - Fraud and Corruption

This Section provides shortlisted consultants with the reference to the Bank’s policy in regard to corrupt and fraudulent practices applicable to the selection process.

Section 7: Terms of Reference (TORs)

This Section describes the scope of services, objectives, goals, specific tasks required to implement the assignment, and relevant background information; provides details on the required qualifications of the key experts; and lists the expected deliverables. This Section shall not be used to over-write provisions in Section 2.

PART II – CONDITIONS OF CONTRACT AND CONTRACT FORMS

Section 8: Standard Forms of Contract

This Section includes standard contract forms for large or complex assignments: a Time-Based Contract includes General Conditions of Contract (“GCC”) that shall not be modified, and Special Conditions of Contract (“SCC”). The SCC include clauses specific to each contract to supplement the General Conditions.

Standard Request for Proposals Selection of Consultants (Time based)

SUMMARY DESCRIPTION

Sample 3

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B. For Works Procurement

See on other

1.9 REASONS FOR CONTRACTOR FAILURE

Being a construction contractor means facing a lot of risks and difficulties. From the ongoing labor shortage to the language of contracts and the terms of insurance, the hurdles contractors need to jump through can be many.

If that were not enough, there is also the possibility of subcontractor default or the challenge of working on highly complex projects. All of those things may lead to the end or the failure of a construction project. But there are also reasons for construction failure which are unique to contractors themselves - poor leadership or management, loss of project control and discipline and more. And when a project fails, much more fails alongside it. Project defaults often lead to disputes or claims against contractors' surety bonds which are lengthy, costly and risky.

While external factors can disrupt the progress of a project, contractors still have control of how to manage internal disruptions. Here are the five most common reasons contractors fail and what they can do about it.

- Poor project management;
- poor leadership;
- poor performance;
- poor accounting; and
- Poor planning.

1. Poor Project Management

One of the most common causes for contractor default is that of poor project management. Poor project management is often the result of a

lack of skilled staff in middle and upper management. This can then lead to inadequate supervision and lack of understanding of company policies and procedures.

Ongoing litigation against the contractor or pending surety bond claims on contracts is also a sign of poor management. These are typically also an indication that a contractor may not be able to perform the work on current projects adequately.

2. Poor Leadership

While poor leadership may sound like poor management, failure due to leadership is often for the opposite reasons. Poor leadership is characterized by overconfidence on the side of contractors, hyper-optimism and a weak ability to discern threats and challenges as they arise for the company. Poor leadership can often lead to rapid over-expansion due to making snap decisions without being mindful of the longrun.

Poor leadership can also occur for simpler reasons, such as a lack of a transition plan when a company's owners or CEO change. A lack of a transition plan tends to create chaos and uncertainty which often end up disrupting projects and sometimes lead to failure.

3. Poor Performance

Poor performance is a result of a loss of discipline, often due to excessive bureaucratization as a company grows. It may also occur due to expanding into new fields that are outside of the company's core competencies. In the latter case, companies are often faced with a shortage of experienced and trained workers who know what is required of them or struggle to get everyone on board fast enough.

4. Poor Accounting

There are many reasons a company's finances may experience challenges and ultimately drag the company down. This includes a lack of cash flow and an inability to predict cash flow. Fading profits, credit lines that are not renewed, operating losses, low bids on contracts - all of these issues may slowly add up to produce the perfect storm.

Companies that have trouble with their capitalization may lack proper cost and project-management systems and procedures that help maintain good oversight over the company's finances and make decisions based on those figures.

5. Poor Planning

Many of the above issues can be traced back to poor planning. Poor planning includes the lack of a good business plan that covers all financial, marketing, development and operations aspects of the company.

Poor planning can also include the lack of contingency plans to identify and mitigate any project risks that may arise in the course of executing a contract. Lack of such plans can lead to an inability to handle unforeseen project developments or changes, including external as well as internal circumstances.

WHAT CONTRACTORS CAN DO TO AVOID FAILURE

Of course, none of the above issues is unavoidable. By investing in proper systems that help plan and forecast finances, or by securing

proper training for employees across the whole company, a great deal of the above failures can be avoided.

Precisely and closely managed projects are another key feature of successful contractors. This must also include warning mechanisms that spot problems early on, which also means the right managers, are on the job.

Finally, succession and continuity planning, as well as contingency plans, are a type of backbone for the organization in times of shifts or unexpected situations. But if worse comes to worst, and a contractor still ends up having difficulties, there are always ways to avoid these claims. The most important part of dealing with default, failure or a bond claim is to work closely with one's surety. Surety bond companies typically have plenty of professionals on board that can assist in avoiding those situations.

In times of need, sureties can provide contractors with advice on how to plan their operations or manage their finances. They can also supply them with the know-how or support in executing particularly difficult aspects of a project that are otherwise at risk of failure. Communicating closely with one's surety as difficulties arise, and taking their advice, is one of the best ways to avoid defaulting on a contract.

Top 9 Reasons construction Project Fail

The following are the common reasons of construction projects fail:

1. Underestimating the Project

One of the most common and costly reasons a construction project may fail is due to inaccurate estimates. Miscalculations, specification errors, omission, excluded permits, and changing market conditions (e.g., prices of materials and labor) can all lead to costly overruns, leaving the contractor stressed and the client unhappy.

2. Scope Creep

Scope creep describes the process in which the amount of work grows beyond the original agreement. The three main causes of scope creep include:

1. Client requests that are out of the scope of work originally agreed upon
2. Unforeseen conditions that are unknown to the contractor at the time the contract is signed
3. Clients not doing thorough preliminary work (e.g., site surveys, proper planning, etc.)

While the number one goal of any project is a happy client, this can sometimes become compromised if they continually make requests without considering the price or don't provide you with the most accurate information upfront.

3. Delays

Government approvals, site regulations, and permit delays slow down the timeline for your project and can cause costly overruns if not accounted for correctly. Depending on your location, you may need to consider union requirements and area-specific rules such as building codes. Making sure you have the right licenses before beginning a project is also essential to preventing delays.

4. Surprise Conditions

Conditions unknown to the project manager can quickly become a problem and run up the costs of a project. Natural disasters, asbestos, mold, and design or structural issues are the main cause and can be hard to plan for during the bidding process. However, overlooking these potential issues can result in higher costs and risks associated with the project.

5. Unclear Specifications

Clients don't always understand everything that needs to be fleshed out in order to make sure necessary objectives are clearly identified and the construction project runs smoothly. Unclear specifications can become very costly, especially when the owner's and contractor's interpretations differ significantly.

6. Financing Issues

You've agreed to the scope of work and a timeline for the project. Things are going smoothly until unexpectedly, the **owner runs out of money** to finance the project. Construction is stalled and delays the project. You lose out on a significant amount of time and money as a general contractor because that business might not come back if they can't provide the funds.

7. Unreliable Workers

A lack of qualified workers or a team that is unreliable is a recipe for disaster when it comes to construction projects. It is especially important

to examine your subcontractors, who can **tarnish your reputation** if they don't do their part or, even worse, don't pay their suppliers. Because the job relies so heavily on other people, it is important to know who you're working with and if they can be trusted to do a good job.

8. Communication Gaps

Effective **communication is extremely crucial to the success of any project**. When any of the parties involved aren't getting the right information at the right times, it can become a very costly issue. It is important to establish a chain of command to make sure that all parties are getting the necessary updates in regards to changes on the project, design, plans, specs, or timeline.

9. Improper Planning

Tight, inflexible schedules are common in construction projects. If you don't **account for surprises or delays**, a project can take longer and cause cost overruns. It is extremely important to constantly monitor project tasks closely to ensure they're matching up with the assigned duration given when planning. Issues can frequently arise, so making sure the details get incorporated into the plan and communicated with the necessary parties (i.e., client, architect, contractor, etc.) is critical.

Understanding Why Construction Contractors Fail

While the size and scope of the failings may vary, oftentimes, the reasons behind them fall into one of three broad categories.

Failure #1: Overextension. Contracting firms are always hungry for work; after all, it's the lifeblood of their business. Accordingly, a tendency is to take on too much work, and not have the requisite resources to complete it.

Firms also can take on projects outside their scope of experience. Entering new specialty areas is both difficult and risky; it can expose contracting firms to a number of potential liabilities that may ultimately be their undoing.

There are several warning signs that point to overextension:

- A shortage of working capital
- A high degree of under-billings
- An increase of bank debt
- A significant increase in job backlog

If you're a contractor, how can you address overextension issues? Consider these solutions:

- Faster collections and slower disbursements – Hire someone who can help collect accounts receivables, and ensure that accountants are billing in a timely fashion. You should also ensure that your subcontractor terms are the same as those you have with your client or customer. You shouldn't have to pay your subcontractor until you are paid by your client or customer.
- Try to set up your contracts so that they front-load cash
- Invest excess cash prudently
- Identify disputes early. This should entail regular conversations with project managers and your management team to understand how jobs are proceeding – i.e., timing, budgets, contingencies and issues.
- Make sure to document everything and get change orders signed. If conflicts end up in court, whomever has better and more thorough documentation usually wins.
- Schedule and budget for billings and collections, including projecting the billing amounts by month.

Failure #2: Operational Deficiencies. These types of problems generally manifest themselves in one of two ways:

- Project performance – One bad job – i.e., one job that goes wrong for any number of reasons – can cause a resource shortage on other jobs, potentially necessitate taking on additional debt, and affect firm performance and capabilities relatively quickly.
- Accounting / budgeting issues – If the firm lacks personnel with experience in a project's specific market sector (e.g., educational, industrial, health care), then estimated and real costs could be unrealistic, which in turn, can cause major cash flow issues.

Managing cash is critical, for any business, and contracting firms in particular. If possible, contractors should strive for contractor-friendly billing contracts that allow them to bill work early. This means the client's or customer's financing pays for the work to be done—not the contractor.

Additionally, performing job costing correctly is essential. When it's not done properly, it can be difficult to identify poorly performing jobs and being able to consistently bid work correctly. For example, when the project manager doesn't get accurate costs into the job, the result can be missing costs and the evaluation of results based on bad data.

So, how can contractors address operational challenges?

- Implement a better change order management process – Keep proper documentation for all work performed, and utilize qualified legal counsel who understands real estate and construction. They can provide invaluable help with regard to claims and potential litigation.
- Have the right project manager or managers who understand specific job contracts—and specifically, what's in-scope and out-of-scope. Any and all project managers should ensure that job-related information is shared in a timely manner with other identified personnel in the firm.

Failure #3: Lack of succession planning. Fewer than 33 percent of businesses survive a second generation. So often, this is because they did

not devise and implement a proper succession plan that ensures the firm is in good hands when a transition ultimately occurs.

When it comes to proper succession planning, there's a multitude of questions and issues to consider, including what type of succession plan to use (e.g., Employee Stock Ownership Program (ESOP), sale of stock, new company, buy-in).

Some go-forward strategies for contractors to consider when it comes to succession planning:

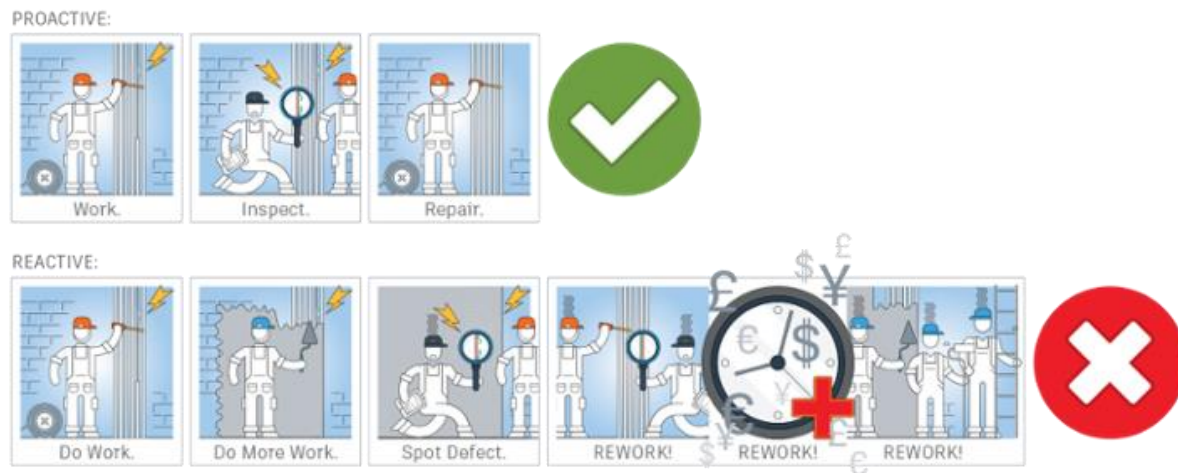
- Work with a qualified professional succession advisor to research and discuss various plan options.
- Develop a process to select the proper successor (or succession team).
- Start developing that person (or team's) knowledge base and abilities as soon as they are identified.

Set key milestone dates for implementation of a succession plan (e.g., research exit strategies, identify potential successor, set up training for successor, meet with advisors) and communicate with stakeholders regularly.

PROACTIVE DEFINITION

Action and result oriented behavior, instead of the one that waits for things to happen and then tries to adjust (react) to them. Proactive behavior aims at identification and exploitation of opportunities and in taking preemptory action against potential problems and threats, whereas reactive behavior focuses on fighting a fire or solving a problem after it occurs.

Active means "doing something." The prefix pro- means "before." So if you are proactive, you are ready before something happens. The opposite is being reactive, or waiting for things to unfold before responding. Think about winter cold season. A proactive person washes his hands and takes vitamins; a reactive person gets sick and takes cold medicine.



A proactive approach focuses on eliminating problems before they have a chance to appear and a reactive approach is based on responding to events after they have happened. The difference between these two approaches is the perspective each one provides in assessing actions and events.

Proactive Management Defined

Proactive management is a style of management that focuses on controlling or managing known risks. The purpose of proactive management is to increase the chances of success by decreasing the chances and impact of hazards. In other words, it's being prepared and proactive about handling risks that could adversely impact your project's objectives.

Unlike reactive management, in which one waits for a problem to occur and then finds a solution, proactive management emphasizes planning. It involves carefully identifying and assessing all potential risks and developing plans to prevent or manage them, if they occur.

Benefits of Proactive Management

The benefits of proactive management include the following:

- You are in control. You have a better handle on the situation at all times because you're prepared. By being proactive, when risk occurs, you're not fighting fires all day, which can throw off your schedule or distract you.
- You are more productive. Being proactive about managing risks protects your time and focus, allowing you to spend more time on important tasks.
- Your problems are abated. There are some risks that you simply cannot avoid; however, if you anticipate and take proactive measures against them, you minimize their impact and prevent problems from snowballing.
- You motivate your team. When you are prepared for a crisis, you are more able to confidently lead your team to resolving the problem. This helps build positive morale, trust, and enthusiasm within your team.

Assignment-1(Chapter-1)

1. If you are investor of Mega Projects how would you manage the followings?

Pre-bid activities of owner or the client: from conceiving of the project to receiving the bids from the bidders?

2. Why pre-bid meeting is necessary for smooth administration of contract management?

3. Write down the strength and weakness of proactive contractors for successful completion of project. Explain about pre-bid activities of contractors who are planning to bid in Highway project of Nepal from date of tender notice to the date of submission of bids.

4. How you differentiate pre-bid activities and post-bid activities in construction project management. What measures would you suggest to avoid qualified bidders from joining hands in bidding process? Is electronic bidding process is the only one solution, explain it

5. List out the documents to be included by the client to the contractor during purchase of tender document. Explain how each tender documents help to carry out pre-bid activities of contractors who are interested to submit the bid for the construction of runway of airport at Pokhara.