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# **ANALYSIS OF THE DISTRIBUTION OF THE NUMBER OF BIDDERS IN CONSTRUCTION CONTRACT AUCTIONS**

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# **Analysis of the distribution of the number of bidders in construction contract auctions**

## **Abstract**

The number of bidders,  $N$ , involved in a construction procurement auction is known to have an important effect on the value of the lowest bid and the mark up applied by bidders. In practice, for example, it is important for a bidder to have a good estimate of  $N$  when bidding for a current contract. One approach, instigated by Friedman in 1956, is to make such an estimate by statistical analysis and modelling. Since then, however, finding a suitable model for  $N$  has been an enduring problem for researchers and, despite intensive research activity in the subsequent thirty years little progress has been made - due principally to the absence of new ideas and perspectives. This paper resumes the debate by checking old assumptions, providing new evidence relating to concomitant variables and proposing a new model. In doing this and in order to assure universality, a novel approach is developed and tested by using a unique set of twelve construction tender databases from four continents. This shows the new model provides a significant advancement on previous versions. Several new research questions are also posed and other approaches identified for future study.

**Keywords:** *Modelling; Forecasting; Bidding; Tendering; International comparison, number of bidders.*

## Introduction

An important consideration for bidders when preparing a serious construction tender proposal is the likely number and identity of the opponents to be faced. Studies of construction companies in the U.S. ([Ahmad & Minkarah, 1988](#)) and the UK ([Shash, 1993](#)), for example, have found this to be one of the three most important factors that conditions most bidding decisions. Clearly, any relevant information will be useful when making the decision to bid (d2b) and in strategically setting the bid price to increase the probability of winning the contract and making sufficient profit.

There is also strong evidence that some tender results, or at least their probability of occurring, have systematic differences depending on the number of bidders ( $N$ ) involved. For example, high values of  $N$  tend to increase the correlation between the mean bid and the high and low bids in collective bid tender forecasting models ([Ballesteros-Pérez et al., 2012](#); [Shrestha & Pradhananga, 2010](#); [Skitmore, 1981b](#)) and the effect of the *winner's curse* ([Capen et al., 1971](#), [Skitmore, 2002](#)).  $N$  has also recently been shown to be proportional to the amplitude of the bid standard deviation ([Ballesteros-Pérez et al., 2015b](#)). Moreover,  $N$  plays an important role in combinatorial auctions, with high  $N$  increasing computational complexity when trying to find the best combination of winners ([Fukuta & Ito, 2007](#); [Sandholm, 2000](#)).

The traditional approach to anticipating  $N$  in practice is through personal experience of the past participation rate of bidders mostly in terms of project characteristics (e.g., owner, type and size) and nearby location ([Ballesteros-Pérez, et al., 2010](#); [Fu, 2004](#)). Attempts to forecast  $N$  more systematically by mathematical models have met with little success. The most popular of these have been to resort to a probabilistic approach by treating  $N$  as a statistical variable. [Friedman \(1956\)](#), for example, suggested that  $N$  might follow a Poisson distribution. To a lesser extent, similar approaches have been tried in forecasting the identity of bidders, or a group

of specific key competitors that might enter a future tender, but with even less success ([Skitmore, 1986](#)).

The debates in the early years became very intense at times, with studies proving and refuting different properties seemingly exhibited by  $N$  in specific contexts, countries or just according to the nature of the work involved. By the late 1980s, however, the controversies just stopped without a resolution as researchers gradually ran out of ideas and enthusiasm.

The purpose here is to revive this work by revisiting the major achievements made during the period 1956-1986, along with some untested later ideas and propose a new, improved, model to describe the statistical distribution of  $N$ . In doing this, a complete and varied set of twelve construction tender databases from around the world is analysed for the purpose of generalisation. The result is a critical view of past research while stimulating again a productive discussion on a subject that, as previously acknowledged, is of considerable importance from both owner and bidders' standpoint and strongly linked to other tender outcomes.

The paper is structured as follows. In the next section, a thorough but summarised literature review is provided. This is followed in *Materials and Methods* by an outline of the main features and countries of origin of the twelve databases and the subsequent research methodology. Next, the *Calculations* section tests the suitability of a variety of general statistical distributions for modelling  $N$ , the effect of contract size and the development of a composite two-distribution model for  $N$ . The *Results* section then provides a final comparison of the models, confirming the superiority of the new composite model. The *Discussion* and *Conclusions* sections summarise the work, posing several new research questions and identifying other paths for future study. The American term “(procurement or reverse) auction” and European “tender” are treated here as synonymous.

## Literature review

There have been several thorough reviews of the effect of  $N$  on auction results (e.g., [Dyer et al., 1989](#); [Levin and Ozdenoren, 2004](#); [Hu, 2011](#)) and these will not be recounted here. Instead, we are concerned with the statistical nature of  $N$  as a precursor to its potential prediction. It is well known in both practice and theory that  $N$  generally varies with the project type and size (e.g., [Azman, 2014](#); [Drew and Skitmore, 2006](#)), client and specific location ([Al-Arjani, 2002](#); [Benjamin, 1969](#)) and even with market conditions ([Ngai et al., 2002](#); [Skitmore, 1981a](#)).

Forecasting its value in advance, however, is more problematic, the earliest treatment being [Friedman \(1956\)](#), who suggested a variety of methods for estimating its expected value. One way is to use the often little information available about a company's competitors' intentions in combination with its managers' experience - an approach reiterated by [Rubey and Milner \(1966\)](#) with especial emphasis on the contract type and size involved.

Another suggestion is to exploit the statistical relationship between  $N$  and contract size (the complete budget to carry out the project) ([Friedman, 1956](#)), a reasonable enough assumption at that time of open tendering in the U.S., as larger projects are generally associated with larger (dollar) profits and therefore likely to attract more bidders. Empirical studies attempting this are quite limited and inconclusive, however. [Gates \(1967\)](#) and [Wade and Harris \(1976\)](#) have applied the method to U.S. data, producing generally weak predictive results. Other empirical U.S. research is even less supportive, finding no significant linear relationship between  $N$  and contract size, nor between contract size and the number of suppliers and subcontractors involved (e.g. [Sugrue, 1977](#)). [Skitmore's \(1986\)](#) analysis of UK construction auctions, however, where selective tendering is the norm, surprisingly found a weak to moderate correlation between  $N$  and contract size. A possible reason for the general lack of correlation in the U.S. suggested by [Park \(1966\)](#) is that the

relationship between  $N$  and contract size may be nonlinear. Although this has yet to be tested with U.S. data, Skitmore's (1986) UK analysis found the correlation to be certainly more apparent when contract size was transformed to a log scale.

The only other empirical approach to forecasting  $N$  is Skitmore's (1981b) study of several international tender datasets from different time periods, which identified an apparent relationship between  $N$  and market conditions. However, no mathematical model was developed for this. Today, the general conclusion is that using some measure of contract size will provide the best means of estimating  $N$  and certainly an advancement on considering it to be purely random (Ballesteros-Pérez & Skitmore, 2014), a view that has been dominant since Rickwood (1972).

For statistical applications involving  $N$ , besides estimating its expected value, it is important to be able to make some assumptions concerning its probability density function (pdf). In addition to bidding strategies, this has important ramifications in Auction and Game theory ([Klemperer, 2004](#)), driven by the different outcomes it produces on several types of auctions formats and under different types of valuations used by bidders of the auctioned items. Nevertheless, there is a long list of proposed candidates. These include the normal ([Ballesteros-Pérez et al. 2013a, 2014](#)), uniform ([Ballesteros-Pérez et al. 2013b](#)), gamma ([Engelbrecht-Wiggans, 1980](#)), Laplace ([Ballesteros-Pérez et al. 2015a](#)) and Weibull ([Ballesteros-Pérez & Skitmore, 2014](#)).

Of particular interest is the Poisson distribution, considered by Friedman (1956), as likely to “furnish a good fit” for  $N$  values, reasoning that similar individuals independently deciding whether or not to bid for a particular item is equivalent to  $N$  following the binomial distribution which, when the average of the number of bids is a small fraction of the total possible, is well approximated by the Poisson. This was later seemingly confirmed by Keller and Bor's (1978) empirical analysis of the bidding patterns of a significant number of similar construction contracts in which their results agreed with the Poisson distribution. In contrast, Skitmore's (1986)

empirical analysis of three sets of UK construction tenders found no significant fit with the Poisson ( $N=51$ ,  $\bar{x} = 6.2$ ,  $sd=2.1$ ,  $\chi^2_{(4)} = 20.7$ ;  $N=218$ ,  $\bar{x} = 5.7$ ,  $sd=1.1$ ,  $\chi^2_{(8)} = 16.4$ ;  $N=373$ ,  $\bar{x} = 5.1$ ,  $sd=3.8$ ,  $\chi^2_{(8)} = 31.4$ ). Meanwhile, others making use of, for example, U.S. Outer Continental Shelf Statistical summary of 1976 to 1978 oil tract auctions, found  $N$  might follow not only a distribution different from the Poisson but even bimodal distributions ([Engelbrecht-Wiggans, 1980](#)).

On being criticized by other researchers on theoretical grounds, Friedman then modified his original assertion to the distribution of the residuals of a regression between  $N$  and contract size ([Engelbrecht-Wiggans, Dougherty, & Lohrenz, 1986](#)). Others, however, have suggested the normal distribution to be a better option to reflect the random variability of such residuals – a point supported empirically by [Skitmore \(1986\)](#) for contract size with and without logarithmic transformation.

Since then, a compromise solution has been to consider the number of bidders as a purely stochastic variable in experimental settings ([McAfee & McMillan, 1987](#)) or as a fixed value in Game and Auction theory (Harstad et al., 1990), although quite surprisingly the Poisson model has endured since the very first and celebrated compilation of auction and bidding models from Stark and Rothkopf (1979) and [Engelbrecht-Wiggans \(1980\)](#) to modern and current online auctions ([Bajari & Hortacsu, 2003](#)).

A completely different approach to estimating  $N$  is to try to identify who the actual bidders might be. As with horse racing, where the same horses often race against each other, many contractors tend to prefer construction work of a certain type, size and location and therefore can be expected to bid against each other quite regularly. In the U.S., however, as Morin and Clough (1969) note, it is quite usual for the same bidder to submit proposals for different types of work. A contractor's decision to bid (d2b) is also limited by the number of contracts that can be managed

at any one time ([Skitmore, 1988](#)). Both of these factors lead to a situation where the same contractors bid less frequently against each other than might be otherwise imagined, making the prediction of their presence on a single auction a very difficult task in the absence of ‘inside’ information (which in itself is also difficult to obtain as being tantamount to collusion). An alternative is to simply “go and look”. Skitmore’s (1987) research in the U.S., for example, identified several informal methods used by contractors to assess the state of opponents’ order book, including flying over their main compound to see the amount of machinery lying idle!

The use of statistical methods is possible, with Wade and Harris (1976) for example suggesting to treat the identities of several bidders and their groups probabilistically, but there are difficulties in this, particularly involving the identities of those from whom the forecasting company does not have any information. This, has led the tendering theory literature to classify the potential competitors as “key” and “strangers” ([Skitmore, 1986](#)).

Since 1986, however, there has been no further work in this area ([Ballesteros-Pérez & Skitmore, 2014](#)) and we will leave its consideration for a separate paper on the topic. Similarly, with the exception of additional studies such as by [Athias and Nuñez \(2009\)](#), [Skitmore \(2008\)](#) and [Costantino et al. \(2011\)](#) there has been no further empirical work concerning the statistical nature of  $N$  and therefore previous assumptions will not be considered further here.

## **Materials and Methods**

### Tender datasets

In order to make a thorough analysis of the distribution of  $N$ , a comprehensive and representative set of construction tender databases is needed. However, such databases are generally difficult to obtain because there are very few published in the regular scientific construction literature mostly due to their length. Therefore, an

intensive and detailed search was carried out and access was obtained to documents only available in printed form, mostly in MSc and PhD theses where the original bidding data was complete and unprocessed. This resulted in the collection of twelve databases - some in the original author's scanned form and others requiring a visit to the respective university repository.

The twelve databases contain construction bidding data from four continents: Europe (United Kingdom and Spain), America (United States), Asia (Hong Kong) and Oceania (Australia), all featuring different types of construction work from different time periods. Table 1 summarizes the most important aspects of each database.

For the sake of clarity, the tender databases are referred to by the numerical identifier stated in the column marked "ID".

**< Insert Table 1 here >**

In general, the sample described in Table 1 is considered sufficiently representative, since the twelve databases analysed encompass different works such as: buildings (housing, aeronautics, schools, hostels, police and fire stations), civil works (waste water treatment plants, railways) and services (specialized and general). All decades from the sixties until now are represented either completely or partially by at least one dataset and their sizes are large enough (from tens to hundreds of contracts) to carry out thorough statistical analyses. Furthermore, concerning the variable number of bidders, the databases range from low (mean  $N$  of around 5) to high (around 31) numbers of bidders, whose dispersion values are more or less scattered (see standard deviation column), have different levels of positive skewness (no dataset has negative skewness), as well as different levels of positive and negative kurtosis.

Finally, it is also noted that, among the twelve databases, the six from the United Kingdom and Australia used selective tendering, that is, the owner invites only certain bidders and therefore sets an upper-bound on the value of  $N$ . However, the

results obtained later seem to be very similar for both open and selective tendering processes.

### Outline of Methodology

In the next two sections, several factors that either directly or indirectly affect  $N$  are identified from the twelve databases. First, the analysis begins with an extensive comparison of the goodness of fit of a range of common statistical distributions and an attempt to deduce why some distributions perform better than others. Next, the relationship between  $N$  and contract size is analysed in both natural and logarithmic scales, and studied to see how predictably the statistical mean, standard deviation, skewness and kurtosis vary when plotted against contract size, and some general behaviour patterns are provided. Finally, a new model for describing the statistical variation of  $N$  is presented along with the justification of its main assumptions - that both the frequency of contract sizes and that the population of potentially interested participating bidders are log-normally distributed. As is eventually demonstrated from the large variety of statistical curve shapes that can stem from this model and the thorough statistical distribution fit tests performed, the model represents a significant step forward in this topic. The next section is divided into three subsections describing these analyses in more detail.

## **Calculations**

### Comparison of goodness of fit of standard statistical distributions

Of the many statistical distributions proposed to date to model  $N$  (Poisson, normal, gamma, Weibull, Laplace, etc.) no clear single distribution has yet been found, with different studies making use of databases with different characteristics that are not always identified. To analyse the twelve databases, a  $\chi^2$  test is applied to every distribution, which are then ranked according to the number of times the sum of the

squared residuals are below the critical  $\chi^2_\alpha$  values (using three levels of significance  $\alpha=1\%$ , 5% and 10%) and the p-values. The more times the actual  $\chi^2$  values are below the critical  $\chi^2_\alpha$  values (from 0 to 3 on average), the lower is the p-value (from 0 to 1, on average) and hence the better fit of the distribution.

The range of distributions tested is basically restricted to the location-scale family, as the parameters that define these distributions have true physical meaning, improving the understanding of the underlying distribution involved. In addition, the gamma and Weibull distributions were also tested because of their prevalence in the literature. Of the location-scale distributions tested, seven symmetrical distributions (skewness=0) are of particular interest: the uniform (kurtosis close to -1.2), raised cosine (kurtosis close to -0.6), normal (kurtosis 0.0), logistic (kurtosis 1.2), hyperbolic secant (kurtosis 2.0), Laplace (kurtosis 3.0) and Cauchy (kurtosis undefined). These latter distributions are chosen to map in detail the level of kurtosis that might better fit the  $N$  distribution in terms of either platykurtic or leptokurtic behaviour. Asymmetrical forms of these seven distributions are also tested by transforming the  $N$  values into  $\log N$  values (i.e., for testing against the log-uniform, log-raised cosine, log-normal, log-logistic, log-hyperbolic secant, log-Laplace and Log-Cauchy distributions) to map positive skewness with different kurtosis levels and, by using the  $N^2$  values to test for negative asymmetries with different kurtoses (i.e., square-uniform, square-raised cosine, square-normal, square-logistic, square-hyperbolic secant, square-Laplace and square-Cauchy). Furthermore, the Poisson distribution is also tested with the natural, logarithmic and square  $N$  values. A flexible array of means and variances calculated by the method of moments are therefore tested using location-scale distributions and a representative grid of skewness and kurtosis levels tracked and checked, amounting to 24 combinations in all, plus the Weibull and gamma distributions, for each of the twelve databases. It is

also to be noted that, despite most distributions being continuous, a discretization of the X values ( $N$  values) is performed by obtaining the pdf  $f(x=N)$ , from the cumulative distribution function,  $F(x=N)$ , by the simple calculation:  $f(x) = F(x+0.5) - F(x-0.5)$ .

Table 2 and Figure 1 give the results for the four best distribution fits (normal, log-normal, logistic and log-logistic) together with the Poisson and the Laplace distributions.

< Insert Table 2 here >

< Insert Figure 1 here >

On average, the log-normal distribution produces the highest number of times the  $\chi^2$  values are below the critical three  $\chi^2_\alpha$  values and the lower p-value, although the normal, logistic and log-logistic are also quite close.

These results are not very useful, however, as the fit is not good for any distribution, even the log-normal. That this may be due to the absence of another influencing factor is an issue taken up in the next section.

### Improving accuracy by considering contract size

< Insert Table 3 here >

Table 3 gives the regression equations of  $N$  with contract size (in terms of the mean bid,  $B_m$ ) for the twelve datasets. This indicates the existence of a weak correlation in most cases, irrespective of whether  $B_m$  is calculated from the natural or logarithmic bids. This may be due to two causes. First, there may be a large variation in  $N$  values obscuring an underlying correlation. Second, the distribution  $B_m$  observed in every database may not be uniform, so there is an uneven distribution of the  $N$  values on the X-axis.

To observe the variations in the  $N$  distribution values, one approach is to place the auctions in ascending order of log contract size (from lower to higher  $B_m$ ) and

plot the first four moments (mean ( $\mu$ ), standard deviation ( $\sigma$ ) skewness ( $\gamma$ ) and kurtosis ( $\kappa$ ) of groups of  $N$  values as shown in Figure 2.

**< Insert Figure 2 here >**

As Newell and Hancock (1984) note, for practical purposes in statistical inference, estimates of  $\gamma$  and  $\kappa$  for sample sizes below 50 can indicate the underlying statistical distribution is normal when it is not. Therefore rolling groups of 50  $N$  values are taken. That is, the moments of  $N$  values from the auctions ranked 1 to 50 are first recorded. Then the moments of  $N$  values from the auctions ranked 2 to 51 are recorded, and the process continued until reaching the last ordered auction. Four of the datasets do not contain sufficient auctions to do this and are therefore missing from Figure 2.

Even a window width of 50 auctions causes high oscillations in the  $\gamma$  and  $\kappa$  estimates. To clarify the situation, the rule of thumb of usual practice is followed in which only values outside the range of  $\pm 1$  are taken to be sufficient evidence to conclude the underlying distribution is either skewed or platy leptokurtic.

As Figure 2 shows, when considered in terms of contract size, with very few exceptions the  $\gamma$  and  $\kappa$  estimates are quite close to zero. Figure 3 provides a first approximation why this might be the case. This contains several interesting features that need to be highlighted since it mirrors some aspects found in Figure 2.

**< Insert Figure 3 here >**

First, it is quite logical to think that, irrespective of the X axis (contract size) being represented in natural or logarithmic values, contract sizes that are very small or very large will fail to attract bidders, since bidders can make little profit in the former case, and no qualified bidder could submit a proposal in the latter case. This being the case,  $\mu$  will increase initially from zero until it reaches a zone with relatively stable maximum  $N$  values, after which it will decrease asymptotically back to zero.

Second, it is expected that the  $\sigma$  curve will behave similarly. However, as Figure 2 shows, in almost all cases there seems to be a gap between the maximum  $\mu$  and  $\sigma$  (identified as  $\Delta$ ). The reason for this is still to be researched.

Third, the  $\gamma$  and  $\kappa$  curves take on high values when the  $\mu$  and  $\sigma$  curves are closer to zero. The reason is that when  $N$  is extremely low, the  $N$  distribution has to be as shown in the bottom left corner of Figure 3, which is remarkably asymmetrical and leptokurtic since the highest density and cumulative probability will remain between  $0 \leq N \leq 1$ . On the other hand, when the  $N$  curve has  $\gamma$  and  $\kappa$  close to zero, the distribution that models  $N$  can be assumed nearly normal. However, extremes of high  $\gamma$  and  $\kappa$  are rarely observed, since we can only have a glimpse of those atypical situations with very small and/or large contract sizes and, since they are quite scarce, it is difficult to accurately estimate the  $\gamma$  and  $\kappa$  values involved.

Nevertheless, Databases 4, 7 and 10 in Figure 2 seem to support the assumptions made above about  $\gamma$  and  $\kappa$ . On the other hand, when dissecting the variation in  $\mu$ ,  $\sigma$ ,  $\gamma$  and  $\kappa$  along the contract size dimension, the curve modelling  $N$  (bottom half of Figure 3) for the rest of databases should be close to the normal distribution, as  $\gamma$  and  $\kappa$  are close to zero.

### Model proposed

Hossein (1977) found contract size could be modelled by the exponential distributions, while a similar study by Skitmore (1986) however found the log-normal distribution to be more appropriate. Here, two distributions are checked for fit - the log-normal distribution and the Pareto distribution. The former because it has been found to outperform the exponential and the latter because it is closely related to the exponential distribution but has two parameters as has the log-normal. It is noted that both the Pareto and log-normal are alternative distributions for describing the distributions of sizes which abound in natural, physical, economic, and social

systems (Malevergne et al., 2011). Fat-tail distributions, such as the log-normal and the Pareto distribution have historically competed for describing with higher accuracy some generating processes and hard-to-distinguish tail properties (Malevergne et al., 2011), and this is the reason why both have been compared here.

The results in comparing both distributions are presented in Table 4, with a representation of the best log-normal distributions found in Figure 4. As noted from Table 4, the Kolmogorov-Smirnov tests indicate the log-normal distribution to generally provide the best fit, even when the datasets seem rather erratic – probably as a consequence of a tender dataset that did not include the complete range of tender sizes.

< Insert Table 4 here >

< Insert Figure 4 here >

On the other hand, a parallel theoretical debate has quite recently emerged concerning the use of a power-law distribution or a log-normal distribution to model firm size (Segarra & Teruel, 2012), as both appear to provide a close fit with real data. If we assume that the number of potentially interested bidders is a fraction or proportion of the population of companies found in a particular area and within a particular market, then the number of bidders should also follow a log-normal distribution with similar location (mean) and scale (variance) parameters, but differing on the Y-axis order of magnitude when representing absolute values, instead of frequency values. This is because the number of potentially interested bidders would be lower when representing the number of companies on the Y-axis compared to the total number of companies by size, but both should probably look quite similar when representing their pdfs, since they would then represent proportions. Therefore, a model is proposed that endeavours to take advantage of the log-normal distributions: (1) the distribution of contract size and (2) the distribution

of potentially interested bidders, both considered as log-normal, but with different location and scale parameters ( $\mu_1$  and  $\sigma^2_1$ , and  $\mu_2$  and  $\sigma^2_2$ , respectively).

What this model tries to represent is that, if there is a different number of bidders who might submit a bid for a future tender as a function of the contract size, and the number of contract size opportunities is known (both being variables well represented by different log-normal distributions), the calculation of the  $N$  distribution curve should be according to the representation of Figure 5.

**< Insert Figure 5 here >**

In particular, Figure 5 represents how, in order to calculate the probabilities associated to every possible value of  $N$  ( $N_i$  from 0 to  $+\infty$ ), it is only required to add up the two probability bands in the distribution of contract sizes (log-normal whose location and scale parameters are  $\mu_1$  and  $\sigma_1$ ) that are delimited by the two pairs of X values from the distribution of the number of interested bidders (log-normal whose location and scale parameters are  $\mu_2$  and  $\sigma_2$ ) whose respective Y values correspond to that specific  $N_i \pm 0.5$ . For instance, in Figure 5 we want to calculate the probabilities of finding  $N_i=4$  in a database. Despite the number of bidders  $N_i$  being natural numbers, we need to assume that the number of interested bidders distribution will correspond to a band of Y values between 4.5 and 5.5 (as represented on the right Y axis). Those two Y values each correspond to another two different X values by horizontal intersection first, and then by vertical intersection, in the same log-normal distribution describing the number of interested bidders. But once these four X values are identified, they also define the vertical probability bands within the log-normal distribution of contract sizes that, on being summated, will result in the probability of finding  $N_i=4$  in the database.

Generally speaking, Figure 5 highlights that the final  $N$  distribution is affected by the number of bidders that would submit a bid if there was an occasion to do so as well as by the number of times each contract size occurs. In other words if, for each

possible  $N$  value it is known that there are a fixed number of interested bidders (by means of curve 2, and  $\pm 0.5$  to discretized the distribution), and if the frequency of that range of contract sizes is calculated (by means of curve 1), then the same frequency will be equivalent to the number of times that that  $N$  will be found in the final  $N$  distribution.

Concerning the five parameters to be estimated in the model ( $\mu_1$ ,  $\sigma_1$ ,  $\mu_2$ ,  $\sigma_2$  and  $N_{max}$ ), the mean and standard deviation of the distribution of contract sizes (parameters  $\mu_1$  and  $\sigma_1$ ) can be directly obtained by calculating the first and second moments from the series of all tender  $B_m$  (bid average) values found in a database;  $N_{max}$  can be set to the maximum  $N_i$  value found in the database (or slightly above); whereas the mean and standard deviation of the distribution of the number of interested bidders (parameters  $\mu_2$  and  $\sigma_2$ ) cannot be directly estimated (unless extensive and time-consuming field research is carried out for estimating the distribution of nearby firm sizes with potential interest in the type of works contained in the database under study). Therefore, it is recommended that, when looking for the best combination of parameter values,  $\mu_1$ ,  $\sigma_1$  and  $N_{max}$  are calculated as suggested above, while parameters  $\mu_2$  and  $\sigma_2$  are set according to a simple two-variable numerical optimization approach for providing the best overall distribution fit. In this connection, according to the multiple combinations of these five parameter values, the broad range of mathematical shapes that this model distribution can take is represented in Figure 6.

**< Insert Figure 6 here >**

As can be seen, the model is able to provide a number of statistical curve shapes changing the  $\gamma$  from positive to negative, or reaching higher levels of  $\kappa$  near the  $N=0$  and  $N_{max}$  values. For the sake of simplicity however, the most common cases are identified and framed in the thick line on the top rows of Figure 6. This distribution is checked and compared against previous distributions in the next section.

## **Results**

### *Comparison of standard statistical distributions considering contract size*

In summary, Table 2 gives the best results for a complete comparison of several statistical distributions irrespective of contract size. However, Figure 3 suggests that, within a certain range of contract sizes,  $N$  is quite close to a normal distribution. It is also apparent that working with narrower intervals of contract sizes also leads normal-like distributions for  $N$ , this being the case with the three central images depicted on the top row of Figure 6, where narrow contract size intervals have necessarily quite small variance values from the distribution of contract size opportunities ( $\sigma^2_1 \rightarrow 0$ ) when compared to the variance of the number of potentially interested bidders ( $\sigma^2_2$ ), forcing  $\sigma^2_1 \ll \sigma^2_2$ .

To examine this further, the Table 2 analysis is repeated but with non-rolling groups of contract sizes as shown in Table 5.

**< Insert Table 5 here >**

As can be seen, the best pdf for  $N$  is now the normal distribution with both indicators (the number of times the  $\chi^2$  values are below the critical  $\chi^2_\alpha$  values, and the p-values) significantly improved. However, this improvement also applies to all the other distributions tested, since the two indicators are approximately between 30% and 60% better on average for all of them when compared with the results in Table 2. It is shown, therefore, although the best approximation of  $N$  is the normal distribution, the log-normal, logistic and log-logistic are not far behind.

### *Model validation*

To test the new five parameter ( $\mu_1$ ,  $\sigma_1$ ,  $\mu_2$ ,  $\sigma_2$  and  $N_{max}$ ) model, it is first effectively reduced to a two-parameter model by forcing  $\mu_1$  and  $\sigma_1$  to take on the values of the

actual (log-normal) contract size distributions represented in Figure 4 (that were directly obtained by the method of moments) and having the  $N_{max}$  values vary within a nearby range to the actual maximum  $N$  values observed in the twelve databases, leaving the only remaining parameters  $\mu_2$  and  $\sigma_2$  to be estimated. This is done by a simple two-dimensional optimization process to find the values that minimize the actual  $\chi^2$  values. The results are shown in Table 6 and the model curves illustrated in Figure 7.

< Insert Table 6 here >

< Insert Figure 7 here >

As can be seen, the model outperforms all the distributions tested so far, even when taking narrower intervals of contract size (although the improvements are only around 10% in this latter case). However, both approaches have different aims: the model only provides a better explanation of the distribution of  $N$ , while breaking down the series of  $N$  values by more compact contract sizes only reduces the amount of randomness when trying to describe the unexplained variation of  $N$ .

### Summary

Many distributions have been compared in this study by means of multiple chi-square tests performed on twelve databases. Therefore, in order to highlight potential differences between the performance of these statistical distributions, it is convenient to summarise the results in a single ranking table.

This is the aim of Table 7, which presents the average and standard deviation results (the latter not presented earlier to avoid confusion with other variables involved) of the number of times the sum of the squared residuals are below the critical  $\chi^2\alpha$  values (from 3 –good fit– to 0 –bad fit–) and the p-values (from 0 –perfect fit– to 1 –worst fit–). Table 7 distributions have been ordered in descending order of the average p-values but, as can be seen, some distributions nearly tie when taking

into account both the  $\chi^2\alpha$  and p values simultaneously (distributions ranked as 3<sup>rd</sup> and 8<sup>th</sup>).

**< Insert Table 7 here >**

The consequence of a lower p-value is directly indicative of a loss of accuracy when modelling the actual distribution of the  $N$  values, and this table shows how the new model outperforms (on average) other common distributions. However, it is noted that the standard deviation values obtained, even without the need for carrying out ANOVA tests, denote potential overlaps in the means of the p-values, particularly among the top-ranked distributions. Fortunately, the  $\chi^2\alpha$  has zero variance for the new model, which indicates that the model has provided, without exception, what may be considered a reasonable approximation in the twelve databases. This is not the case with the other models.

Further discussion of Table 7 is provided in the next section.

## **Discussion**

From the results obtained in the previous sections, it is clear that the contract size distribution within each database is close to log-normal and strongly conditions  $N$ . The direct comparison of many statistical distributions (partially shown in Table 1 and Figure 1, as well as in Table 7) is also expected to be biased towards the log-normal distribution. However, as also observed in Tables 5 and 7, the normal distribution naturally presents an acceptable fit (closely followed by the log-normal) when the contract size effect is considered. Therefore, as with many other such goodness-of-fit studies, there is an intermediate situation in which it is difficult to distinguish between the suitability of the normal and log-normal distributions. In addition, the logistic and log-logistic distributions are also good candidates, since they are quite similar in shape to the normal and log-normal distributions respectively, although slightly more leptokurtic. This fact is also frequently

observed, since the juxtaposed effect of mixing the normal and log-normal distributions slightly increases the kurtosis coefficient.

In summary therefore, in delimiting the potential values of  $N$  for a future tender, removing the effect of contract size by using only recent past tenders with a similar contract size or calculating the mean, standard deviation, skewness and kurtosis as in Figure 2, is preferable to directly modelling the whole dataset values of  $N$  without allowing for contract size. On the other hand, as Tables 6 and 7 show, the new model provides a better fit than the many other statistical distributions examined, although its superiority is not decisive, as indicated by the small differences and high standard deviation between p-values in Tables 5, 6 and 7. In addition, the model assumes the log-normal distribution representing the expected value of the number of interested bidders as fixed, when this curve  $Y$  values must necessarily evidence variability since, for instance, it seems counter intuitive to state that the number of potentially interested bidders for a given contract size is constant, but variable as well.

## Conclusions

Knowing the statistical distribution of the number of bidders,  $N$ , for a construction contract is important in real-life bidding because it conditions the decision to bid and how to set the final bid price so as to increase the probability of winning, but also in tendering theory since it affects many related outcomes, such as the correlation between the mean and lowest bids or the dispersion of the bid values, which are key assumptions of many collective bid tender forecasting models. However, little progress has been made despite the many studies from 1956 to 1986 except that there are other variables that seem to condition or have a significant correlation with  $N$ . Not all of these have been explained in conjunction with measuring their possible interactions.

In this study, a unique set of twelve construction and services tender databases from four continents are used for a thorough comparison of many candidate statistical distributions with the primary aim of determining which are the most accurate and in what conditions.

The univariate results show the log-normal distribution to be the best fit, while the normal distribution provides the best fit when contract size is taken into account. These are basic but important outcomes, since many bidding practitioners and researchers tend to use the normal distribution without distinction when modelling the distribution of bidders, while it is shown here that this distribution is only the most accurate when contracts of similar nature of work and economic size are used. If these conditions are not fulfilled, then the log-normal distribution is the most accurate.

Next, the expected variation of the  $N$  distribution mean, standard deviation, skewness and kurtosis as a function of contract size is analysed in both natural and logarithmic scales. The four moments are studied to see how predictably they vary when plotted against contract size and some interesting general behaviour patterns are provided. For example, most construction tenders operate within a band of contract sizes that have low levels of skewness and kurtosis, allowing the use of normal-like distributions with barely loss of accuracy. However, this situation is no longer valid for extremely high or low contract values, since contractors will usually have less previous experience with such contracts, when the distribution of  $N$  becomes strongly positive skewed and peaked.

Finally, a new model for describing  $N$  is presented along with the justification of its main assumptions - that both the frequency of contract sizes and that the population of potentially interested participating bidders are log-normally distributed. As is demonstrated from the large variety of statistical curve shapes that can stem from this model and the thorough statistical distribution fit tests performed,

the model results are significantly more accurate in modelling the variations in  $N$  than the other alternatives considered for all 12 datasets examined, including the ubiquitous normal distribution which is used in similar studies.

Despite this, however, it is felt that there is still room for further improvement. For instance, research in forecasting the identity of future bidders may, paradoxically, shed further light on the issue. There are also new questions concerning differences in contract size (value) that exist between the maximum expectation and variance of  $N$  when represented as a function of contract size. An additional question is how to replace the deterministic number of potentially interested bidders in the model by a distribution with a random component.

The result is a critical view of past research while stimulating again a productive discussion on a subject that, as previously acknowledged, is of considerable importance from both owner and bidders' standpoint and strongly linked to tender outcomes beyond the construction context.

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<i>ID</i>	<i>Database Alias</i>	<i>Description</i>	<i>Tender method</i>
1	UK51	Building-related tenders within the London area with one bidder in common and cover prices	Selective
2	UK272	Construction industry Building Cost Information Service report	Selective
3	UK218	Civil engineering work tenders from the North of England	Selective
4	UK373	Building-related tenders within the London area	Selective
5	US64	Building-related tenders from the US National Aeronautics and Space Administration	Open
6	US50	Building-related tenders from the US	Open
7	HK199	Tenders of buildings for education, police, firemen and hostels in Hong Kong	Open
8	HK261	Tenders from the Hong Kong Administrative Service Department	Open
9	AU152	General contractors' civil engineering works and housing in New South Wales, Australia	Selective
10	AU161	Specialised contractors' civil engineering works and housing in New South Wales, Australia	Selective
11	SP45	Waste Water Treatment Plants and Sewage lines in Catalonia region, Spain	Open
12	SP114	Spanish High-speed Railway Infrastructure Manager (ADIF) tenders	Open

<i>ID</i>	<i>Number of auctions</i>	<i>Period</i>	<i>Mean (<math>\mu</math>)</i>	<i>Std. Dev. (<math>\sigma</math>)</i>	<i>Skewness (<math>\gamma</math>)</i>	<i>Kurtosis (<math>\kappa</math>)</i>	<i>Source</i>
1	51	1981-1982	6.235	1.464	0.250	0.241	(Skitmore and Pemberton, 1994)
2	272	1969-1979	6.140	1.786	0.265	1.009	(Skitmore, 1981b)
3	218	1979-1982	5.665	2.260	0.497	0.994	(Skitmore, 1986)
4	373	1976-1977	5.134	1.944	0.124	-0.580	(Skitmore, 1986)
5	64	1976-1984	6.734	3.108	1.756	4.763	(Brown, 1986)
6	50	1965-1969	4.680	1.834	0.558	-0.260	(Shaffer and Micheau, 1971)
7	199	1981-1990	12.724	6.262	0.696	0.497	(Drew, 1995)
8	261	1991-1996	13.663	7.279	0.654	-0.498	(Fu, 2004)
9	152	1972-1982	8.651	3.987	0.685	-0.060	(Runeson, 1987)
10	161	1972-1982	6.273	2.877	1.595	3.531	(Runeson, 1987)
11	45	2007-2008	14.133	11.108	1.496	1.706	(Ballesteros-Pérez et al. , 2012)
12	114	2008-2014	31.974	12.082	0.414	-0.345	(Fuentes-Bargues et al. , 2015)

**Table 1.** Description of the twelve construction tender databases analysed



ID	Database alias	Optimal regression curves			
		X=B <sub>m</sub> (natural scale) & Y=N	R <sup>2</sup>	X=B <sub>m</sub> (log scale) & Y=N	R <sup>2</sup>
1	UK51	Y=-6E-14X <sup>2</sup> +7E-07X+5.4185	0.109	Y = 0.2649X <sup>2</sup> -7.0073X+52.236	0.101
2	UK272	Y= 1.7382X^0.1001	0.115	Y= -0.1737X <sup>2</sup> +4.8162X-26.52	0.146
3	UK218	Y=0.7977LN(X)-3.0126	0.253	Y= 0.7977X-3.0126	0.253
4	UK373	Y=0.372X^0.2034	0.253	Y=0.0063X^2.6271	0.270
5	US64	Y=-0.282LN(X)+10.534	0.018	Y=0.0941X <sup>2</sup> -2.8759X+28.2	0.024
6	US50	Y=-1E-13X <sup>2</sup> +8E-07X+4.233	0.038	Y=-0.1128X <sup>2</sup> +3.2137X-17.948	0.041
7	HK199	Y=-5E-16X <sup>2</sup> +1E-08X+12.917	0.012	Y=-0.9458X <sup>2</sup> +30.389X-230.2	0.052
8	HK261	Y=-7E-09X+14.658	0.035	Y=-0.9451X <sup>2</sup> +34.254X-295.73	0.035
9	AU152	Y=1.6998X^0.1095	0.067	Y=0.1297X^1.5581	0.070
10	AU161	Y=5.5924EXP(1E-07X)	0.009	Y=0.3815X <sup>2</sup> -9.0763X+59.735	0.070
11	SP45	Y=-2E-13X <sup>2</sup> +4E-06X+5.5083	0.374	Y=1.0237X <sup>2</sup> -24.343X+151.48	0.297
12	SP114	Y=-2E-15X <sup>2</sup> +9E-08X+33.465	0.147	Y=-3.8248X <sup>2</sup> +125.47X-990.14	0.235

avg. 0.119

avg. 0.133

**Table 3.** Regression results between variables Contract size (via Mean bid,  $B_m$ ) and Number of bidders ( $N$ )



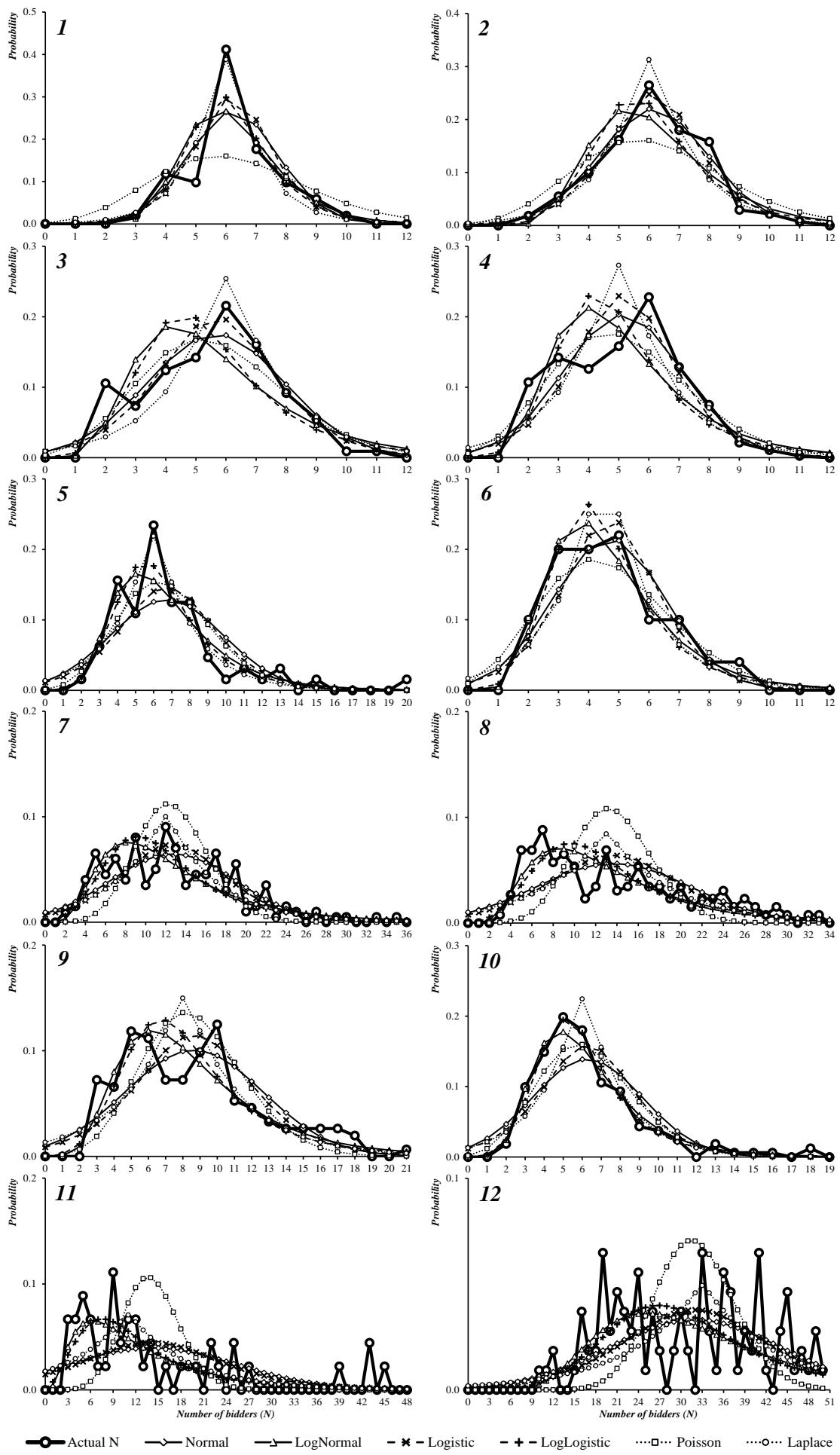


ID	Database	<i>LogNormal (Contract size)</i>		<i>LogNormal (Number of interested bidders)</i>			<i>Critical <math>\chi^2_\alpha</math> values</i>			<i>Model distribution</i>			
		alias	$\mu_1$ (log)	$\sigma_1$ (log)	$\mu_2$ (log)	$\sigma_2$ (log)	$N_{max}$	$\chi^2_{\alpha=0.01}$	$\chi^2_{\alpha=0.05}$	$\chi^2_{\alpha=0.10}$	$\chi^2$	$\chi^2 < \chi^2_\alpha ?$	p-value
1	UK51	13.937	0.852	17.143	3.305	10	18.475	14.067	12.017	3.803	3	0.198	
2	UK272	12.122	0.932	14.731	2.925	9	21.666	16.919	14.684	8.768	3	0.541	
3	UK218	10.788	1.357	13.910	3.023	9	21.666	16.919	14.684	10.056	3	0.654	
4	UK373	12.457	1.032	15.287	2.565	9	21.666	16.919	14.684	11.819	3	0.776	
5	US64	13.336	1.393	17.543	3.452	13	23.209	18.307	15.987	6.808	3	0.257	
6	US50	14.125	0.488	15.507	1.167	9	18.475	14.067	12.017	1.403	3	0.015	
7	HK199	16.157	1.158	20.490	2.986	35	48.278	41.337	37.916	27.320	3	0.499	
8	HK261	18.130	1.023	15.085	2.143	33	49.588	42.557	39.087	31.237	3	0.646	
9	AU152	13.813	1.251	18.115	3.078	21	30.578	24.996	22.307	13.386	3	0.428	
10	AU161	11.701	1.128	15.219	3.078	11	27.688	22.362	19.812	8.098	3	0.163	
11	SP45	14.297	1.274	18.592	2.674	40	34.805	28.869	25.989	12.213	3	0.164	
12	SP114	17.054	1.185	20.097	2.991	51	57.342	49.802	46.059	42.942	3	0.832	
									avg.			3.000	0.431

**Table 6.** Chi-square tests for checking the model distribution fitting to the Number of Bidders

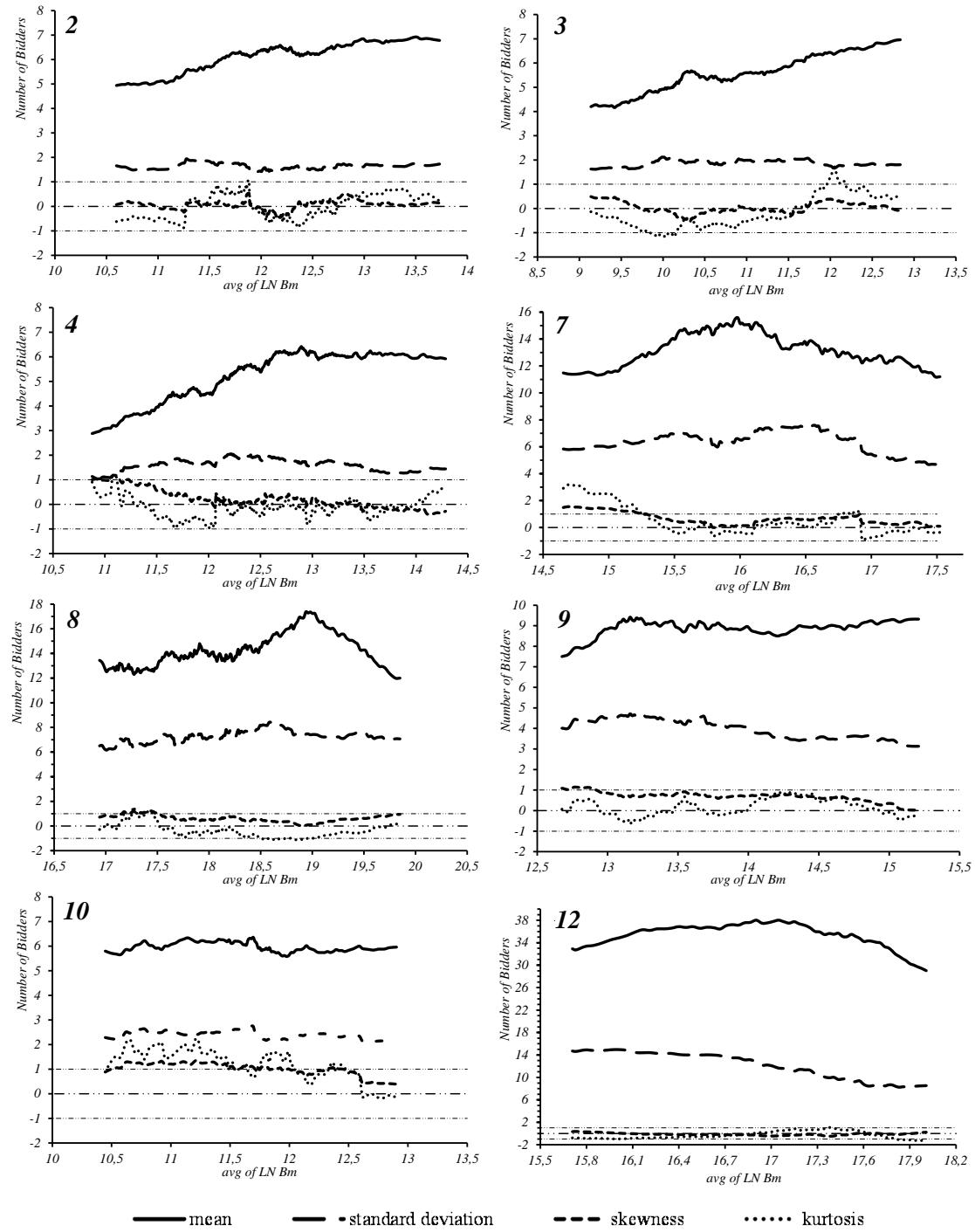
Rank	Distribution	Average values		Std. Deviation values	
		$\chi^2 < \chi^2_{\alpha}?$	p-value	$\chi^2 < \chi^2_{\alpha}?$	p-value
1	<b>New model</b> proposed (with two-LogNormals)	3.000	0.431	0.000	0.269
2	<b>Normal</b> (discriminating by contract size)	2.830	0.492	0.509	0.327
3	<b>LogNormal</b> (discriminating by contract size)	2.623	0.508	0.860	0.335
3	<b>Logistic</b> (discriminating by contract size)	2.811	0.520	0.622	0.328
3	<b>Loglogistic</b> (discriminating by contract size)	2.660	0.535	0.758	0.336
6	<b>Laplace</b> (discriminating by contract size)	2.528	0.589	0.953	0.311
7	<b>LogNormal</b> (without discriminating by contract size)	1.750	0.647	1.357	0.420
8	<b>LogLogistic</b> (without discriminating by contract size)	1.500	0.658	1.567	0.426
8	<b>Poisson</b> (discriminating by contract size)	1.679	0.745	1.384	0.330
10	<b>Logistic</b> (without discriminating by contract size)	1.583	0.831	1.379	0.232
11	<b>Normal</b> (without discriminating by contract size)	1.583	0.836	1.240	0.234
12	<b>Laplace</b> (without discriminating by contract size)	0.917	0.898	1.311	0.178
13	<b>Poisson</b> (without discriminating by contract size)	0.667	0.903	1.231	0.274

**Table 7.** Ranking of distributions analysed for modelling the Number of bidders as a function of the chi-square test results

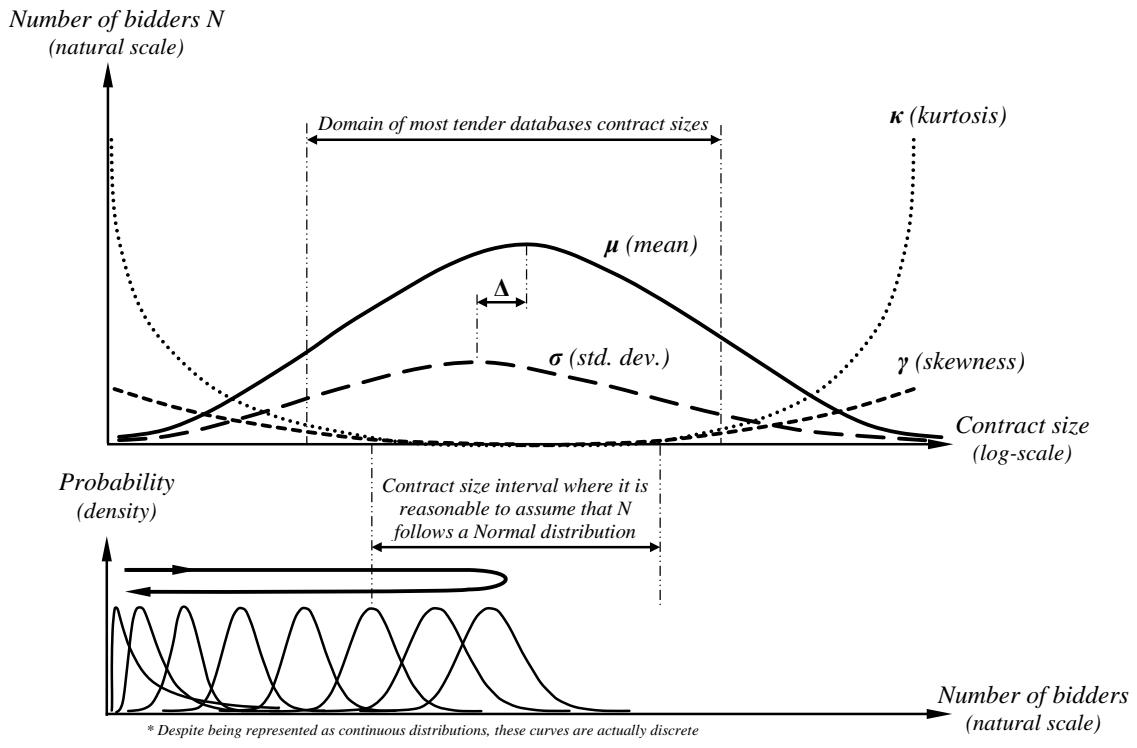


**Figure 1.** Poisson, Normal, LogNormal, Logistic, LogLogistic and Laplace distribution fitting

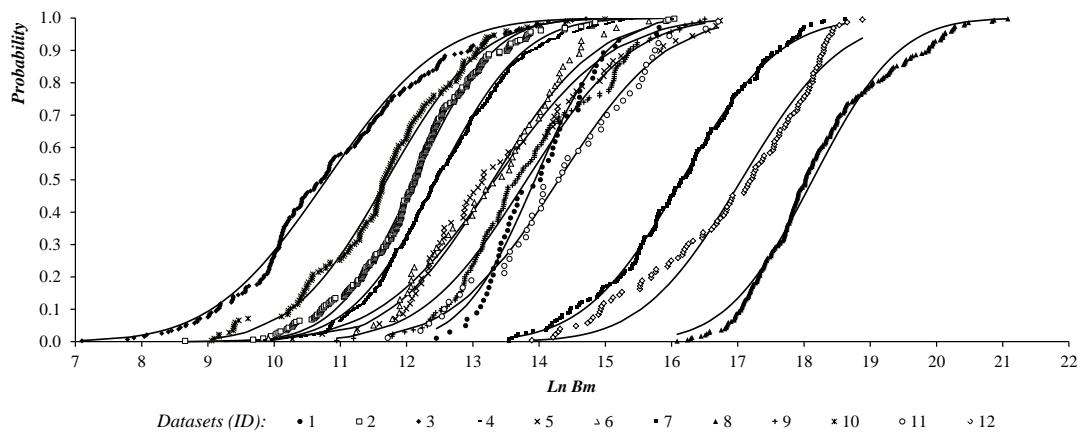
to the Number of bidders distribution for the twelve datasets



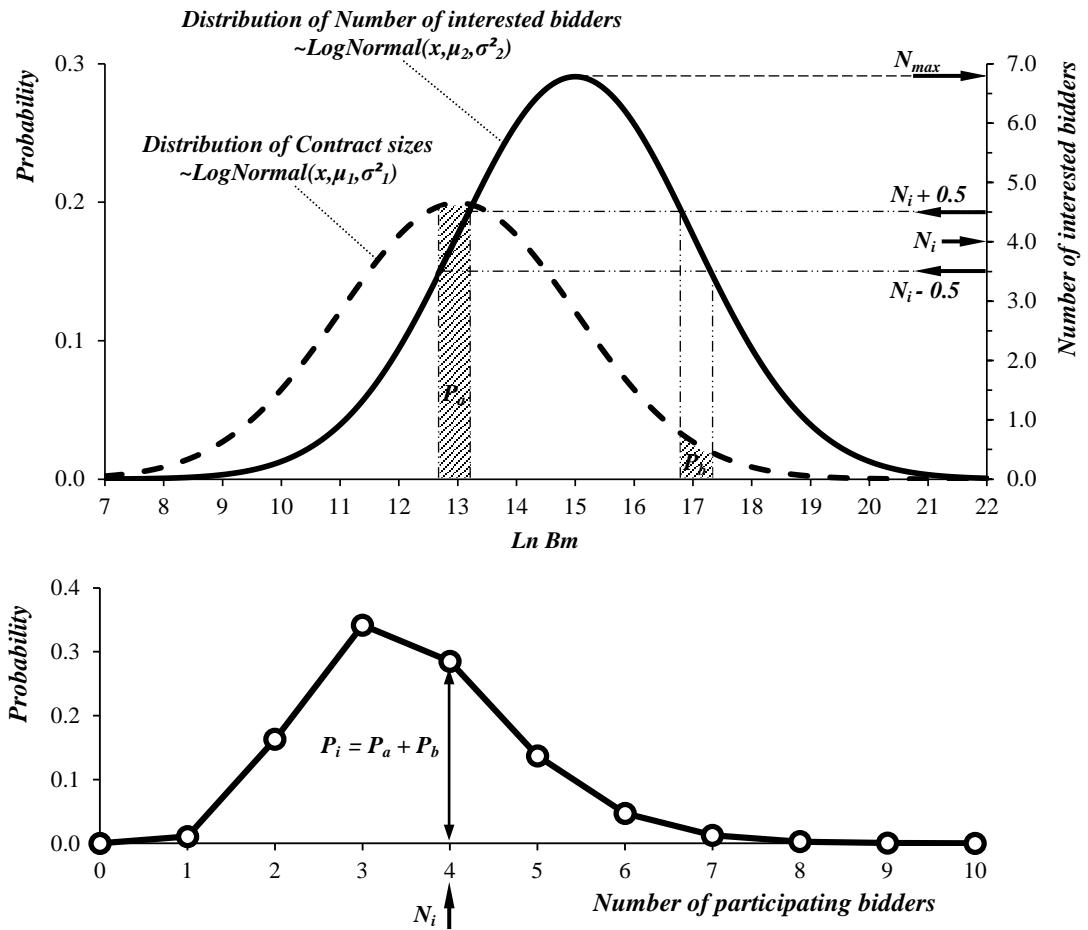
**Figure 2.** Variation of the mean, standard deviation, skewness and kurtosis of the Number of bidders distribution in sliding windows of 50 tenders for datasets 2-4, 7-10 and 12



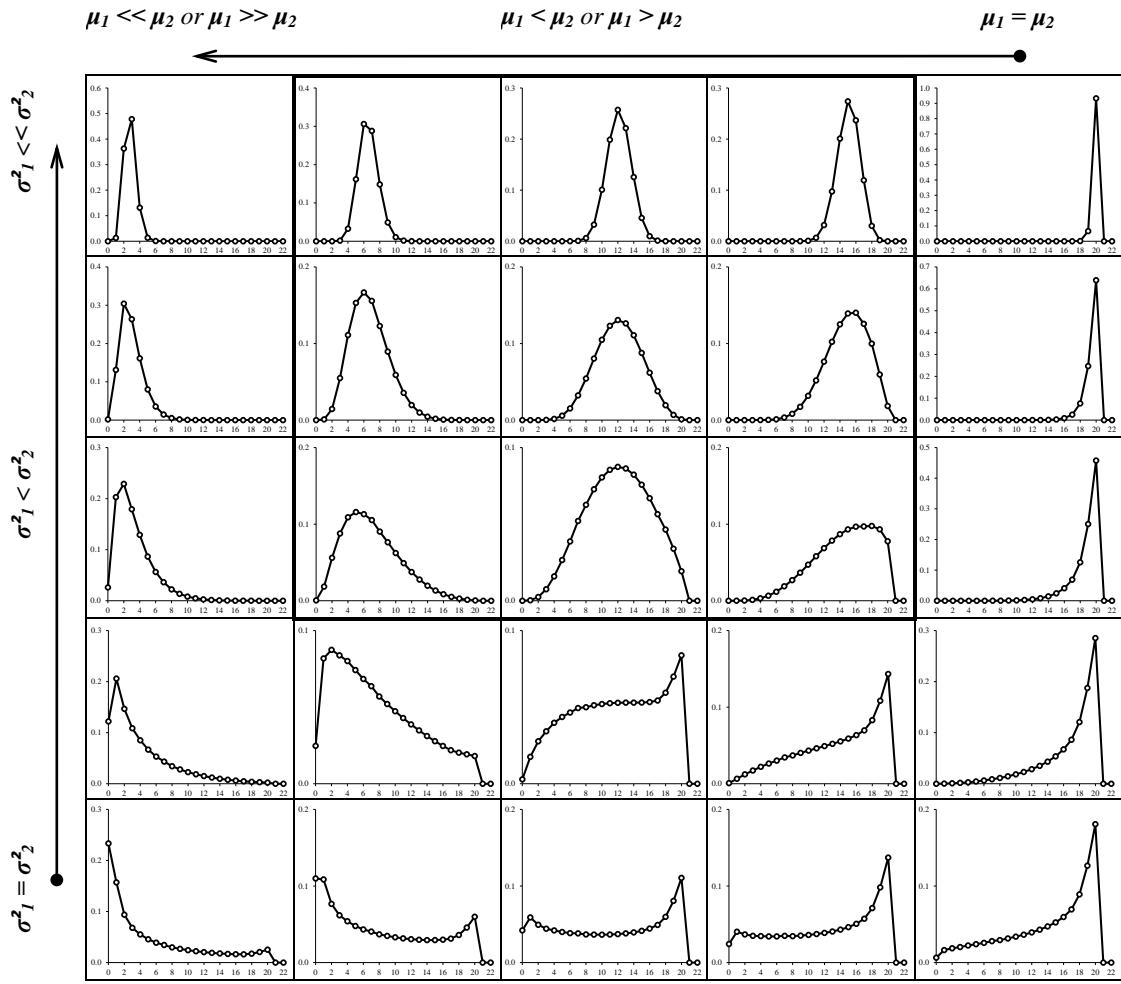
**Figure 3.** Variation in the mean, standard deviation, skewness and kurtosis of  $N$  in terms of contract size



**Figure 4.** Lognormal distribution fitting to the Contract size opportunities for the twelve datasets

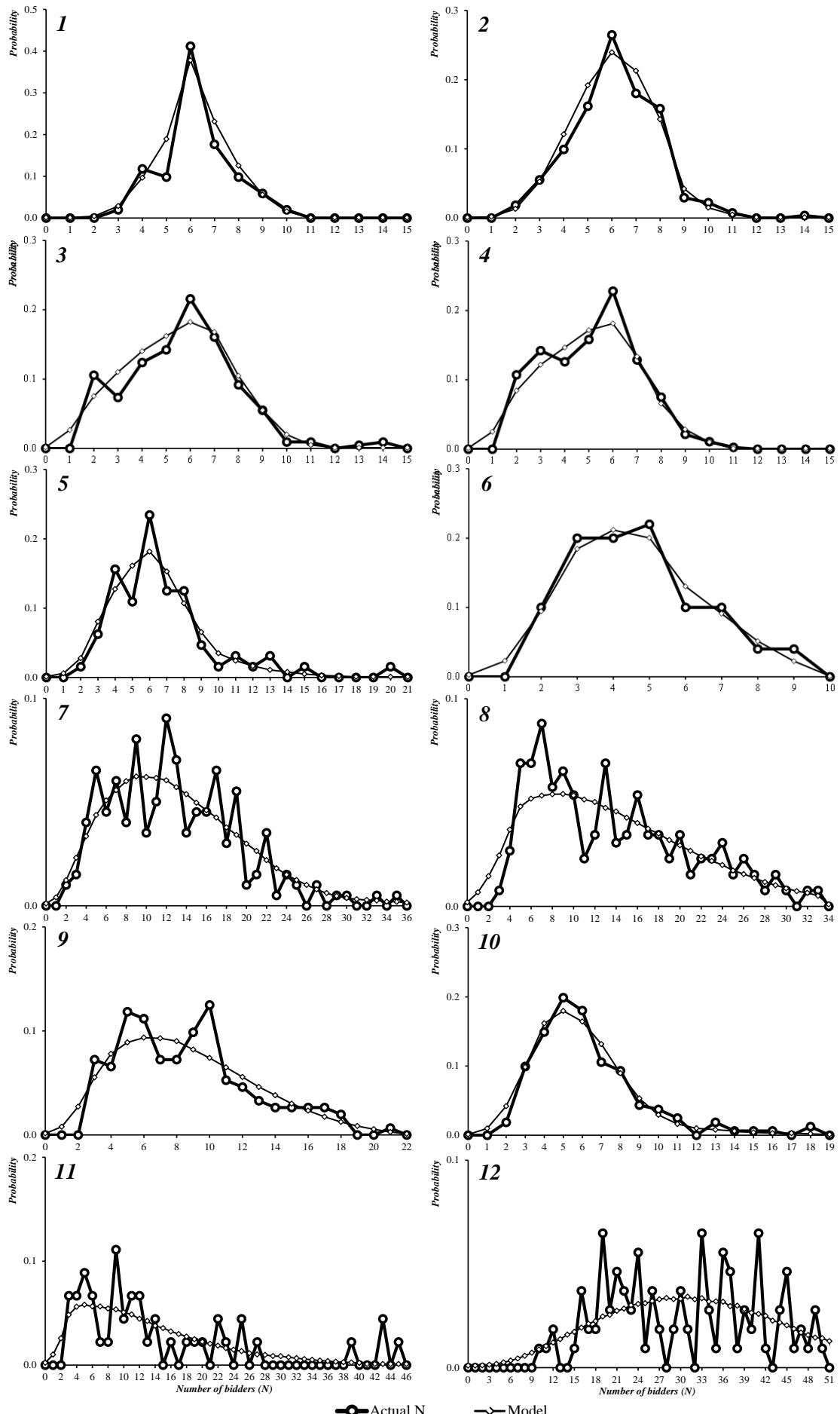


**Figure 5.** Calculation of the Number of participating bidders distribution as a function of the Contract size opportunities and Number of interested bidders distributions



**Figure 6.** Possible Number of bidders distributions as a function of the relative magnitudes of the Contract size

opportunities distribution (1) and the Number of interested bidders distribution (2) assuming both lognormal



**Figure 7.** Model distribution fitting to the Number of bidders considering the complete dataset for the twelve datasets















<i>Order</i>	<i>ID</i>	<i>B<sub>m</sub></i>	<i>N</i>
20	5	5,519,531	16
21	112	5,582,020	22
22	22	5,705,802	41
23	100	6,534,653	16
24	113	6,552,800	37
25	105	7,001,062	16
26	72	7,054,504	65
27	95	8,389,273	40
28	6	8,516,973	21
29	101	8,852,925	15
30	85	9,802,996	47
31	38	10,495,291	50
32	106	10,615,254	16
33	46	10,816,891	39
34	49	11,177,786	47
35	40	11,488,513	49
36	104	12,315,545	63
37	84	14,132,357	44
38	103	14,227,093	60
39	64	14,341,530	23
40	110	16,251,125	33
41	99	16,860,295	10
42	50	17,588,667	49
43	111	17,746,139	25
44	96	18,619,007	12
45	34	19,595,731	42
46	27	20,153,397	41
47	59	20,561,970	59
48	98	20,563,467	11
49	3	21,353,568	30
50	10	21,708,000	33
51	63	22,143,465	23
52	102	22,318,154	55
53	51	26,479,141	31
54	1	27,040,451	45
55	55	27,910,450	52
56	39	28,331,375	45
57	61	29,000,444	41
58	25	30,249,575	41
59	2	30,551,542	45
60	30	30,770,871	30
61	12	31,590,763	36
62	14	31,590,763	36
63	69	33,210,700	39
64	7	34,764,003	34
65	45	35,455,363	41
66	29	35,987,767	41
67	71	39,283,078	30
68	32	41,228,951	44
69	65	41,597,001	40
70	8	42,025,452	38
71	33	42,092,509	46
72	70	43,561,070	31
73	54	45,077,325	37
74	11	45,260,730	37
75	43	45,925,278	41
76	35	49,140,339	36
77	60	49,876,103	37
78	56	51,567,774	44
79	9	51,730,833	33
80	13	53,330,879	27
81	73	56,420,628	33
82	66	59,361,774	37
83	75	59,997,000	29
84	20	60,296,637	19
85	42	62,189,663	35
86	21	64,914,393	27

<i>Order</i>	<i>ID</i>	<i>B<sub>m</sub></i>	<i>N</i>
87	76	66,094,206	29
88	48	69,184,189	39
89	44	70,540,511	36
90	57	71,468,346	33
91	62	71,756,192	26
92	19	74,858,840	19
93	23	74,858,840	19
94	77	75,413,556	24
95	52	75,417,028	33
96	90	78,509,325	24
97	91	79,529,913	23
98	67	82,812,206	30
99	86	83,070,638	17
100	74	83,210,900	26
101	78	84,037,235	24
102	87	87,245,462	17
103	89	88,574,213	21
104	92	88,614,685	21
105	83	89,355,119	20
106	80	91,994,522	19
107	53	93,425,682	26
108	81	95,744,520	19
109	88	99,982,162	22
110	36	101,166,388	18
111	18	102,559,740	19
112	82	112,041,174	20
113	68	126,157,555	21
114	58	158,509,777	18