

## 7 Disadvantages of Competitive Bidding

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

The bidding process can be very tedious sometimes. Here are some of the disadvantages of the bidding process.

### 1. **Leading suppliers may not tender**

In Australia, for example, government procurement guidelines only allow suppliers who tender to be considered for a procurement decision. If the leading supplier or suppliers do not tender, the purchaser can only consider bids from suppliers who do tender. If leading suppliers are not considered, the purchaser may end up buying inferior product or service.

### 2. **Barriers to communication between supplier and customers**

When making significant purchases, frank and open communication between potential supplier and customer is crucial.

Competitive bidding is not conducive to open communication; in fact, it often discourages deep dialogue because in many cases all discussions between a bidder and the purchaser must be made available to all other bidders. Hence, Bidder A may avoid asking certain questions because the questions or answers may help other bidders by revealing Bidder A's approaches, features, and the like.

### 3. **The cost-plus phenomenon**

There is a bear-trap in the purchase of goods and services based on price tag that people do not talk about. To run the game of cost plus in industry a supplier offers a bid so low that he is almost sure to get the business. He gets it. The customer discovers that a change is vital. The supplier is extremely obliging but discovers that these changes will double the cost of the supply. The supplier runs the risk of making a loss on the contract.

### 4. **Use of cheaper, inferior quality materials and/or labour**

A supplier forced to play the competitive bidding game may come under pressure to keep costs down to ensure he gets a satisfactory profit margin. One way a supplier can lower costs is by using cheaper labour and/or materials. If the cheaper labour and materials are inferior quality, the customer will often end up with inferior, inferior quality goods or services.

### 5. **Safety shortcuts**

Another area where suppliers may be tempted to lower costs is safety standards. Safety costs can run away with a contract. Cutting down on safety costs is a sure way to keep the bidding price low.

### 6. **Competitive bidding can be extremely slow**

When Organs of State, and indeed, private companies use competitive bidding it can take sometimes years to award the bid. The result is the customer can wait incredibly extended periods for goods or services that may be required quickly.

### 7. **Insufficient profit margin to allow for investment in research and development, modern technology, or equipment**

Competitive bidding can force a supplier to accept a very slim profit margin. These low margins can result in a supplier having little or no money to spend on research and development, modern technology, and equipment.

To learn more about this and many other tender conditions attend our "Become a Tender Expert" 2-Day workshops presented in Johannesburg, Pretoria, Durban, Port Elizabeth, and Cape Town. Book and pay online at <https://howtotender.co.za/tender-expert-form/>

Contact us at [estelle@howtotender.co.za](mailto:estelle@howtotender.co.za) should you require more information.

*You can also purchase a Tender Manual (Handbook) on our website <https://howtotender.co.za/> which is a step by step guide how to respond to a South African Tender. It includes examples of completed SBD forms.*