

Apples to apples

Develop a common price comparator



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TO ENSURE A FAIR evaluation process, how does one reconcile the significant differences (prices and range of products and/or services) among the competing proposals received in response to an RFP? Offers that vary widely in substance will almost certainly vary significantly in price; therefore, it is clearly unrealistic to accept a proposal based only on the “lowest” price. Reconciling the prices with the terms of the offer will generate a common base comparator making an “apples to apples” comparison much easier.

Let’s illustrate this point using a hypothetical example: an RFP issued by a municipality for the construction of a building. The municipality wished to encourage a wide range of offers, exploiting available land sites, design and other expertise that a range of developers could bring to the table. Therefore, while the specifications indicated an optimal solution, the municipality intended to give fair consideration to all offers brought forward, even if they could not meet that optimal target in one or more critical respects.

useable square footage is greater than that offered by a smaller area. Similar disparities also exist with respect to each of the identified critical aspects of functionality.

For a meaningful comparison, it is necessary to harmonize the prices quoted by the proponents to reflect the value (benefit) and cost per feature of each of the proposals. The first step is to generate a common base comparator for each proponent.

The different range of parking options provided can illustrate the process. Proponent 1 offered a design that allows 50 more parking spaces than called for in the specification. In contrast, proponent 4 has offered 230 fewer parking spaces. To compare the two offers, Proponent 1 is asked to offer a credit price for reducing the number of parking spaces to the 350 provided for in the specification. Proponent 4 is asked to offer a price for increasing parking to the required level of 350 places. After these amounts are obtained, it is discovered that Proponent 4 offers a credit of \$10,000 per parking space eliminated. In contrast,

| Table 1 Proponent | Cost | Parking | Useable Footage | Access to Public Transit (metres) | Potential P3 Revenue (per annum) | Relative Heating Efficiency (best = 1) | Elevators |
|----------------------|-------|------------|-----------------|-----------------------------------|----------------------------------|--|------------------------|
| 1 | 13.50 | 400 | 25,000 | 200 | 25,000 | 0.9 | Mitsubishi Gearless HS |
| 2 | 10.00 | 280 | 19,500 | 350 | 2,000 | 1 | Thyristor Leonard HS |
| 3 | 8.75 | 250 | 17,500 | 285 | 1,000 | 0.8 | Conventional |
| 4 | 6.50 | 120 | 10,000 | 500 | 0 | 0.65 | Escalators only |
| Specification | | 350 | 20,000 | 200 | | | |

| Table 2 Proponent | Cost | Square Footage Reconciliation | Square Footage Comparator | Parking Reconciliation | Common Price Comparator |
|----------------------|--------------|-------------------------------|---------------------------|------------------------|-------------------------|
| 1 | \$13,500,000 | 0.80 | \$10,800,000.00 | -500,000 | \$10,300,000.00 |
| 2 | \$10,000,000 | 1.03 | \$10,256,410.26 | 875,000 | \$11,131,410.26 |
| 3 | \$8,750,000 | 1.14 | \$10,000,000.00 | 1,250,000 | \$11,250,000.00 |
| 4 | \$6,500,000 | 2.00 | \$13,000,000.00 | 2,875,000 | \$15,875,000.00 |

When the RFP closes, the result is a complex range of proposals. One, priced at \$6.5 million, meets some aspects of the requirements, but does not fully meet the functional specification in several respects. In particular, it includes little parking, and is largely built around the refit of an existing structure. A second, priced at \$13 million, provides for a state-of-the-art new facility with more parking than indicated in the original specification. This offer could potentially generate at least some public-private partnership (P3) income, which could reduce the overall cost of the project. The other two offers received occupy a middle ground between these two extremes. Reviewing the offers, the evaluation team discovers that when the common elements of the proposals are ignored, the offers received vary on the criteria outlined in Table 1.

Such variations make it difficult to carry out a direct comparison of the raw information provided by each proponent. To compare only the cost of the different designs would be inherently unrealistic; it obviously costs less to build a smaller building than a large one, whereas the utility offered by a larger amount of

Proponent 4 offers an upgrade price of \$12,500 per additional parking space. The upgrade price quoted by Proponents 2 and 3 is similar to that quoted by Proponent 4. However, the most significant adjustment relates to the square footage of the proposed structure, since the building proposed by Proponent 1 is more than twice the size of the building proposed by Proponent 4.

Taking these amounts into account, it is possible to generate a common base comparator price for each proposal as if they offered the same level of parking. (see Table 2).

A common price comparator provides an objective and fair method of comparing many types of significantly different offers. What it cannot do is allow comparison of non-quantifiable differences such as the benefit of a state of the art facility or ready access to public transit. Stay tuned for other techniques that can be employed to provide a more realistic assessment of such factors. *MM*

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