

Evaluating offers

Office of the Chief Advisor - Procurement

Evaluating offers
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The Office of the Chief Advisor – Procurement is committed to continuous improvement. If you have any suggestions about how we can improve this guide, or if you have any questions, contact us at betterprocurement@hpw.qld.gov.au.

Disclaimer

This document is intended as a guide only for the internal use and benefit of government agencies. It may not be relied on by any other party. It should be read in conjunction with the Queensland Procurement Policy, your agency’s procurement policies and procedures, and any other relevant documents.

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Purpose of this guide

This guide provides practical advice about evaluating offers. However, it must be remembered that the evaluation of offers is a complex and often technical activity.

How is this guide to be used?

This guide should be read in conjunction with the Queensland Procurement Policy and your department's procurement procedures. There may also be procurement related policies and/or international trade obligations that need to be taken into account.

What is evaluation?

Evaluation is a process that enables selection of the most appropriate offer. This involves consideration of the nature, value and significance of the goods or services being procured. Evaluation allows the selection of the offer that achieves the best performance for the money being spent.

Who should be involved?

An evaluation will typically involve input from at least the following groups of people:

- departmental/agency managers who normally exercise financial delegations and/or oversee the procurement process for probity and compliance with government policies
- procurement officers who need to work together with management, end-users and financial, legal and technical experts to achieve procurement results
- end-users who need to specify what is needed and work together with managers and purchasing officers to get what is required
- technical experts who understand and offer guidance on the technical requirements.

Characteristics of a good evaluation

Value for money

Value for money is an essential test against which offers must be evaluated. Price alone is rarely a reliable indicator of value for money, especially for more complex purchases. However, sometimes a decision on an easy to buy, low expenditure procurement can be made substantially on the price offered.

Value for money is not necessarily an evaluation criterion in itself, but is a basis for comparing offers so that the most cost effective offer is selected. Officers must exercise their professional judgment in selecting the offer which represents best value for money. Decisions may have to be made on the basis of incomplete information, or using subjective factors such as competence, skill, service or quality. Reasons for decisions must be documented.

The Queensland Procurement Policy includes three factors when assessing value for money:

- overall objective of the procurement, and outcome being sought
- cost-related factors including up-front price, whole-of-life costs and transaction costs associated with acquisition, use, holding, maintenance and disposal
- non-cost factors such as fitness for purpose, quality, delivery, service, and support.

Probity and fair dealing

Government procurement must be conducted with probity and accountability. Officers involved in procurement must be accountable for their actions and decisions on behalf of the Government. Generally speaking, officers should be particularly careful to avoid circumstances that either cause in reality or create the perception of:

- theft, fraud and corruption
- conflict of interest
- improper use of public money
- misapplication of public property
- waste and abuses of Government resources
- other actions which breach the public trust.

When dealing with the evaluation of offers, officers should not allow their conduct to raise any suspicion of a conflict between official duty and private interest. Dealings with suppliers should always be honest, fair and impartial. Officers must also ensure that the confidentiality of commercially sensitive material is maintained.

In addition, Government expects its offerors and suppliers to respect the obligations of officers by not offering financial or other inducements in order to gain an unfair advantage in dealings with the Government. Offerors and suppliers must abstain from collusive practices.

Accountability

The concept of accountability requires officers to be answerable for their decisions and actions. Officers should perform their duties with proper regard to relevant policies, department/agency guidelines and any other relevant directions that might apply to the procurement process.

Each step of the invitation to offer process must be adequately documented to ensure that accountability requirements have been met. Officers should therefore take steps to record all decisions taken during the procurement process.

For the evaluation of offers this information might include:

- decisions relating to the choice of selection criteria
- issues relating to conflict of interest for procurers and/or suppliers
- discussions with potential offerors prior to offers closing
- details of clarification of offers during evaluation
- reasons for any variations to an invitation to offer
- process followed in evaluating offers
- reasons for selecting a particular supplier
- the details of debriefing of unsuccessful offerors.

The offer evaluation plan

An offer evaluation plan is a useful internal planning and control document for the management and conduct of offer evaluation. It is not normally released to offerors.

The plan sets out responsibilities in the offer evaluation process, a timetable for the evaluation and details the processes that will be followed when evaluating offers. The plan should be developed at the

same time as the invitation documentation so that the guidelines for evaluation are consistent with the evaluation criterion specified in the invitation documentation. This is especially important if the department/agency wishes to avoid challenges to the offer process and to be operating with probity and accountability. The plan should not be changed after release of the invitation documentation.

There is no standard format for an offer evaluation plan. However, a typical plan would contain the following information:

- objectives of the procurement being undertaken
- a description of the requirement and the deliverables
- details of the administrative arrangements for handling the offer documentation to ensure integrity of the process and to manage communication with offerors during the evaluation stage
- listing of the evaluation criteria to be applied in evaluating offers received (these must be consistent with the criteria identified in the invitation documentation, especially with regard to which criteria are mandatory)
- details of officers to be involved in the offer evaluation including their major responsibilities (this section should also include details of any internal specialists to be consulted and any consultants to be contracted for the performance of the evaluation)
- an evaluation timetable showing the key evaluation activities and a timeframe for their completion
- details of the offer evaluation method to be used in screening, short-listing and selecting offers (procedures for offer clarification should also be stated and, if applicable, guidelines for site visits should be included in this section)
- details of financial and/or contractual approvals required to complete the procurement
- details of any progress reports which are required
- arrangements for providing feedback to unsuccessful offerors should also be outlined.

Hint

Under no circumstances should new or revised evaluation criteria be introduced during the evaluation of offers. Take the time to think carefully about how you plan to select the best offer and be sure to ask the suppliers to provide you with all the information that you might need to fully evaluate their offers.

The evaluation process

The approach to offer evaluation described in this guide is a general approach that can be applied to the procurement of virtually all goods and services that the Government may require. Some industries have additional processes that are traditionally applied in the evaluation of offers. For example, the construction industry often includes a pre-qualification stage. Such industry specific approaches are not discussed within this guide.

Screening

Once the invitation to offer has closed, all offers received are opened and registered. The offers are then checked for compliance. The aim of this step is to screen out offers which do not meet the conditions of offer and/or do not comply with one or more of the mandatory evaluation criteria. Offers which are not fully compliant must be examined immediately and may be excluded from any further consideration during the offer evaluation process. Therefore, it is important that this step is completed impartially, fairly and professionally.

Failure to comply with conditions of offer

Some examples which illustrate how an offer may fail to comply with the conditions of offer include:

- offer lodged after the advertised closing time without an acceptable reason
- offer documentation not signed when required
- incomplete offer, for example, certificates of insurance that were requested not provided, pages missing from the offer document, questions not answered, especially where these relate to meeting the conditions of offer including the mandatory criteria.

Hint

You may find it difficult to rule out an otherwise high quality offer because of a minor technical non-compliance. This is natural, especially when the offeror is well known in your department or agency as a quality provider. However, the principles of fair process and probity mean that you have very little choice. It is up to offerors to get their offers right, not for you to be making allowances for their failure to do so. There have been many examples of court cases where a procurer did not rule out an offer which was technically non-compliant and that offer was subsequently selected as the winning offer. Court cases such as this cost time, effort and money, damage relationships with suppliers and are embarrassing for the Government.

Failure to meet mandatory criteria

Offers should be checked carefully for their compliance with any mandatory criteria contained in the invitation to offer. Any offer not meeting the mandatory requirements is non-conforming and should not be considered further, regardless of how effectively it may address the desirable criteria. It is therefore extremely important to ensure that careful consideration is given before any criterion is made mandatory in the specification. If all offers received are non-conforming then the department/agency may enter into negotiation with the supplier whose offer represents the best value for money. In such an event it may be best to review the specification, change the scope or functional requirements and issue a new invitation to suppliers.

Hint

It is extremely undesirable to conduct an invitation to offer process in which no supplier can meet the mandatory qualifications. You should thoroughly understand the ability of the supply market to meet the requirements before issuing any offer documentation. You must also liaise closely with the end users of the goods or services being procured to ensure that qualities which are essential to the successful use of the goods or services are included as mandatory criteria.

Alternative offers

Sometimes suppliers may submit alternative offers. An alternative offer is one that proposes a means of satisfying the department's/agency's needs that differs in material respects from the specified goods or services. The main reasons for permitting alternative offers are to seek the most effective solution to a department's/agency's requirements and to encourage innovative proposals.

Where the invitation states that alternative offers are invited, such offers should be evaluated together with conforming offers. Where alternative offers are not invited, any offer that fails to meet mandatory requirements is non-conforming and should be eliminated from further consideration. Some departments/agencies further require that alternative offers may not be accepted unless a conforming offer is also submitted.

Short-listing

Short-listing may be omitted for less complex purchases. In these cases, the evaluation process moves directly from the screening stage to detailed evaluation of individual offers.

Where applicable, short-listing is used to eliminate offers that, whilst meeting the conditions of offer and the mandatory criteria, are clearly not competitive and which have no reasonable prospect of exhibiting value for money when compared to other offers. These offers are not rejected at this stage of the process, but are set aside from further evaluation unless it becomes necessary to revisit them again later during the evaluation process.

The main reason for short-listing is to ensure that only offers which demonstrate a reasonable likelihood of providing value for money are subjected to the full offer evaluation process. Evaluation of offers is an expensive and time consuming activity. Whenever an offer that is clearly not competitive is not fully evaluated, substantial savings in time and cost can be generated.

It is essential that the criteria used to short-list serious contenders be applied fairly and equitably to all offers. A proper audit trail should be maintained for all short-listing decisions.

Hint

The number of offers to be short-listed for full consideration usually depends on an assessment of such factors as:

- the complexity of the procurement
- the number of potential suppliers
- the number of offers received
- the resources allocated to the evaluation
- the time available for the evaluation
- probity and accountability.

Detailed evaluation of offers

This stage of the evaluation process involves detailed analysis of each offer, clause by clause, against the evaluation criteria. It is also usual to consider risk assessments and the past performance of the supplier at this stage.

Evaluation of offers should be conducted by applying only the evaluation criteria notified to offerors in the invitation documents and included in the offer evaluation plan. It is therefore extremely important to ensure that the information requested from suppliers at the time of seeking offers is sufficient to enable a detailed evaluation of offers to be made. In other words, the success of the evaluation rests on the proper specification of the requirements and on asking suppliers to provide useful information which assists in reaching a decision as to which is the best offer.

Hint

Details of past performance are usually obtained by requiring offerors to include references, job listings and other evidence of their track record with the offer response. If you intend to enquire into a supplier's past performance by contacting referees, customers, competitors or by using information provided by other officers who have had experience with the supplier, it is advisable to inform suppliers of this intention in the offer documentation. By doing so, you substantially reduce the risk that an offeror will be able to complain that the offer evaluation process was unfair.

Clarification of offers

Sometimes an offer is not completely clear in its meaning or is contradictory in certain respects. Such offers may be evaluated if they become clear following clarification with the offeror. Clarification should not, however, provide the offeror with an opportunity to revise their original offer, as this would effectively be the same as accepting an amendment to a closed offer. Any clarification sought from an offeror should be recorded in writing.

Warning

Take great care when seeking clarification. There is often a very fine line between gaining clarification of existing information and allowing an offeror to modify or add to the existing offer submission. If new information is accepted, even inadvertently, there is a good chance that the evaluation process may be invalid.

Comparative evaluation

The aim of this stage of the evaluation process is to select the offer that meets all requirements of the specification and offers the best value for money. Using the results obtained from the detailed evaluation of each offer, a comparative analysis of all offers is undertaken during this stage of the process. This allows selection of the preferred offer and the ranking of remaining potential suppliers. Comparative evaluation may involve the assessment of both quantitative and qualitative factors associated with the offer.

Offer evaluation report

After completion of the comparative evaluation, a detailed evaluation report is completed and presented to the appropriate delegate within the department/agency so that the selection of a supplier can be confirmed. There is no fixed format for this report, but departments/agencies may have a preferred format. Typical contents of an offer evaluation report would include:

- the executive summary
- the body of report and
- the associated papers.

Executive summary

This section provides an overview of the completed evaluation and makes a recommendation as to the selection of a supplier. It will usually summarise any critical issues relating to the evaluation and the rationale used to select the preferred supplier. The executive summary should also contain details of any consultation undertaken during the evaluation, the nature of any advice received and whether that advice was accepted or not.

Body of report

This part of the report should describe in detail the process of evaluation adopted and the evaluation method applied, including detail concerning offers that were screened or short-listed out of further assessment and information as to why such action was necessary. Some departments/agencies also like to include a summary of offers received, outlining the strengths and weaknesses of each offer and a brief description of the offer and the supplier's capacity.

It is usual to include copies of the individual evaluations completed for each offer against the selection criteria as well as the results of the comparative assessment of the offers. This part of the report should

also contain any other information related to the assessment of value for money, information about any contact with offerors (such as site visits or requests for clarification) and any other relevant matters. It should conclude with a justified ranking of offers received, and a supported recommendation as to a preferred supplier. If it is not possible to recommend a preferred supplier, the report should outline a way forward, such as negotiation with one or more suppliers, reissuing of offer documentation or a decision not to proceed.

Associated papers

This part of the report usually contains copies of the request documentation, copies of any amendments or clarifications issued, a copy of the endorsed offer evaluation plan and a detailed evaluation of each offer against the evaluation criteria.

Hint

Be aware that information contained in your offer evaluation report may become public should an offeror successfully apply under the *Right to Information Act 2009*.

Offer evaluation methods

Warning

Offer evaluation is a highly complex activity, with substantial legal and ethical implications. Officers performing offer evaluations should ensure that they are fully conversant with all applicable policy documents and relevant departmental/agency guidelines. Training in the application of offer evaluation methods is also highly recommended.

Least cost method

This is a fast and simple “first past the post” method of assessing offers which involves:

- determining which offers are fully compliant
- rejecting any offer as soon as it becomes apparent that it is not compliant
- choosing the lowest cost offer from the compliant responses.

On a cost benefit basis, this method may be appropriate for simple procurement. It is not well suited to more complex procurements as it gives inappropriate emphasis to cost at the expense of other aspects of value for money. It also does not allow for consideration of the relative importance of the various evaluation criteria (weighting of criteria) or the degree of compliance of the offer. It is a major risk to use the least cost method to evaluate more complex offers.

Numerical scoring method

Allocates a numerical rating to each offer response for each of the evaluation criteria in respect of the level of compliance of that offer response. For example:

- 5 = exceeds requirements
- 4 = meets requirements
- 3 = meets requirements except for minor aspects
- 2 = does not meet requirements but may be adaptable
- 1 = major non-compliance with requirements.

The scoring system shown above is an example only that can be adjusted to reflect the circumstances of the procurement. The number of points on the scale can also be changed, although it is usual to have an odd number of points on the scale.

This system allows for measurement of the degree of compliance with the various evaluation criteria to be considered in reaching a decision. It does not allow for weighting for the importance of the various criteria. It is effective for moderately complex procurements where all criteria are of roughly equal importance, especially when critical criteria have been made mandatory and used to screen out non-compliant offers.

The offer with the highest total score under this method is the one that should be preferred.

Matrix selection method (weighted scoring method)

The matrix selection (or weighted scoring) method is used when it is necessary to make a more complex evaluation based on a number of variables of differing importance. For each offer, this method combines a compliance rating with a weighting for the relative importance of each evaluation criterion. This method is very effective in dealing with more complicated requirements and can greatly assist in the selection of a preferred supplier when the total scores are widely distributed. However, problems can arise with this method when there is little difference between the total scores for different offerors, thus complicating the justification of a decision to prefer one supplier over the other. It is easily adapted to include consideration of risk and to provide additional differentiation of offers by calculating a value for money ratio also known as the cost effectiveness ratio. (See optional step 6 as follows for an explanation of those terms.)

Step 1 - Identify the criteria that will be compared.

Remember that only desirable criteria will be scored. Any offer which does not satisfy a mandatory criterion will not be evaluated any further. Essential or mandatory criteria are not weighted as they represent a “go/no go” decision - the offer either complies with the requirement and is accepted for further evaluation, or it does not comply and is rejected from any further consideration.

Step 2 - Assign a relative weighting to each desirable criterion, based on relative importance.

Weighting of the desirable criteria may be done probabilistically (quantifiably) or subjectively (by the use of professional judgement or a paired comparison approach). Weightings must be decided before the release of any invitations to offer and must be included in the offer evaluation plan.

Hint

The invitation to offer documents must be drafted with extreme care and forethought. The criteria for selection should be clearly stated and if necessary weighted according to the order of importance to the department/agency.

Under no circumstances should the criteria or weighting attached to each criterion be varied during the offer process (without informing all of the offerors). This will amount to a breach of an express or implied term of the conditions of offer that:

- the evaluation of the offers should be conducted fairly
- each of the offerors will be dealt with fairly.

Step 3 - Allocate a score to each proposal for each criterion.

Assess the extent to which the criteria are satisfied in each offer and assign a score reflecting this. A numerical scoring system similar to the one identified earlier in this guide may be used or some other systems devised for the purpose of the evaluation. Where possible, scoring should be based on

reference to established standards, quantifiable measures or an agreed rating framework to minimise the degree of subjectivity in the process. Reasons are usually listed for each numeric rating to indicate how the score was arrived at.

Step 4 - Calculate a weighted score for each proposal for each criterion.

Multiply the weighting factor by the score, to calculate a weighted score for each criterion, for each offer. The weighted scores for each offer can then be totalled, allowing for comparison between offers.

Step 5 – Weighted comparisons

Finally **all the offers are compared** with each other on the basis of the total value of the weighted scores. A rank order of preferred suppliers is generated with the highest score most preferred and so on.

Step 6 (optional)

The **value for money or cost-effectiveness ratio technique** adds an extra step to the analyses of the weighted scoring technique. This technique uses the following data:

- the total cost of the offer (cost dimension)
- the total of the points scored against the other criteria (effectiveness dimension).

A value for money or cost-effectiveness ratio for each offer is calculated by dividing the total cost of the offer by the total of points scored (excluding the points for cost). The offer with the lowest cost-effectiveness ratio is selected as the best value for money.

Hint

With its strong numerical focus, the matrix selection method of offer evaluation can appear very objective, when in fact it applies a veneer of objectivity to what are essentially subjective decisions about the proper weighting for each criterion and the proper score to be awarded to each offeror’s response.

Sensitivity analysis is a useful tool to apply to matrix selections in order to test the validity and robustness of the rankings achieved under different weighting and scoring regimes. If the results of a “test” evaluation, using different weightings and scorings, leads to the same ranking of suppliers, then one can be more confident of a justifiable selection decision.

WORKED EXAMPLE OF MATRIX SELECTION METHOD

Step 1 - Identify criteria

The criteria which have been identified for a purchase of community services are:

Mandatory	Desirable
<ul style="list-style-type: none"> • Complies with accreditation requirements • Financially viable • Uses only qualified staff 	<ul style="list-style-type: none"> • Extent of track record providing similar services • Industry reputation • Skill and experience of staff • Willingness to cooperate with other providers • Degree of innovation offered in this proposal • Extent of risk associated with this proposal

Step 2 - Assign weighting to each criterion

Criterion	Weighting
Track record	25%
Skills and experience of staff	25%
Industry reputation	20%
Extent of risk	15%
Degree of innovation	10%
Willingness to cooperate	5%

Step 3 - Rate offer responses using a scoring scale suitable for the procurement

Criterion	Weighting	Offer 1		Offer 2		Offer 3	
		SCORE	Weighted score	SCORE	Weighted score	SCORE	Weighted score
Track record	25%	2		5		3	
Skills and experience of staff	25%	3		4		3	
Industry reputation	20%	3		3		3	
Extent of risk	15%	2		2		2	
Degree of innovation	10%	5		3		3	
Willingness to cooperate	5%	4		4		3	

Step 4 - Calculate weighted scores by multiplying the weighting factor by the rating for each proposal for each criterion

Criterion	Weighting	Offer 1		Offer 2		Offer 3	
		SCORE	Weighted score	SCORE	Weighted score	SCORE	Weighted score
Track record	25%	2	50	5	125	3	75

Skills and experience of staff	25%	3	75	4	100	3	75
Industry reputation	20%	3	60	3	60	3	60
Extent of risk	15%	2	30	2	30	2	30
Degree of innovation	10%	5	50	3	30	3	30
Willingness to cooperate	5%	4	20	4	20	3	15
Totals	100%		285		365		285

Step 5 - In this example, Offer 2 has scored a substantial margin higher than the other offers, thereby making it the preferred option.

Offers 1 and 3 are next, equally preferred. If there was little difference between the scores of the first preferred offer and the next highest offer, it would be prudent to do some sensitivity analysis to ensure that the selection of preferred supplier is justifiable.