

# CONTRACT PROCEDURES MANUAL (SM021) PART A – APPENDIX XXV

## Price quality method guidelines

### Introduction

Price quality method (PQM) is a formula-based evaluation. It distinguishes the difference in quality between tenderers by translating the non-price attribute grades to a Supplier quality premium (SQP). The SQP is defined in the Terminology section of SM021.

PQM is available for use in both PW and PS contracts. The same steps and guidelines apply for both contract types. The price weighting is limited as follows:

- PW price weights of 50% - 70% are permitted
- PS price weights of 2% - 30% are permitted.

### Pre-tender preparations

Prior to issuing the RFT, the project manager should investigate and assign weightings to the non-price attributes and the price. Once these and the estimate have been established, the SQP that will be obtained for a specific grade margin must be analysed for sensitivity. For example, if the non-price attribute grade margin between two tenders is 10% and this results in a SQP of \$10,000. Does this represent the additional amount that the client is willing to pay to secure such a tender? Care should be taken to ensure this sensitivity is understood and is appropriate, particularly where a very high weighting is placed on the non-price attributes.

Dependent on the size and complexity of the contract, the tendering authority may wish to associate this SQP with an analysis of the risks. Where the SQP determined is too high/ low, the non-price and price weightings should be revised to ensure a suitable SQP will be obtained. The non-price and price weightings may not be altered after the close of tenders.

### Pre-tender preparations

For PQM, the base estimate must be included in the RFT to add transparency to the evaluation process. Tenderers should be encouraged to comment on the accuracy of the base estimate through the contracts-nominated probity auditor. The evaluation estimate used in the calculation shall not include amounts fixed by the tendering authority (eg provisional sums).

### SQP sanity check

Under PQM a 'sanity check' must be completed on the calculated SQPs and ATPs before the opening of the price envelope. The TET must satisfy itself that the relevant differences between tenderer's SQPs are realistic and represent the difference in price that the tendering authority is prepared to pay. If the TET is not satisfied with the SQP as calculated, they may replace the SQP with an adjusted figure *but must* clearly record all changes and provide justification for each change. Such adjustments should be used to refine the SQP determined through the non-price attribute assessment.

The SQP and ATP may not be altered once the price envelope is opened. After deducting the SQP and ATP values from the submitted tender prices, the supplier with the lowest adjusted evaluation price is the preferred supplier.

## ATPS

Each alternative tender is to be separately evaluated and an ATP determined for each. ATP is defined as ‘the difference in price that the tendering authority is prepared to pay for the product offered by an alternative tender compared to the minimum standard product specified in the RFT.

### Tangible Cost Adjustments (TCA)

TCAs only apply to design-construct and competitive alliance tender evaluations. The TCA is about comparing the quality of the product, and in particular aspects of the product proposed by each tenderer, on a like for like basis to ensure the competition is fair. Where provided for in the RFT, specific prescribed TCAs are calculated in relation to the individual tenderer’s proposals and added to or subtracted from the price as applicable. Where improved quality or risk management is offered, a TCA is calculated to deduct (or add for lower quality / poorer risk management) from the prices. In calculating a TCA particular attention is to be applied to differences in whole of life costs. Net present value methodology is to be used in determining a TCA.

### Example calculation using PQM

For a PW contract with a Base estimate (minus provisional sums) of \$100,000.00.

Weighting	Non-price attribute	Tender A	Alternative A	Tender B	Tender C
10%	Relevant experience	90	90	80	70
5%	Relevant skills	90	90	80	70
15%	Methodology	90	95	80	70
<b>NPA weighted sum</b>		27.00	27.75	24.00	21.00
70%	Price				
<b>Non-price attribute weighted sum margin *</b>		6.00	6.75	3.00	0.00
<b>Supplier quality premium</b>		\$8,571.43 **	\$9,642.86	\$4,285.71	\$0.00
<b>ATP</b>		\$0.00	\$5,000.00	\$0.00	\$0.00
<b>SQP + ATP</b>		\$8,571.43	\$14,642.86	\$4,285.71	\$0.00
<b>Tender price ***</b>		\$90,000.00	\$97,000.00	\$92,000.00	\$87,000.00
<b>Adjusted evaluation price</b>		\$81,428.57	\$82,375.14	\$87,714.29	\$87,000.00

\* Weighted sum margin = deduct the lowest non-price attribute weighted sum from each of the non-price attributed weighted sums

\*\* For example, tender A SQP = Evaluation estimate x (weighted sum margin / price weight)  
 = 100,000.00 x (6.00 / 70)  
 = \$8,571.43

\*\*\* Remove any amount fixed by the tendering authority from the submitted tender prices

**Tender A (circled above) has the lowest adjusted evaluation price and is therefore the preferred tenderer.** Note that the ATP and SQP remain final once the price envelope has been opened. Adjustments to ATP, SQP and TCA (if included) are not permitted once the price envelopes are opened. The detailed ATP (and TCA if included) evaluations and calculations must be separately documented.

**Alternative tenders are evaluated in the same way as that shown in the example calculation.**