



UNIVERSITY OF
CAMBRIDGE

Department of Engineering

CONSTRUCTION ENGINEERING MASTERS DISSERTATION ABSTRACT

Analysis of the bidding costs of a global construction company when tendering construction projects

When the construction industry is booming and the world skylines are being redefined with awe-inspiring structures the industry can be one of the most exciting places to work. Salaries are good, bonuses are reasonable and opportunities can be limitless with competing companies continually striving to meet the market demand.

Unfortunately when the industry goes into recession, projects are stopped and construction companies cease to trade it can be one of the harshest environments in which to work. During these times companies place a greater focus and more importance on cash-flow, reduction in overheads and the ability to win work in a falling market than in previously abundant years.

Single Stage competitive tendering within the construction industry remains the most common form of winning work. Other forms of procurement like Construction Management, Frameworks, Negotiation and PFI/PPP still exist. Any business considering tendering for construction work whether during the boom-time or recession needs to truly understand the potential costs incurred in bidding and be sure that they have a reasonable chance of winning. A critical part in this decision-making process is to understand where best to invest their resources for the best possible outcome whilst maintaining customer satisfaction, the last mentioned may eventually generate future work or opportunities.

The primary aim of this research is to analyse the 'actual' bidding costs of a major construction company operating in a 'global' market and test current academic thinking using evidence based information. The research relied on undertaking quantitative analysis of actual costs directly from extensive in-house data sources and has not been limited solely to the UK but has extended to cover the regions of Australasia, Canada and the Middle East.

This study demonstrates although the construction industry may consider that the cost of tendering for construction work is high the 'actual' cost for a main contractor is relatively unknown. A review of literature reveals that whilst much is written about the decision-making process little is focused on the cost of bidding. Studies have indicated this to be very variable anywhere from 0.25% to 15% with most hovering under 2%. However these studies were taken over several years ago, relied on data from third parties (construction companies, consultants etc) and were limited to within the UK industry. In summary, the reality is that much of the accounting process relating to the cost of bidding is weak and any attempt at expressing bid costs as percentages is highly variable and needs to be assessed in the light of the individual bid and the companies' business objectives.

The author attempts to provide an insight into this commercially sensitive aspect of the bid process and give some specific simple guidelines which he hopes will become an aid for senior management of a global company to assist in the decision-making process when bidding for construction works and ultimately improve the success rate of the business through increasing its profit margin by carefully considering and controlling bid costs.

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