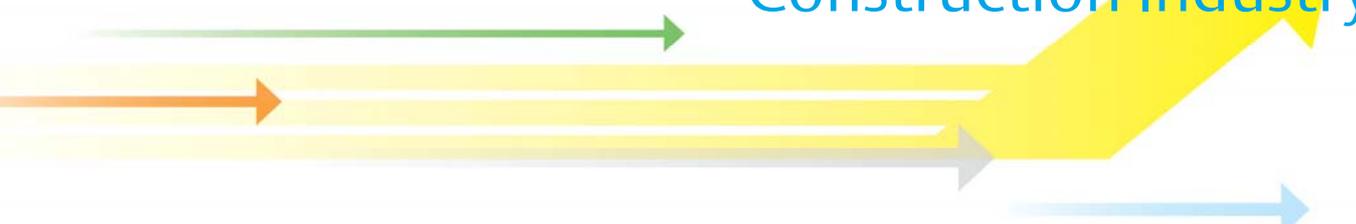


Case Study

Consultancy: Bid rigging and collusion in the Construction Industry



Key Facts

- Bid rigging (or collusive tendering) occurs when businesses, that would otherwise be expected to compete, secretly conspire to raise prices or lower the quality of goods or services for purchasers who wish to acquire products or services through a bidding process.
- The OFT is the UK's consumer and competition authority. It enforces consumer protection law and competition law and conducts market studies.
- The OFT investigates around 25-40 cases of suspected cartel activity every year.
- "Europe Economics" provides consultancy services in economic regulation, competition policy and the application of economics to public policy and business issues. It was invited by the OFT to tender for consultancy work to investigate bid rigging and collusion in the construction sector.
- Will Hughes, Professor of Construction Management and Economics and Head of School of Construction Management and Engineering acted as a consultant on research Europe Economics were producing for the OFT.
- Professor Hughes advised on the design and analysis of the research questionnaire, helped draw conclusions and advised on the final report for the OFT.

The Client

Europe Economics is a specialist applied economics consultancy providing services in economic regulation, competition policy and the application of economics to public policy and business issues.

Europe Economics advises government departments, regulators, international bodies, law firms and private-sector companies and associations in industries such as Broadcasting & Media, Energy, Financial Services, Gambling, Housing, Pharmaceuticals & Health, Post & Telecommunications, Transport and Water.

The Challenge

The Office of Fair Trading (OFT) has uncovered a significant number of competition law violations in the construction industry; in 2004 it found nine roofing contractors guilty of collusion and fined them almost £300,000, and it made four further findings of bid-rigging in the roofing industry, imposing aggregate penalties of £4 million.

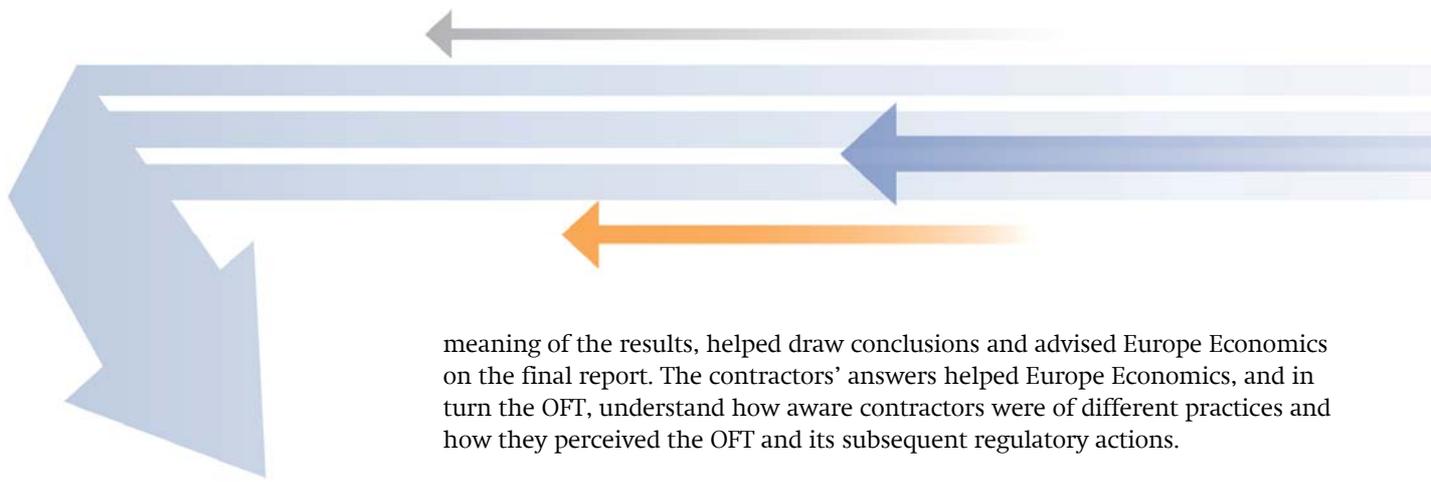
Bid rigging (or collusive tendering) occurs when businesses, that would otherwise be expected to compete, secretly conspire to raise prices or lower the quality of goods or services for purchasers who wish to acquire products or services through a bidding process. Bid rigging conspiracies can take many forms, such as cover pricing, bid suppression, bid rotation and market allocation, all of which impede the efforts of purchasers.

The OFT wanted to learn more about bid rigging and collusion: were construction companies aware of the illegalities of these practices? What was the context in which bid rigging takes place? And what was the impact of past investigations and decisions. The OFT put the consultancy out to tender.

Solution

Europe Economics enlisted the help of Professor Will Hughes, Head of School of Construction Management and Engineering at the University of Reading, who helped put together its original proposal for the OFT.

Professor Hughes was instrumental in the design of a research questionnaire that was completed by 312 contractors and 132 buyers. 23 contractors and 11 procurers were also interviewed face to face. Professor Hughes advised on the



meaning of the results, helped draw conclusions and advised Europe Economics on the final report. The contractors' answers helped Europe Economics, and in turn the OFT, understand how aware contractors were of different practices and how they perceived the OFT and its subsequent regulatory actions.

Benefits to the Client

Europe Economics were able to access Professor Hughes' experience and expertise in a highly specialised subject. His insights and knowledge from previous research fed directly into the consultancy.

Europe Economics were able to take advantage of the competitive edge and offer the OFT expertise from both the commercial and academic sectors.

Benefits to the University

Insight into the actual workings and processes of the OFT allows academics to impart knowledge into teaching practices.

It benefits the University and Professor Hughes to be seen advising on central government policy; they have influenced the OFT's strategy towards bid rigging and collusion.

The consultancy has raised the academic profile of the University and the School, as well as generated income.



'Will Hughes' knowledge of the construction sector strengthened our bid for this work. He provided valuable insights into construction industry business models and helped shape our conclusions.'

Jonathan Green
Europe Economics

University of Reading

The University of Reading is a world-class research-intensive university covering a broad spectrum of disciplines across the Life and Physical Sciences, Arts and Humanities, Social Sciences and Henley Business School. Areas of particular strength include: Climate Systems Science, Preventative and Therapeutic Health Sciences, Sustainable Construction and Environments and Computational Science and Informatics.

The University works with businesses providing support for research and development, as well as access to expertise and equipment to solve business challenges. To find out how you can access the leading minds at the University of Reading please contact our Knowledge Transfer Centre.