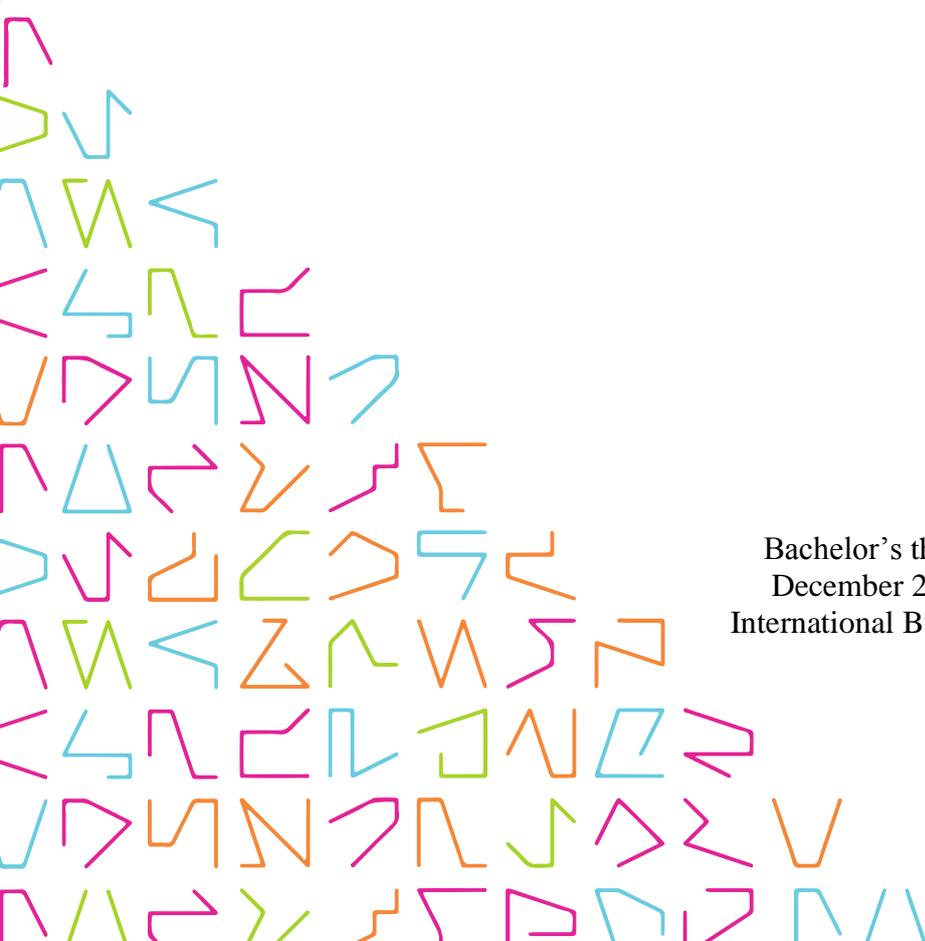


RISK MANAGEMENT WHEN TAKING PART IN BIDDING PROCESSES

Conducted for the example company
Süderelbe Logistik GmbH

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Bachelor's thesis
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International Business

ABSTRACT

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Risk Management when taking part in Bidding Processes

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This thesis was written in collaboration with and for the logistic company Süderelbe Logistik GmbH, based in Hamburg, Germany. The main goal was to find out which risks occur during bidding processes and to find solutions on how to actively manage those. It was done by doing secondary research on bidding processes, risks and risk management as well as on research methods. After this, the author did primary research through face to face interviews with the responsible employee for bidding processes in order to get a deep insight into the process and the risks related to it. The outcomes were summarized and new thoughts for improvement were suggested.

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ABBREVIATIONS AND TERMS

TAMK Tampere University of Applied Sciences
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RFQ Request for Quotation

1 INTRODUCTION

This paper was designed to support the management of Süderelbe Logistik GmbH when taking part in Bidding Processes in order to gain new contract partners or to keep existing customers. Herefore the author of this thesis was employed as a trainee in the company for three months, took part in bidding processes, researched theoretically about the subject and conducted interviews.

In order to find out the most relevant information this thesis focuses on the following main guiding questions. What are the risks when taking part in a bidding process? At which stage of the process do these risks occur? Why do they occur? How does the company deal with challenges and risks in biddings at the moment? How can risks be minimized or eliminated?

In order to be able to answer those questions in this thesis it the author first starts to use books and articles to theoretically research through secondary analysis what is already known about this topic. In the beginning the author gives insight on the topics „Risk“ and „Risk Management“, followed by applying the gathered knowledge to the company for which this thesis is designed.

To be able to answer the questions which are related to the company Süderelbe GmbH, especially focusing on the risks during the bidding processes, the author conducted interviews with the management department of the company. Here the author only focused on those employees that take part in bidding processes and work related to them.

2 COMPANY

Süderelbe Logistik GmbH is a company located in Hamburg, Germany which focuses on warehouse logistics. It was founded 1936 and has about 200 employees and 300 part-time employees. It operates in two locations. The main branch has five warehouses of 26.000m² on an area of 45.000m². It has space to store 35.000 pallets. About five kilometers from the main branch is the second one which consists of only one warehouse the size of 27.000m² in which 50.000 pallets can be stored. The area size is 39.000m².

Süderelbe Logistik GmbH, Unisped Logistik GmbH and CM Eurologistik GmbH together form the enterprise group Mackprang

In 2012 Trans Service Team whose headquarters are located in Worms, Germany, bought the company.

In order to offer daily distribution to any place in the world Süderelbe works together with renomated contract partner companies so that the products get transported adequately and on time.

The modern warehouses are IT-controlled. Products can be stored in pallet shelves, drive-in racks, flow racks or in a 30m high fully automated high-rack. The flow of information and material are highly transparent and controlled so the customer can always trace the products.

The system of storing is „First in first out“ meaning that the products are stored in such a way that those arriving at the warehouse first leave the warehouse first. Through this the minimum shelf life is controlled. In the warehouse the products can be commissioned if needed to save time and transportation cost.

Each pallet has a unique PIN number so that when the product arrives it is scanned, as well as when it leaves the warehouse. In addition there is a constant stock control so that no items go missing and damaged goods are recorded instantly.

3 REQUEST FOR QUOTATION

When a company needs a new supplier for products or services they often use the request for quotation. This is a commonly used tool to find the supplier or company which fits the needs of the company and offers the best services at the fairest price.

Requests for quotations are usually public so that anybody can take part in them and can make an offer. These requests are written when a new service is needed or in order to find a supplier that offers an already existing service at a better price. They are published in various media like newspapers, journals and online.

They usually consist of a pre qualification round, in which the basic capabilities of the suppliers are checked, followed by another or more rounds to gain a detailed insight and specific facts about the applying company. Companies taking part in those biddings are called tenders.

It is common that companies first check what the tenders have to offer before they start comparing the prices. This is important as some may already include value added services to their costs. If the requesting company only pays attention to the price they may lose the option of getting a better service for a lower price.

This is made easier if the call for bids is as detailed as it only can be so that the different tenders offer prices for the exact same services.

4 RISK

4.1 Definition

„A probability or threat of damage, injury, liability, loss, or any other negative occurrence that is caused by external or internal vulnerabilities, and that may be avoided through preemptive action.“ (Business Diary, 2016)

It is not completely determined if Risk is only defined by negative outcomes or if it can also be a positive, unexpected happening, like it is mentioned in different sources. The focus in this thesis lies on the negative outcome like it is also the case in most definitions in literature (Charette, 1989; Boehm, 1991; Fishburn, 1984).

4.2 Risk

In most companies, same at Süderelbe GmbH, the risk is to lose money. This means not being able to cover the costs for a longer period.

In his book „Risk“ Adams defined risk as the following. „Risk is defined, by most of those who seek to measure it, as the product of the probability and utility of some future event.“ (Adams, 1995, page 30).

He also states that different persons do not see the same risks in the same events. People are guided subjectively and judge differently on their own nature. If an optimist is thinking about risks he is imagining less risks than a pessimist. People behave according to the risks they can imagine. If a person cannot think of a risk he cannot behave according to the outcome of the risk (Adams, 1995). In his book Andreas Krause writes „Usually, we talk about „risk“ when we have to make decisions or choices between different alternatives with uncertain future consequences.“ (Krause, 2006 page 706). Whenever one alternative is chosen over the other there are certain consequences. Some of them are known to occur for sure and some are uncertain. Krause states that „In many cases, we have some information about the probabilities of future consequences.“ (Krause, 2006). It is the job of the company to find out how probable those

consequences are. This can be done by getting information about the subject from prior work done by the company or statistics of other companies that have worked on this topic before.

Through those records of the past the so called „pure risks“ can be found out. These types of risks are more detailed and known but since they are so hard to find they are also very rare.

„A decision made under risk is one in which the decision-maker considers various feasible outcomes for each alternative, each with a given frequency of occurrence. This distinguishes risk from uncertainty where the decision-maker does not know, or cannot estimate, the frequency of occurrence and the possible impact. (Turban, Aronson et al., 2001)“ (Van Grinsven, 2009, page 1). „Decision makers usually try to avoid making decisions under uncertainty as much as possible; rather they try to acquire more information so that the problem can be treated under certainty or risk. (Lyytinen, Mathiassen et al., 1998).“ (Van Grinsven, 2009).

„Our behaviour is guided by our anticipations.“ (Adams, 1995). Since different personalities have differing personal anticipations each person might behave differently in the same situation. That is why in companies should always be more than one person working on risk management. The future is uncertain and looks different in anybody's mind, so each individual thinks of a certain scenario that could happen and acts according to it. The risk thermostat by John Adams shows very well how different experiences change one's propensity to take risks (Figure 1). Accidents that occur and events that go well and lead to rewarding results balance the behavior.

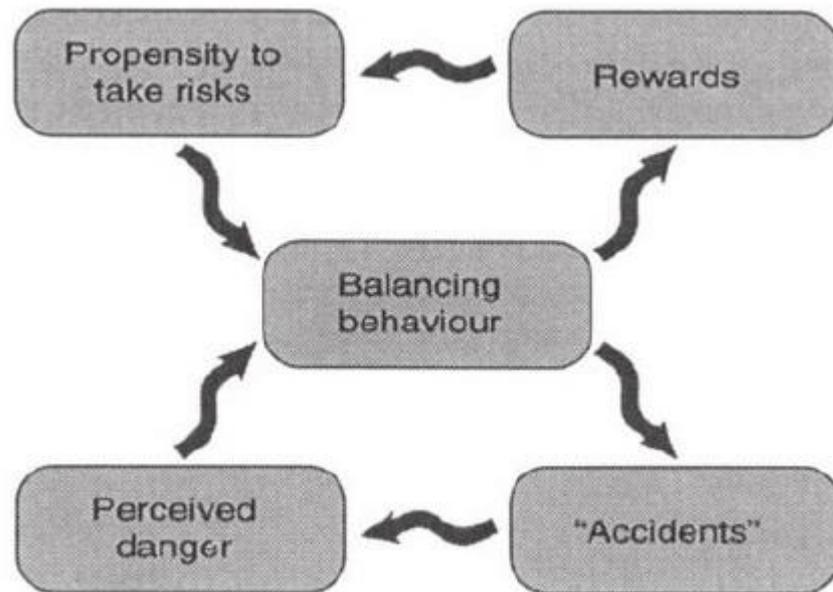


FIGURE 1. The risk thermostat (Adams, 1995)

What one does not anticipate cannot be behaved according to. Therefore only those risks can be acted against that the one responsible can think of. Risks can never be known for sure but it must be acted in a way as if we would know the risks and their consequences.

There are different types of risks depending on different backgrounds. They are mentioned by Krause (2006) in his book in the following way. „Depending on the key aspects of the various consequences, we distinguish between economic, environmental, technical, political, social and other risks. From the business point of view, distinctions can also be drawn between the following risks: strategic risks, i.e. developments that endanger the existing corporate strategy; financial risks; operational risks; commercial risks such as the loss or defection of suppliers, clients or managers; IT risks concerning the security and functionality of hardware and software; and technical risks, like the destruction of a company's physical infrastructure by fire, explosion, flood, etc. Companies are also concerned about environmental risks (e.g. acts by environmental activists), human capital risks (e.g. „erosion“ of employee motivation, direct and indirect costs of replacing senior executives), and political risks (e.g. expropriations, military conflicts).“

Borghans, Golsteyn, Heckman and Meijers (2009, Page 3) researched that women are more risk averse than men.

5 RISK MANAGEMENT

5.1 Definition

The identification, analysis, assessment, control, and avoidance, minimization, or elimination of unacceptable risks. An organization may use risk assumption, risk avoidance, risk retention, risk transfer, or any other strategy (or combination of strategies) in proper management of future events. (Business Dictionary, 2016)

5.2 Risk Management

Risk management is done in order to prevent damages to the company, for example in the form of losing money. The process of risk management takes time and resources so the company has to figure out how much they want to invest into risk management. Therefore it is important to find a balance between risk management costs and damage costs.

In order to manage risks the first and most important step is to recognize the risks in a certain situation. This is followed by analyzing, judging, watching and controlling them. Risk management is done in every company and is usually executed by the management of the company. When risks are found it is important to communicate those inside and occasionally outside the company, with for example suppliers or partner companies. Tools for prevention need to be made accessible so that the employees of the company can work against those risks.

The risk management process also differs depending on the individual's attitude towards risk managing. People who are risk averse are more cautious and are scared to take steps which lead to losses or failure.

The complete opposite of this are those kinds of persons which are not scared to take risks and see the positive side in them. They see risks as a challenge and as a way to gain new opportunities.

In between the previously mentioned examples there are the neutral individuals which are none of the above. They do neither try to avoid risks nor do they seek them.

In advance of the risk management process it should be decided which way one wants to deal with the risks, which risks should be avoided, which risks are tolerable and

which risks should be managed. The steps in the risk management process can be illustrated clearly (Figure 2).



FIGURE 2. Risk Management Process Images (ssrma.org, 2015)

5.2.1 Identifying the Risk

The first step in risk management is to identify the risk. It is the most important step and needs to be done to start the risk management process. A risk cannot be managed if it is not identified first. There are different methods that can be used. Information can be

gathered by for example brainstorming, interviewing and expert judgement. Another way of identifying the risks can be done by analysing, for example through SWOT analysis or scenario planning (Figure 3). The goal of this first phase is to have a list of clearly described risks. Everybody who is involved in the project should take part in this first step.

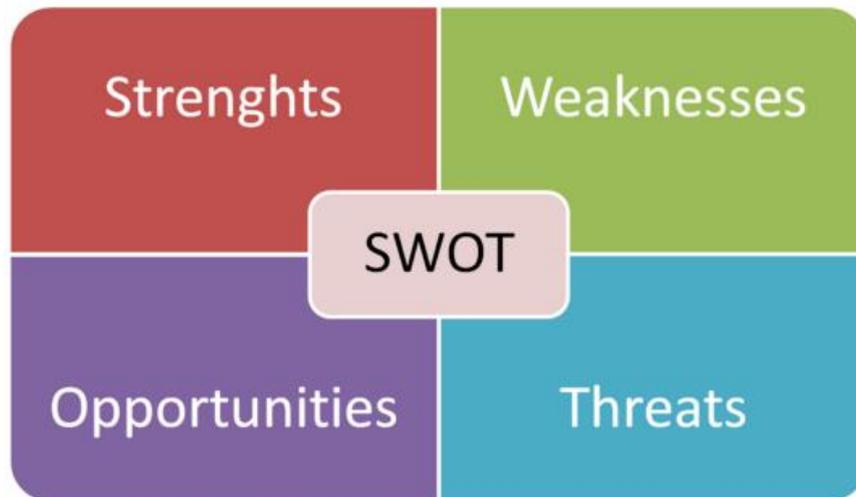


FIGURE 3: SWOT Analysis (research-methodology.net, 2016)

5.2.2 Assessing and Analyzing the Risk

The next step in risk management is assessing and analyzing the risk. It can also be already done parallelly to the risk identification.

Analyzing a found risk is done so that the analyzer can see how small or big of a risk it is, what kind of a risk it is and which parts of the company it would affect. This is done by monitoring the impact and consequences caused by that risk.

5.2.3 Prioritizing Risks

As risk management takes a lot of effort it may not be possible to manage all of the risks that have been identified. In order to not waste time and effort on risks which may have a small impact on the outcome it is important to prioritize the found risks. Into the risks which are most prioritized in this phase will be put the most effort after this. One method for finding the most important risk into which the most effort should be put is the risk matrix which opposes probability and severity (Figure 4). The risk that is most likely to happen and has the most harmful outcome should be prioritized as it is not acceptable to happen at all. On the opposite, risks that are highly unlikely and have no impact do not need to be controlled as they are acceptable to happen.

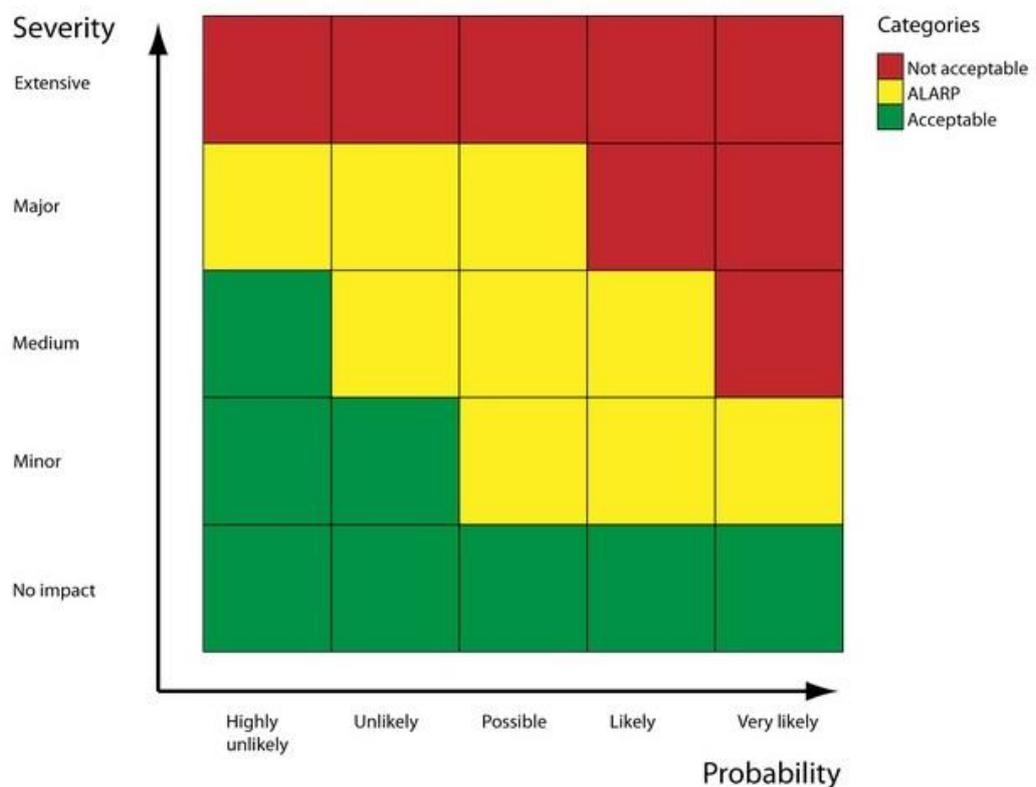


FIGURE 4: Risk Matrix (CGE, 2016)

5.2.4 Planning Action

When this is done the next steps need to be planned. The management needs to figure out in which way they want to continue operating. Do they want to face the risk and the

results of it or do they want to avoid it? Possible scenarios need to be weighed against each other so the management needs to find out which would be the best for the company and would bring the fewest losses.

5.2.5 Implementation

When the plan is made it has to be implemented. In this step it is important to inform all the included employees of the changes or the actions that need to be performed. Tools needed for implementation should be provided by the management.

5.2.6 Measuring, Monitoring & Controlling

Risks need to be constantly measured, monitored and controlled as they may change at any time of the process. The outcome of this might lead to another risk which has not been thought of before. Employees should be qualified to eliminate risks. „The problems of measuring risks are akin to those of physical measurement in a world where everything is moving at the speed of light, where the act of measurement alters that which is being measured, and where there are as many frames of reference as there are observers.“ (Adams, 1995). This quote shows how hard it is to measure risks and that it is close to impossible to get an exact outcome. Even though the outcome is usually not exact it still is important because the information leads in a certain direction.

6 RESEARCH

There are several different ways to gain information through research. The researcher can choose between secondary and primary analysis.

When doing secondary analysis the researcher searches for information that has already been gathered before and analyses it, for example when others have done research on the same topic already. The information is often found in books, newspapers, research papers and online.

When collecting own data, for example on a topic that has not been researched before, it is distinguished between qualitative and quantitative research.

Qualitative research is mainly done to get more information and details on something that is already expected. A deeper insight into a problem or an idea can be gained through it. When doing qualitative research usually unstructured or semi-structured techniques are used. Qualitative research can be done through interviews, individual interviews or group discussions. Since it takes a lot of effort to evaluate the information given the sample size is usually very small. That is why it should be considered very well in advance with whom to do the qualitative research. It is important that quantitative research is valid and reliable. To ensure this, it is important to examine the trustworthiness of the ones being asked. (Golafshani, 2013, page 601) In addition the researcher should not be biased. When doing interviews the sample should be truly representative and know enough information on the topic being researched.

Quantitative research gathers numerical data which can be put into tables or statistics to find a trend or a major opinion. It is used to get a large number of attitudes, behaviors or opinions. Methods used to gather the data are surveys like online surveys or phone surveys. Often there are already given answers from which the participant can choose. Quantitative research can also be done through face to face interviews or observations even though those are a bit more time consuming.

The author of this thesis conducted primary research because the topic has not been researched at Süderelbe Logistik GmbH before and there is no prior material available. Quantitative research would have not made sense considering the research topic as there were not enough people available that are involved in the process. That is why the thesis writer chose qualitative research in form of an individual interview.

7 INTERVIEW

When conducting the interview the interviewer chose to ask only open questions in order to get as much information as possible from the interviewee. She did not want to offer answer possibilities in order to not bias the answers or the trail of thought of the employee as she thought that was the most suited way considering the topic discussed. In order to have a proper conversation instead of just asking questions the interviewer conducted a semi-structured interview.

The interviewpartner was Dirk Baumann, the Business Development manager of Süderelbe Logistik GmbH. He was chosen because he is the only employee that works on each of the bidding processes in the company. The goal of the interview was to gain as much knowledge as possible about taking part in bidding processes and the accompanying risks.

Dirk Baumann works at Süderelbe Logistics for longer than one decade. He is responsible for taking part in bidding processes since many years already.

Depending on their own strategic orientation, the management of Süderelbe Logistik GmbH decides at which Request for Quotation they take part in as not every RFQ is interesting for the company's development. They hereby focus on the fact if the RFQ is relevant for the company, if they are capable of doing the tasks requested and if it is part of the area the company works in. Even if the RFQ is part of a sector in which Süderelbe Logistik GmbH would like to establish itself they might not take part in it if the subarea of the logistics does not fit or would be too expensive, for example if a new software would be needed.

When searching for appropriate RFQs the focus mainly lies on two things. First if the company is capable of doing the requested tasks and if it is possible to find a symbiotic connection to already established projects. The main focus lies on the fact if the company is capable of doing it, can do it well, has already enough employees for doing it, wants to do it and can relate to the expected tasks. Entering unknown territory is always done with more scepticism but is done occasionally.

The second big point is the question if it is profitable or if it is more or less an experiment. The prospect of commercial success is a big criteria.

At Süderelbe Logistik GmbH the only person that works on RFQs is Dirk Baumann. All his actions are discussed with the head of Trans Service Team in Worms, Germany. When something in the course of a RFQ is unclear Baumann gets support from

employees of the compartment in which the question occurs. The personal focus of Baumann lies on the fact if it's possible for the company to do the required tasks and if they have the capacities and employees for it. After that he looks at the numbers because there are many projects which are interesting for himself and for the company but are too small to be profitable. Baumann's main strength lies within calculation.

Before taking part in an RFQ the following informations are needed. A briefing of the RFQ which consists of a outline or abstract of the topic, the desired starting date, size of the needed object and which processes the operations involve. This is occasionally given in advance and on other occasions needs to be filtered out of the RFQ by the part taking company. These details are important for the company to see if they have the resources to take part in the RFQ.

When taking part in an RFQ Baumann sometimes sees no risks at all at first because they only show up later. Sometimes the risks are that there have been unknown facts. This can easily be solved by telling the company that requested the RFQ that the calculations have been done without that knowledge.

It gets more risky in the second or third round of the RFQ when the concept is liked but the price is not good enough because one needs to explain why a scenario was calculated in that way and what the participant expected. When there are too many risks in advance of taking part in the RFQ it is a reason to decline the participation.

When the price that is given by the participant is not accepted by the requesting company the negotiations start. It gets very risky for the tender when they have to lower the prices in certain parts of the RFQ so low that they might not make any money. In order to beat the competitors they have to go along with it and try to gain some income in other parts of the requested service.

There are companies which offer transportation and warehousing and therefore subsidise the warehouse through the transportation. Süderelbe Logistik GmbH does not do that but also subsidises some things which brings risks.

Another risk Baumann sees is the language barrier. Some companies deliver their requests in English, written by someone whose mother tongue is a different one. Through this mistakes may occur. Before doing any calculations it is very important to figure out if the comprehension has been right.

Another problem might be that the requested tasks can be misunderstood. For example if the company requests a price for taking something out of the warehouse there may be different opinions about what is part of that. Some may think it is just taking the product

out of the shelf while others may think it is taking the product out of the shelf, prepare and load. This of course leads to totally different prices.

There are RFQs which do not offer detailed descriptions of the processes so the participant just uses the background knowledge on how it is usually done for the calculations. To avoid risks here Baumann adds to his answers the background under which he calculated so that misunderstandings cannot occur. If the background is wrong then the company should tell that before making a contract with Süderelbe Logistik GmbH so that they can change their numbers and prices to the correct ones. He also mentions for which processes the price does not occur and what would be charged in addition.

When Baumann sees a risk he evaluates them. What is worst case what is best case. For him the best case is that if the risk he has been thinking of beforehand did not turn out as the true case. Worst case in his mind is that he runs straight into a risk which he might have thought of beforehand. He then has to think if the risk he sees is reasonable. In addition he has to mention the worst case, for example if he loses a certain amount of money or does not make any money, to his boss.

Often the management of Süderelbe only briefly scans through an RFQ or does not have any time available to read it at all so Baumann is the only one who recognizes many risks. He then has to give the information and feedback to them. This puts Baumann under the pressure to really focus on the RFQ and to make sure he sees all the possible risks.

Sometimes it happens that the company managers change the calculated prices to political prices, meaning they lower the prices which Baumann calculated so they can keep up with the competition and win the RFQ to get the job. This technique of course leads to higher risks. Baumann says about himself that he calculates more conservatively in order to minimize risks and is very stubborn about the prices he calculates and tries to not let the management lower them to avoid mistakes which cause big losses of money.

8 PROPOSAL FOR IMPROVEMENT

During her practical training and thesis writing process the author of this thesis has gained a lot of insight into the company Süderelbe Logistik GmbH and into the participation in successful and unsuccessful RFQs. She was informed about cases which went well and those in which the risks became true and resulted in big losses for the company.

There are many things that work really well in this process and only few improvisations can be done to get even better results.

Süderelbe Logistik GmbH management knows exactly where the company is positioned. They know the strengths and weaknesses and through this knowledge can evaluate really well at which RFQs they can and should take part and which jobs they have the chance to get.

Baumann does a very good job at calculating and rarely ever miscalculates the volumes and warehouse spaces. It is important that the company, as well as the management of Trans Service Team, relies on the calculated numbers and does not accept any jobs that do not fit into the calculated volumes. This is extremely important as actions in the past have shown already that this has caused immense losses.

In order to improve even more in this field a suggestion would be that Süderelbe Logistik GmbH hires another employee that is capable to work on this topic. The author has the opinion that one man alone is not enough to do all this work by himself and has to be constantly available for the company. There should at least be one additional employee in the company that could fill in in case of an emergency, like for example health related inability to work. In addition, having an extra employee for this work also brings another opinion. Depending on the mindset of people, individuals see different risks or advantages. This could bring a lot of benefits to the company, as a new employee might see new chances, as well as prevent losses by foreseeing risks that Baumann may have not thought of.

9 CONCLUSION

Based on the opinion of the author, this thesis is valid and reliable because it was constructed in close collaboration with the company. The writer of the thesis has completed a practical training at Süderelbe Logistik GmbH for three months. In advance she has passed a three months training at the mother company Trans Service Team and was employed there as an assistant for two months. This gave her a lot of insight and background knowledge about the operations inside the company and the tasks that are completed by the employees.

In addition the close contact to Dirk Baumann, the one responsible for taking part in RFQ's, helped to get reliable information. He is trustworthy to be honest. Working together with him on RFQ's was not only very interesting but also challenging in a good way and the best way to get detailed knowledge of the subject. The interviewer was not biased because neither had she expected possible answers in advance, neither did she want the interview to go into a certain direction.

The research method was chosen carefully and after putting much thought into the topic. It turned out to be the best method because a face to face interview with the employee responsible for taking part in RFQ's gave very much detail to the subject.

Face to face interviews bring the advantage of being able to ask right away if obscurities happens at some part of the interview. Another benefit is, that questions which may arise during an answer or related to an answer can be asked right away while the participant is mentally still at that point of the topic.

The thought of asking open questions also turned out to be a good one and led to the interviewer receiving answers that went beyond her imagination. Closed questions would have taken away some of the received information because the interviewer was not able to think in that direction with the facts she had gathered beforehand.

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APPENDICES

Appendix 1. Interview Questions

Who works, except from you at the RFQ participation?

Who do you work with?

From whom do you get feedback?

With whom do you stay in direct contact?

Who decides in which RFQ's you participate?

Where lies the focus when it is searched for a suitable RFQ?

Which information do you need in advance of taking part in RFQs?

On what do you focus most in RFQs?

Which risks do you see when taking part in an RFQ?

Which part of the RFQ worry you the most?

