

## **You Paid How Much? – Writing A Good RFP/RFQ**

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**Abstract.** The secret to assuring a good contract starts with the request for pricing. If the supplier understands all the requirements the pricing will probably be complete and there will not be any surprises once the contract is released. Leaving out any contract terms often opens an agreement to new negotiation and budget overruns could be incurred. This can be avoided by making sure that all cost aspects are covered when the RFP/RFQ is sent. This paper will cover many of the important contractual aspects as well as paying some attention to the aspect of working with the requestor, choosing the proper bidder, and lastly covering “how binding” the price proposal will be.

**The Opportunity:** An increase of awareness in the following areas:

- working with the requestor
- assurance of qualified bidders
- types of solicitations
- what should be included on the request for pricing
- special terms for service contracts
- legal issues of a quote

**Objectives:** The objective of this paper is to assist the purchaser in obtaining good pricing information that can be used to write a binding contract.

The activity of obtaining a price for services or goods must start with the purchaser understanding the requirements, the need date, where the materials or services will be used and what if any future needs might be required. It is important for the purchaser to be aware of who is ordering the material and how it will be used. At times there are other issues which must be handled by the requestor, minimum buy quantities are sometimes not a good idea if there will never be additional needs for the material. Usually such material is stored for a good deal of time and eventually scrapped, both activities cost money. The purchaser may have questions concerning the possibility of using alternate materials, the level of tooling, packaging, marking and shipping requirements. It is important for the purchaser to know “what is being bought and how it will be used.”

Another important activity in writing a good RFP/RFQ is the selection of the suppliers who will bid. It is not a good idea to ever bid a supplier who would not be qualified to handle the order. If that supplier is ultimately the low bidder, the purchaser must write special documentation as to the reason for using “other than the low bidder.” This can all be avoided by pre-qualifying all of the potential suppliers. In so doing it is important to check the following items:

1. Financial Standing
2. Adequacy of the Facility
3. Purchasing Department
4. Quality Procedures

5. Management/Engineering/Sales Personnel
6. Material and Paper Flow

If the purchase is rather large and important the purchaser might want to assemble a team and physically visit the facility.

When the bid is for a rather costly and complicated service or product it might be prudent to have a "bidder's conference." All qualified bidders are invited to a meeting with the appropriate requisitioners, engineers, quality personnel, purchasing personnel and anyone else who might be involved with the procurement. Such a meeting allows all the bidders to ask questions of qualified personnel. Everyone can hear the answers and better ideas can be explored. The result is an level playing field for all and often potential suppliers may want to disqualify themselves which saves time and money for everyone.

Basically there are a number of methods to use to obtain pricing. The following are the most common:

- **VERBAL QUOTES**
- **REQUEST FOR INFORMATION**
- **REQUEST FOR PROPOSAL**
- **REQUEST FOR QUOTATION**
- **INVITATION TO BID**
- **REVERSE AUCTION**

**VERBAL QUOTE** – Verbal quotes are best used for less costly purchases. Perhaps \$1000 or less would be a good idea. The following items, as a minimum, should be discussed: quantity, description, delivery (when and where), price, FOB, and any extraneous charges. The order is often placed after obtaining this information. It is a good idea to confirm the agreement with a Purchase Order Acknowledgement, a FAX, by E-Mail or as we know by the supplier's shipment and the customer's acceptance.

**REQUEST FOR INFORMATION (RFI)** – RFI's are used to obtain general information. They are informal and not binding. They provide a quick way to obtain information. Usually pricing obtained in this way is rough but will provide preliminary budgetary levels.

**REQUEST FOR PROPOSAL (RFP)** – This method is used when the requirement is not clearly defined. Often transmitted for pricing using a Statement Of Work (SOW) or an Engineering Drawing. RFP's are a good method to use to locate solutions or sources. When the RFP's are received the purchaser and support personnel can choose the best solution or solutions. On occasion, purchasers pay for such proposals in order to later obtain competitive bids.

**REQUEST FOR QUOTATION (RFQ)** – RFQ's work well when the requirements are clearly identifiable. The supplier submits price, quantity, delivery or services and this quotation is held firm for a particular amount of time. The RFQ does not obligate the customer but the supplier must honor it for the designated time specified.

**INVITATION TO BID** – Usually Invitation To Bid is binding to both the supplier and the customer. Used for requirements in excess of \$1000. There are usually strict controls

imposed that include the number of bidders, who is asked to bid, when the bid is opened and the basis for the award.

**REVERSE AUCTIONS** – Reverse Auctions are used as a method of obtaining the lowest price when allowing all the bidders to see the bids that are posted on the web. They require the purchaser to qualify all the potential bidders before the requirements are released. On a given date and time the suppliers sign in and participate in placing their offers on the web. All suppliers can see the bids and can change their bids until the time is up. The time can be extended by the buyer. It is usually necessary for the buyer to use a third party to set up the logistics of working on the web that will allow the qualified suppliers and the buyers to observe the action. This method is used for MRO and items of this nature.

The following items might be included for a complicated, costly requirement:

- ✓ Date of request
- ✓ Request number
- ✓ Name, phone number, e-mail for contact for questions
- ✓ Name and address of both bidder and customer
- ✓ Proposal due date
- ✓ Required time of validity for the proposal
- ✓ Note that the award will be made without further discussion and should be your best and final offer
- ✓ Copy of your terms and conditions and note these will apply (Special attention to place of possible litigation, termination, and purchase of supporting materials)
- ✓ Clear instructions concerning technical and pricing format:
  1. Price breakdown required
  2. Non-recurring costs submitted separately
  3. Statement that the statement of work is acceptable and assurance of the supplier's understanding of same
  4. Instructions as to organization of the submittal (i.e. – Two parts 1. Technical and 2. Pricing – no cost data in part 1)
- ✓ Detail of required payment terms
- ✓ List of documents included with the proposal
- ✓ Note declarations or certifications required
- ✓ Special note that no costs for preparation will be covered
- ✓ Quality requirements (source inspection prior to shipment, ISO 9000)
- ✓ Special packaging requirements
- ✓ FOB requirements
- ✓ Warranty
- ✓ After delivery support

## **MAINTENANCE AND SERVICE CONTRACTS**

Maintenance and service requirements might require additional or different items:

- ✓ A list of hardware or systems required
- ✓ Costs of special software
- ✓ Times when regular maintenance can be performed
- ✓ When service commences and how it will be extended
- ✓ Response time parameters
- ✓ Out of contract rates and descriptions

- ✓ Maintenance log requirements
- ✓ Storage space, security and access
- ✓ Spare parts agreement
- ✓ Statement of work
- ✓ Proprietary information agreement

## **BID CONTROL DESK**

When dealing with complicated and expensive bids it is prudent to have a bid control desk. The clerk in control of this activity is responsible for keeping a log and logging all bids out and again when received. When the bid date and time arrives the bids are delivered to the responsible purchaser. This assures that no supplier gets special attention or a chance to take "a second look."

## **IS THE PROPOSAL BINDING??**

### **MAYBE –**

Some Examples:

Underestimated costs of labor and material might be forgiven if the supplier can demonstrate mechanical or clerical transcribing errors. *Elsinore High School District vs. Castoff (1960)* – the supplier neglected to bid any plumbing costs leaving the bid \$11,306 short. The supplier notified the customer immediately and was allowed to correct the bid.

If the purchaser knows or should have known the bid was incorrect the supplier will not be held to the bid.

If the purchaser could not have known the market price all bets are off. *Drennan vs. Star Paving* (paving cost can vary 160%) – Star refused to honor their bid of \$7,131 and asked Drennan for \$15,000. Drennan used another paving company at \$10,948 and recovered difference from Star.

The secret to controlling costs starts with the bidding activity. It is important to use a good RFP/RFQ and a good contract. It is also important to control after award costs as much as possible. If done correctly your supervisor will never say "you paid how much?"

## **REFERENCES**

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