

Three Bids and a Buy: Moving away from vendor loyalty and towards competition

(Informal Purchasing Process)

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What is Competition?

Competition is a key principle in procurement.

Competition is often associated with a company who is competing;

- > with at least one other company
- > over the same group of customers

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What are 5 characteristics of perfect competition

1. Large number of buyers and sellers in the market
2. Identical/Substitutable products
3. Acting independently of others
4. Well informed consumers
5. Ease of entry into market

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What is Competitive Procurement?

Competitive procurement is a process that ensures:

- > Taxpayers' funds are used properly, and
- > the school is receiving the best and most responsive product at the lowest possible price.

Competitive procurement is sometimes referred to as "Full and Open Competition"

- > This is an important term when discussing procurement
- > We will be discussing it in more detail on the next slide

Ethics dictates that competitive procurement will be conducted with:

- integrity
- fairness
- openness

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What is meant by the term "full and open competition"

"Full and open competition" means that all suppliers:

- > are "playing on a level playing field," and
- > have the same opportunity to compete.

An important principle to competitive procurement is "full and open competition".

- > Competition is the goal of all Federal procurement requirements
- > Competition leads to the purchase of higher-quality goods and services at the lowest possible price.
- > All Federal procurement requirements exist to achieve this goal by fostering a competitive procurement environment.

Procurement procedures must not:

- unduly restrict competition, or
- eliminate competition.

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How to apply competition to an informal purchasing process?

The concept is called "Three Bids and a Buy"

- Moving away from vendor loyalty and towards competition
- This concept is used for informal bids
- We will discuss what an informal bid is in the next few slides.

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When to use the "three bids and a buy" concept?

Start by asking yourself this question;

"Is the cost for the purchase less than \$100,000?"

- > If yes, then you can use an informal purchasing process or three bids and a buy.
- > If no, then you will need to be use a formal purchasing process.

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What is the difference between "Informal Purchasing" and "Formal Purchasing"

Informal Purchasing

Informal purchasing can be used for purchases costing less than \$100,000

The informal procurement method uses relatively simple and informal practices to buy goods and services that cost less than the small purchase threshold of \$100,000.

Informal purchases are conducted using procedures that are not as rigorous as formal procedures, but still provide competition!

Formal Purchasing

Formal purchasing must be used for purchases costing \$100,000 or more...

The formal procurement method uses a procurement process known as competitive proposals.

There are two types of competitive proposals

- Request for Proposal (RFP).
- Invitation for Bid (IFB).

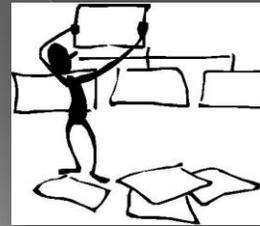
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How to apply the three bids and a buy concept to informal procurement:

1. Write down product specifications
2. Contact prospective vendors of your intent to purchase products
3. Provide them with the product specifications
4. Obtain price quotes from at least three vendors
5. Document the procurement process in a purchase log.
6. Award the bid to the most responsive bidder with the lowest price.
7. Monitor invoices and products to insure that bid is being honored

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Let's take a closer look at some of the steps in applying the three bids and a buy concept



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Write down specifications

Specifications need to be documented in writing!

For example:

- > **Product Name:** Raisins
- > **Product specifications:** Dehydrated, regular moisture Thompson seedless, individual packages of 1.3 ounces, U.S. Grade A, small (1/4 cup serving).
- > **Packaging:** 50 individual packages per case
- > **Quantity:** 500 cases

The goal with product specifications is to be;

- > **specific enough** for vendor to provide exactly the product needed by the school
- > **but not so specific** as to limit the number of vendors that can provide the specified product.

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What to document during the bidding process?

- > Vendor Name
- > Contact Method:
 - Phone,
 - Fax,
 - Mail,
 - Email, or
 - In Person
- > Who provided the price quote
- > The price quoted
- > Date price quote was obtained
- > Duration price quote; the duration of the price or rate quote (i.e., how long the vendor is willing to sell at this price or rate).

Make a list of what you need to document before contacting vendors. By making a list first, you will be more consistent with your communications to vendors.

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Duration of price quote and pricing

When obtaining your bid quotes from bidders, keep in mind that for certain products, it is more cost effective to tie pricing to an index.

- This lowers the risk placed on the bidder.
- Which in turn lowers costs and thereby allowing bidders to provide lower bids quotes.

With this type of awarded contract,

- the initial fixed price is for the longest period possible, and
- price changes are based on measurable standards or indices.

Milk contracts provide a good example of this type of contract.

- A milk contract is a fixed-price contract with adjustments based on independent market information on a set or predetermined schedule.
- The contract award is made for a set price.
- Each month, the go forward price for milk is adjusted up or down based on the appropriate Federal milk market index.

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Soliciting bids from vendors

- **Make a list of vendors.**
- **When soliciting bids from vendors:**
 - Provide them with product specifications, packaging, quantity and ordering frequency if applicable.
 - Provide the vendor with any other information needed to properly respond to your bid.
 - Ask for how long the quoted price will be honored
- **When contacting vendors:**
 - Limit the amount of information provided to the vendor to the specifications you have written.
 - Never provide one vendor's pricing to another vendor.

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Purchasing Notes

- **Purchasing notes are not always required but they are useful for future purchasing**
- **Document any relevant information**
 - A bidder was disqualified and reasons
 - Bidder limitations on pickups and/or deliveries
 - Bidder products and services for future orders.
 - Notes help with future procurement.

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Selecting a winning bidder

- **Once a sufficient number of bids have been obtained, at least three, it is time to select a responsive bidder with the lowest quoted price.**
- **Vendor Selection options:**
 - Award all items to one bidder (lowest total price)
 - Award bid based on line item pricing to multiple bidders (lowest item price)

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Monitor invoices to insure that bid price and product bid is being honored

- **Monitoring invoices and product quantity and quality on a consistent basis**
- **Sign off on purchases only after they have been fully inspected**
 - Product not matching specifications provided in bid should be returned or exchanged.
 - Note returns or exchanges for future vendor evaluation
- **Audit invoices and confirm that prices match what was quoted during the purchasing process.**
 - Variances should be corrected.
 - Note variances for future vendor evaluation

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Templates for bidding

- **The following templates are only suggestions**
- **Each school should develop its own template that reflect it's procurement policy.**

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Three Bids and a Buy:

Vendor Name:											
Items to be Purchased: • Product specifications • Delivery Frequency (if applicable) • Packaging	Quantity Expected to Buy	Unit Price	Extended Price (Quantity x Unit Price)	*VS (Y/N)	Unit Price	Extended Price (Quantity x Unit Price)	*VS (Y/N)	Unit Price	Extended Price (Quantity x Unit Price)	*VS (Y/N)	Unit Price
1.											
2.											
3.											
4.											
5.											
6.											
7.											
8.											
TOTAL			\$		\$			\$			

*Vendor selected (VS)
Method of contact: Phone, Fax, Email or in person:
Name of person quoting pricing:
Duration quoted pricing is good for:
Date contacted:
Additional notes:
Signature of person completing this form: _____ Date: _____

* Vendor Selected (VS); you can award all items to one bidder (lowest total price) or you can award bid on a line item basis (lowest item price).

Request for Pricing

(Purchasing Request for bids under \$100,000.00)

Purchaser Information
School Name: _____
Contact Person: _____
Phone Number: _____
Fax Number: _____
Address: _____
Email Address: _____

Product Information:
Product Name: _____
Product specifications: _____
Delivery Frequency (if applicable): _____
Packaging: _____
Quantity: _____

Vendor/Bidder Information:
Company Name: _____
Phone Number: (____) _____
Address: _____
Name of person quoting price: _____
Duration quoted pricing is good for: _____
Signature of authorized person to quote pricing: _____
X _____ Date: _____

Price Quote:
Quantity: _____
Unit Price: _____
Extended Price (Quantity x Unit Price): _____

Responding to Price Quote
Please fax/email/mail price quote back to _____ (Contact name)
Facsimile/mail: _____
Return price quote by _____ / _____ / 20____ (Due Date)
Price quotes after due date above will be ineligible for consideration.

Conclusion:

- **Three Bids and a Buy:**
Moving away from vendor loyalty and towards competition (Informal Purchasing Process)
- This is a great tool for purchasing but the key to it's success is for the purchaser to remain unbiased during the purchasing process.
- Remember its all about competition!
- Purchasing doesn't have to be complicated but it does need to be documented and fair!

Questions?



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