

Two-stage tendering

Competitive tendering is the most common form of the contractor selection. The value and cost are the priorities of clients. If customers prefer the lump sum quote from the contractor, the one-stage tendering is the best option. However, if the project start time plays a role, often two-stage tendering is chosen.

Two-stage tendering is used to secure the contract before full documentation is presented for tender. It allows for the early part appointment of a contractor so that works can begin and the fixed

price is negotiated in the second stage when all information is available.

Often the employer's requirements are not sufficiently prepared to estimate the fixed price for the whole spectrum of works but are enough to start some of them. To commence the project, it is necessary to sign the initial contract agreement. At stage one several contractors price the particular project phases, typically based on an outline design and works schedule. Preliminaries, overheads and profit, are included. In this case, the selected contractor will provide a schedule of rates on which the second stage will be that can be used to establish the construction price for the second stage tender. It allows for checking the market prices and appoint the pre-construction specialists. The preferred contractor proceeds with the second stage, and a lump sum price is being agreed after negotiation.

First stage appointment of the contractor might be in the form of pre-construction service agreement (PCSA) with an appendix stating all works position applied under the contract. The clause might be included stating that if the contractor or employer does not proceed with the construction contract, only the pre-construction fee will apply and in such circumstances it will be the final settlement of the contractor's costs.

Pre-Construction Services Agreements (PCSAs), also known as Pre-Contract Services Agreements allows appointing the contractor before the main construction contract commences. In most cases PCSAs are part of a two-stage tender process and allow contractor to get involved in project design, selection of sub-contractors or specialist contractors, development of the construction programme, obtaining prices from suppliers, preparation of





site layout. They can also be used to obtain pre-construction services by specialists. The JCT publishes two standard forms of PCSA, one for general contractors and one for specialists.

An example often encountered by small and medium-sized contractors are the demolition works which can be agreed in the first-stage contract to start works, while the specification is still being prepared in more details. The contractor is obliged to finish works included only in the first-stage contract. It is in the client's interest to include as much works as possible in the first phase and to ensure that there are some alternatives if negotiations regarding second-stage with the preferred contractor fails.

Two-stage tendering enables the client to trans-

fer some risk to the contractor, as there are not enough information to price the project properly at the first-stage. On the other side, the contractor does not have to worry that much about the competition. The contractor also has the opportunity to ensure that their costs and profitability are secured at the first-stage and still can negotiate allowances during the second stage.

Often the prices of the two-stage tendering are higher at the beginning, but there are fewer variations and claims on the way. However, the contractor may seek to include variations, change the lump sum for preliminaries or extend the completion dates which might have been agreed before PCSA was signed. Clients should secure themselves in

case the negotiations with the primary contractor will break down.

The first-stage contract can be considered if there are:

- a pre-construction and construction works schedule
- method statements
- preliminaries
- agreed overheads and profit
- schedule of rates applicable to the second-stage contract
- all applicable fees agreed
- tenders for parts of the contract
- agreed contract conditions applicable to the second-stage contract

Two-stage tendering	
Advantages	Disadvantages
Speed up the project's completion date, encourage better relationship between client and contractor	Used to mask design and specifications inadequacy
Enables to continue the development of the design during the second stage with help of the main contractor and specialist subcontractors	Encourage client to start tendering before all documentation is ready
Minimise competition. Improve cost certainty and reduce cost risk to employer.	Add costs of pre-construction fees
Better risk management- earlier identification of project risks	Contractors may leverage their costs at the second-part of the contract
Client has no contractual commitment beyond the PCSA prior to the completion of stage two.	Contractor can decide not to proceed with the second-stage of project
Ability to procure some project phases ahead of first-stage tender – to be incorporated into second stage via novation.	Allocation of work may be by the contractor's allocation of risk rather than by the client's interests
Better informed contractors price project more accurately. Contractors can influence the design and offer the solutions or technologies	Reduced transparency- possibility to transfer costs of main contractor allowances for preliminaries and design development risk to second-stage works