

Letters and Viewpoints

(Contributions to this section are invited but we reserve the right to edit at our discretion—Ed.)

From Professor Alan Mercer, University of Lancaster

Dear Sir,

In a recent paper by Paul Sugrue,¹ he describes a paper² of which I was a joint author as a refinement of the early pioneering work by Friedman, in which "the objective is to select the bid which maximises the expected value of the profit resulting from the contract under the assumed probability distribution of competitor bids". Indeed we specifically stated that our paper differed from the Friedman approach and that a "firm must attempt to evaluate its competitors' policies quantitatively". Alas, Sugrue has completely failed to understand our point, which is that the Friedman approach is generally inapplicable because it assumes that bidding is inherently a probabilistic process. Only in the construction industry does that appear to be true, and then it is because a probabilistic cost estimate, due to factors outside of management's control, plus a deterministic markup give a probabilistic price.

Yours faithfully,
ALAN MERCER

References

- ¹PAUL SUGRUE (1982) Optimum bid estimation on fixed cost contracts. *J. Opt. Res. Soc.* **33**, 949-956.
- ²A. MERCER and J. RUSSELL (1969) Recurrent competitive bidding. *Opl Res. Q.* **20**, 209-221.

From C.R.S. Talbot, H.M. Customs and Excise

Dear Sir,

OPERATIONAL RESEARCH AND THE CONTROL OF VALUE ADDED TAX

I was pleased to see the letter by R.W. Canvin¹ on my paper² and should like to comment on the points he has made.

As a result of the project, our ability to predict likely underdeclarations of tax improved significantly. Of course, we still cannot be sure before visiting an individual trader whether any underdeclared tax will be discovered, so that some visits do draw a blank in terms of actual revenue gain. However, all traders are grouped on the basis of perceived risk, and yield cost ratios are calculated as a check on our allocation of resources to the groups.