

Direct Award: Efficiently Placing Requirements Without a Tender

Direct award refers to the commissioning of a supplier without a preceding competitive round, for example without a formal tender or multi-stage request for quotation. In practice it is an established instrument of the procurement process for quickly meeting bottlenecks, urgent needs and smaller volumes. Since competition is dispensed with, direct award places particular demands on approvals, documentation and compliance. This article explains the definition, process, control mechanisms and typical pitfalls from the perspective of industrial buyers.

Key facts

- Direct award means placing an order with a supplier without competitive sourcing, for example in cases of urgent need or sole-supplier situations.
- Typical use cases are spare parts, short-term additional demand, maintenance services and mono- or sole-supplier products.
- Value thresholds and approval instances determine in practice up to which amount which role may award directly.
- A clean award note documents the reason, supplier and price basis of the direct award in an audit-compliant manner.
- Without a competitive comparison, the risk of excessive prices increases, which is why price references or index clauses make sense.
- For public-sector buyers, separate threshold values apply; whether a direct award is permissible must be examined on a case-by-case basis.

Definition: Direct Award

Direct award is the term customary in procurement law and procurement practice for placing an order with a single supplier without several providers previously competing for the contract. It thus stands in contrast to the open tender or the two-envelope bid, in which technical and commercial bids are evaluated separately.

Distinction from free-hand award

In the public sector, the free-hand award is a legally defined case of direct award, for example due to urgent need or exclusive services. In the private sector, the term is less standardised: here, direct award describes any documented individual order that deviates from the regular request process. In both cases, what matters is a comprehensible justification of why no competition took place. This is frequently recorded as an award note in the file or in the ERP system.

Position within the Procurement Process

Direct award is a side route of regular sourcing: the requirement is specified as usual via the requirement specification, but the request for quotation, bid comparison and award decision in the

committee are omitted. Instead, a defined approval authority steps in. The ordering process itself – from procurement through the purchase order to invoice verification – remains identical, which is why direct awards can be integrated well into order process optimisation.

Use Cases and Methods of Direct Award

Every organisation should set out binding rules on when a direct award is justified. Otherwise there is a risk of sham justifications to circumvent the competitive process and, in the medium to long term, an opaque procurement volume.

Typical Cases of Justification

Several standard cases have become established in practice: urgent replacement requirements for shortage-part management, when a plant is down and a tender would prolong the downtime disproportionately. Furthermore, mono- and sole-supplier situations resulting from the supplier landscape analysis, as well as small volumes below a defined threshold value. Follow-up and additional orders under existing framework agreements are also frequently handled as direct awards, provided the contract so provides.

Agreements with the Supplier

Since the price does not arise through competition, the price basis should be reliable. Suitable options are list prices with discount scales, reference prices from previous tenders, index linkage or a user alignment via a Quarterly Business Review (QBR). For imports, the agreed Incoterms serve as the reference framework; the choice of Incoterms EXW shifts transport and risk to the buyer and should be a deliberate decision because of possible additional costs such as freight surcharge or demurrage.

Small Quantities and MRO Requirements

A considerable proportion of all direct awards involves smaller amounts, for example in the small-order process for wear parts, tools or services. Here it is worthwhile creating a dedicated maturity stage with simplified approvals, catalogue orders or pre-populated framework agreements. The goal is not to prevent every direct award, but to make it standardised, fast and audit-proof.

Key Metrics for Managing Direct Award

Direct awards can be managed in a measurable way. The key levers are share of procurement volume, processing time and price deviation from references.

Share and Volume

The direct award share – usually measured as a percentage of purchase order line items or procurement volume – shows how strongly the procurement team deviates from the competitive principle. A marked increase in this share is often an early warning sign of weak framework agreements, incomplete master data or escalating urgent needs. An evaluation by commodity group, plant and approval level is useful.

Lead Time and Degree of Automation

In cases of urgent need, the lead time from requirement notification to order is the decisive factor. The touchless rate – the share of orders executed fully automatically and without manual intervention – shows how well the small-order process has been digitalised. High direct award shares with a high

touchless rate for small amounts are not a problem, but a sign of efficient order process optimisation.

Price Deviation and Verifiability

To check whether direct awards are genuinely market-compliant, procurement teams compare concluded prices with reference prices, index values or later tender results. Frequent upward deviations indicate the supplier's price-setting power or manual errors in price capture. The completeness of award notes is also a measurable quality metric.

Risks and Controls of Direct Award

Dispensing with competition creates risks: excessive prices, dependencies and compliance violations. With clear rules and controls, these risks can be effectively contained.

Price and Dependency Risks

Without comparative bids, the market test is missing. Especially with sole suppliers, price increases are otherwise difficult to counter. Countermeasures include contractual limitation of liability and price clauses, regular supplier landscape analyses to identify potential second sources, and the targeted development of alternatives. Supply chain resilience and direct award are in tension: whoever has only one route is vulnerable to failures.

Compliance and Documentation

Every direct award requires a comprehensible justification, a competent approval and an award note. Unclear threshold values or verbal approvals are the most common audit findings. For public-sector buyers, formal thresholds and justification obligations also apply; whether a case is permissible must always be examined on a case-by-case basis. ESG requirements are also playing an increasingly important role: the supplier's ESG risk rating should be available at least for larger direct awards.

Quality and Warranty

Direct award does not exempt from the usual quality assurance measures. Warranty claims, delivery inspections and complaint processes apply unchanged. For complaints, structured methods such as 5 Whys help to systematically uncover causes – especially with urgent purchases, where errors can occur under time pressure. Inventory metrics such as stock coverage or stocktaking discrepancies also show whether urgent need was genuinely unforeseeable or resulted from poor planning.

Current Developments: Digitalisation of Direct Award

Direct award is increasingly shifting to digital channels: catalogue systems, marketplaces and AI-supported RFQ tools reduce the effort involved in competitive rounds to such an extent that direct awards become less necessary – or at least can be documented more cleanly.

Catalogues, Marketplaces and Master Data

Qualified master data management is the foundation for fast direct awards: when articles, prices and suppliers are properly maintained, a requisitioner can place a valid order within a few minutes. B2B marketplaces complement this with vetted supplier profiles and standardised terms and conditions, which makes alternatives visible especially in sole-supplier situations.

AI-Supported Sourcing and Automation

AI applications shorten the path from requirement specification to request for quotation: they help to structure technical requirements, suggest suitable suppliers and generate RFQs automatically. As a result, the effort involved in competitive rounds falls, and direct award loses part of its original justification – speed. At the same time, AI tools can automatically check direct awards for missing justifications and flag outliers.

Supply Financing and Payment Terms

For unforeseen urgent needs, financing plays a role. Supply chain finance instruments allow suppliers to obtain liquidity earlier despite longer payment terms, without the buyer having to accept price mark-ups. This also makes direct awards economically more predictable when short-term additional demand arises.

Typical metrics

Direct award share: typically < 20 % of line items

Practical benchmark; varies considerably depending on industry and commodity group

Award note rate: > 98 %

Share of direct awards with fully documented justification

Urgent need lead time: frequently 1–3 working days

From requirement to order; key advantage of direct award

Price deviation from reference: ± 5 –10 % usual tolerance

Larger deviations should be justified

Practical Example

A medium-sized mechanical engineering company found that more than a third of its purchase order line items were running as direct awards – many of them ad hoc from production, without an award note and without a price reference. In a review project, all approvals and value thresholds were first redefined. In parallel, the company built up framework agreements for the most frequently ordered spare parts and introduced a standardised direct award workflow with mandatory justification for the remaining urgent needs.

- Introduction of a two-stage approval: up to EUR 5,000 by the clerk, above that by procurement management
- Establishment of framework agreements for the 200 most frequently ordered spare parts
- Mandatory field award note in the ERP system with automatic completeness check
- Quarterly evaluation of the direct award share and the price deviation from reference

Conclusion

Direct award is neither good nor bad – it is a necessary instrument when speed or a lack of alternatives prevent competition. What is decisive is the framework of rules: clear cases of justification, defined approvals, complete documentation and regular evaluation of metrics. Those who also address the causes of frequent urgent needs – for example through better planning and framework agreements – permanently reduce the share of direct awards. In this way, the direct route remains the exception it should be, and competition the rule.

Frequently asked questions

What does direct award mean in procurement?

Direct award refers to the placing of an order with a supplier without a prior tender or bid comparison. It is typically used in cases of urgent need, sole suppliers or small amounts. A prerequisite for clean practice is a documented justification, often recorded as an award note.

When is a direct award permissible?

It is permissible if a recognised justification exists – for example urgent need, exclusive supply capability or amounts below a defined threshold. For public-sector buyers, statutory rules and threshold values also apply, whose applicability must be examined on a case-by-case basis. In the private sector, internal policies govern permissibility.

What is the difference between direct award and free-hand award?

Free-hand award (freihändige Vergabe) is a legal term from public procurement law and refers to the award of a contract without a formal procedure. Direct award is the more general term and is used in the private sector for any individual order placed without competition. In substance, both amount to the same thing: an order without a bid comparison.

What are the risks of direct award?

The main risks are excessive prices due to the lack of a market comparison, increased supplier dependency and compliance violations where documentation is missing. Countermeasures include price references, clear approval rules and regular supplier landscape analyses. Quality and warranty claims must also be safeguarded as with any order.

How can the share of direct awards be reduced?

Successful approaches include framework agreements for recurring requirements, well-maintained master data management and catalogue ordering within the small-order process. It also helps to eliminate the causes of urgent need, for example through better demand planning and inventory metrics. AI-supported RFQ tools additionally reduce the effort involved in regular tenders.

Does a direct award have to be documented?

Yes, from a compliance and audit perspective every direct award should be documented: with reason, chosen supplier, price basis and approval. In practice, a standardised award note in the ERP system has become established. A high award note rate is also a good indicator of process discipline in procurement.