

2 items that determine tender pricing

By Werner van Rooyen, Director of HowToTender (Pty) Ltd which specializes in tender consulting and tender training.

Many bidders that respond to tenders struggle when it comes to calculating a price for a specific tender. One of the reasons for this is that a large number of Small Business Owners are usually new to the tender process and therefore they lack the necessary experience to price their bids correctly.

Without getting into the fundamentals of accounting there are two basic items that determine your tender price. In fact, these two basic items should always be your guide when determining your price on the goods or services you sell.

The two items that determine pricing is:

- Direct Cost; and
- Indirect Cost.

1. Direct Cost

Direct Cost is the cost that one pays to either:

- Produce goods or services; or
- The cost price you pay to procure goods or products that you will resell to your customers.

For instance, if you manufacture wooden chairs your Direct Cost will be the money you spend on purchasing the wood for the chairs. Other Direct Cost in manufacturing wooden chairs would be wood glue, nails, and labour costs.

Thus, when responding to a tender you must take the utmost care that you include all your Direct Costs in your tender price.

2. Indirect Cost

Indirect Cost is the expense that you must incur to run your business and these costs do not necessarily generate any income. Some of the most common Indirect Cost that your business incurs will be:

- Rent
- Utility expenses such as electricity and water
- Telephone
- Stationary
- Salaries and wages
- Accounting fees

It is especially important to include Indirect Cost in your tender price. Remember that the tender will form part of your normal day-to-day business and therefore it must contribute to your Indirect Cost.

The question is how to calculate how much of the Indirect Cost is contributable to the tender. There is not one specific rule but one of the more common rules is to estimate the time spend on servicing the tender and then use that to factor in the Indirect Cost into the

tender price. In other words, if you must spend 50% of your time servicing the tender then 50% of your Indirect Cost should be part of your tender price.

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Contact us at estelle@howtotender.co.za should you need more information.