

Outcome led procurement

The view from
the supply chain



**CONSTRUCTING
EXCELLENCE**
Midlands

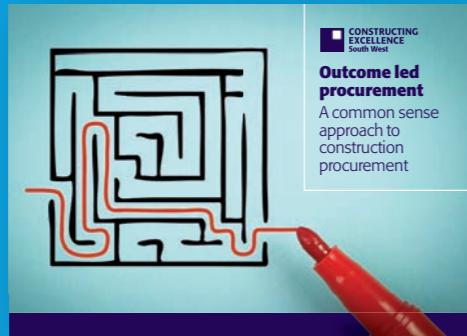


Introduction

Business as usual

Contents

- 1 Introduction – business as usual
- 3 Why does not knowing outcomes matter?
- 4 Where things go wrong
- 6 Making things better



Following the publication of the earlier guidance
Outcome led procurement
– *A common sense*

*approach to construction procurement*¹, the Constructing Excellence South West Procurement Forum has been looking at the procurement of construction projects through the eyes of its supply chain.

This guide has been produced by Constructing Excellence South West's Procurement Forum led by their drafting team of: Martin Howe of Keystone Law, Andrew Brown of Churngold Construction, Paul Richards of Aquarian Cladding Systems and Martyn Jones of CESW.

Currently supply chain members have to price first and discover the true extent of the works and the attendant risks later.

Their view is that main contractors rarely, if ever, procure supply chain involvement on the basis of the outcomes they want to achieve. Usually (as with the procurement of the main contractors themselves) procurement is based on 'price led procurement' with little understanding, still less communication, of the outcomes wanted, inadequate detailing of the work required and a lack of engagement to discuss what works will be necessary, how they could be carried out more effectively and what the major risks are likely to be. Instead, the assumption appears to be made that those tendering for the relevant works will be able to sort out any gaps, assess the risks and price accordingly. Not surprisingly, this assumption is usually wrong.

As a result, supply chain members have to price first and discover the true extent of the works and the attendant risks later. It should be no surprise that their primary attention is then focused on carrying out their works so as to make a profit from the price they have tendered, not on the best outcome for the project.

¹ Available to download at <http://constructingexcellence.org.uk/resources/outcome-led-procurement-a-common-sense-approach-to-construction-procurement/>



Currently supply chain costs contain duplicated risk allowances with no one effectively mitigating or managing those risks.



Why does not knowing outcomes matter?

This matters because the prices obtained are unlikely to be accurate – how can they be if (as is often the case) the extent of the works required is not clear and (in almost every case) the potential risks are not known?

All main contractors are achieving (assuming tenderers are willing to respond at all) is a series of guestimates including undisclosed risk allowances, with the likelihood that individual members of the supply chain are all pricing similar risks (e.g. that their own works will not progress smoothly and/or will be delayed by others).

So the overall supply chain cost contains duplicated risk allowances, with no one effectively mitigating or managing those risks and each supply chain member focused on getting their own work completed with the minimum of interface with others in the supply chain.

A real life example demonstrates the potential problems: on a project for a new office building, the main contractor tendered for two separate packages: the supply and installation of windows and the supply and installation of a brick cladding system (the latter chosen to reduce the time for installation on site).

Both packages were tendered entirely separately. Neither subcontractor knew, or was told, the identity of the other and it was assumed that the architect's drawings would provide all the information required for both packages to be accurately priced and installed. The windows needed to be installed so to fit with the cladding, which would be installed afterwards. The window supplier subcontracted the installation of the windows to a general builder.

Unfortunately the drawings did not show the necessary tolerances for the vertical and horizontal positioning of the windows in order to fit with the cladding. The windows were installed out of line such that the cladding could not be installed in the supplied panels because, in places, the cladding would overlap the window openings.

To get round this problem, the cladding supplier ended up cutting the cladding panels into smaller strips and aligning the strips around each window so as to better hide their mis-alignment. This involved a great deal of additional work and additional payment to the cladding supplier and the original time saving was lost. The problem could very easily have been avoided if the window and cladding supplier had spoken beforehand and if the architect had been aware of the potential issue.

As it was, neither subcontractor was aware of the other, the architect had not detailed the interface between the windows and cladding and the main contractor had not picked up that there was any potential issue in marrying the window and cladding installation.



Where things go wrong



The following are examples of where things go wrong. It is not intended as an exhaustive list but hopefully provides pointers for where problems are likely to arise.

Requesting fixed prices for work that is not clear

– this sounds like it should never happen, how can anyone quote for something that is not clear? Unfortunately, this happens very often. It is assumed that, for example, any ground work subcontractor will be able to provide a realistic price for site clearance without needing to know anything about the nature of the ground being cleared, or that a decorator will know exactly how much preparation will be involved in decorating different types of finishes, even though there is no clarity about the finishing details required from preceding trades.

Requesting prices for works with no understanding of the risks relating to those works

– this is standard practice in the construction industry but how can it be accurately priced and what happens if risks occur? The unfortunate truth is that the main contractor, and ultimately the client, take the risk of subcontractor failings and failures, notwithstanding the potential availability of legal remedies to recover some (but never all) of the costs and time wasted in dealing with the consequences.

Requesting information that is not relevant to the works being tendered

– for example, asking ground work subcontractors for a small site clearance scheme to provide evidence of having ISO 9001 certification;

Providing too much and irrelevant information

– for example, providing a CD-ROM or a link to a drop box containing all the information originally provided by the client to the contractor for the whole project. If subcontractors have the time to read through the documents (most probably won't), they will find no detailed information in respect of the works they are being asked to provide. This is simply time wasting.

Not allowing enough time

– providing detailed information which tenderers need to read and consider and provide a detailed written response to within a very short period. Certainly when a supply chain is busy, these late requests are likely to be ignored.

Requesting too much information

– for example, requesting full method statements, programme and resource schedule for a small subcontract package where it is not known when access is likely to be provided, which related packages will need to be co-ordinated and what the contractor's programme for completion of the project is. Requests to provide too much information at tender runs the risk that subcontractors do not tender at all or else simply ignore the request.

Sending tenders to more than five subcontractors

– as an example, one large housebuilder explained that it was sending out tenders to 9 specialist subcontractors because of their previous experience of getting only one response back! No-one wants to have only a one in nine chance of winning.



Making things better

Without seeking to provide a definitive guide, here are some of the practical steps to better procurement of supply chain members.



Getting the basics right

What do you want, when do you want it by and how does what you want fit with related elements of the project being designed / installed by others?

Have you made clear what you want? At the very least, what works / supply do you need, over what timescale and what information does the subcontractor / supplier need to be able to price what you want?

To achieve this, the supply chain needs to clearly understand:

- what they need to do;
- how this fits with the work of others, (so that interfaces can be understood and managed);
- the timescale for doing the work;
- and needs to have a reasonable opportunity to consider the risks involved and how the risks can be best mitigated / managed (this will almost certainly require input from others, in particular the main contractor).

Think value not price

Lowest price is worth nothing if the supply chain doesn't perform. If they don't fully understand what they are being asked to do and they don't understand how this fits with related packages, the chances of poor performance are high. Engage with the supply chain to find out what information they need and how they might be able to add value by carrying out the works quicker and cheaper and with less risk to programme. Since they will be specialists in what they do, the chances are they will know far more than you about these things than you. But if you don't engage with them, this value will be lost.

Develop relationships with repeat subcontractors

The feedback from the supply chain is that they will be willing to assist repeat customers far more than one-off customers. They also remember how they have been treated on previous jobs and repeated bad experiences are likely to lead to an unwillingness to tender for future projects or the inclusion of higher risk allowances. Poor main contractors can end up paying a premium because of their poor reputation in the supply chain. This also extends to individuals within an organisation – one subcontractor explained that they are very happy to work for Contractor B, so long as individual C is not involved. If individual C is involved, they will not bid.

A major factor in overcoming the inherent risks in tendering and contracting is the ability of subcontractors to talk openly to trusted contractors. A conversation about why a contractor was proposing to strip a site and remove the topsoil, rather than cleaning it and storing it on site for re-use in landscaping led to substantial cost and time savings for the main contractor and secured the work for the particular subcontractor based on rates tendered for a previous project. This approach also reduced the time to engage the subcontractor and get the work done.



If you don't engage with suppliers, value will be lost.

Don't include subcontractors on a tender list if you don't want to work with them. It sounds simple but often doesn't happen. A practice that is used by some contractors is to include a subcontractor on a tender list who has a reputation for aggressive bidding. In many cases, the relevant subcontractor has an accompanying reputation for poor performance but is nevertheless included in the tender to 'encourage' the other tenderers to bid low. The problems with this approach include:

- (i) you may end up having to work with this subcontractor and manage their poor performance;
- (ii) you may discourage other subcontractors from bidding; and
- (iii) if other subcontractors do bid lower than they otherwise would, they are likely to be focused on maintaining their margin by providing the least practical resources and input.

Communicate!

Pre-tender

If you are not sure what will be required, talk to someone in the supply chain and find out what they consider will be required. Supply chain members will generally be willing to provide input in this way if it will increase their understanding of the project needs and give them useful intelligence in tendering for the work.

In many cases, subcontractors and suppliers will be willing to act as a sounding board for contractors' proposals for subcontract packages, providing outline advice on the likely costs and timing for the relevant works and discussing what the foreseeable risks for the particular package are and how they might be mitigated. However, as mentioned above, subcontractors and suppliers are likely to be more willing to assist repeat contractors whom they trust.

During a tender period

A phone call will rarely go amiss to check that subcontractors/suppliers have the information they require and are putting together their tender responses. This communicates that receiving sensible tender responses is important and offers forewarning of problems and/or lack of interest.

Post tender

Provide feedback on how subcontractors/suppliers got on and, in simple terms, where they lost out and potential areas for future improvement. This doesn't have to be long-winded or formal but provides a learning process for future tenders and sets contractors out as being interested in potentially working with the unsuccessful tenderers in the future.

During the project

Keep subcontractors and suppliers up to date with how the project is progressing relative to their package/supply. Let them know whether the project is running ahead or behind programme and offer them the opportunity to liaise with related packages to ease potential interface issues. Also, consider whether their input would be helpful to the design which includes their element and/or the construction planning of their works/supply. It may be worth paying for this input to avoid the more costly implications of dealing with the problems that otherwise arise.

Usually procurement is based on 'price led procurement' with little understanding, still less communication, of the outcomes wanted.

Don't be afraid to negotiate subcontract packages

There is a popular myth that tendering is necessary in order to get the keenest prices. This is nonsense. For all the reasons above, a tendered price based on a lack of understanding of the exact works required and the risks involved may not be deliverable. If it isn't, the main contractor will not find the subcontractor proactive and co-operative and will probably face a battle to get the subcontractor to perform as required. In contrast, early engagement of relevant subcontractors so that they are able to input into the more efficient design and construction of the relevant package may provide benefits far greater than the notional 'savings' achieved from a competitive price tender.

By way of example a main contractor was looking at the options for installing brick work for a multi-storey residential building with multiple columns and infill areas. Initial thoughts were that the irregular facades would dictate the use of bricklayers on site – over 100! The main contractor engaged with a specialist brick cladding supplier who developed a 3D model of the structure of the building and worked out the number of different panels required and priced for this solution, knowing that it would work. As a result, the main contractor made a saving against his budget for the brickwork and made a very significant reduction in his construction programme since the panels were manufactured in advance and delivered to site in order of installation and installed without incident.

As an alternative to a formal tender, negotiation with two subcontractors/suppliers (provided both are fully aware of the competitive element) can provide better responses that meet the contractor's needs compared to formal tenders where the quality of the responses are only apparent after they are received, by which stage it is usually too late to correct misunderstanding or omissions.

Put yourself in the position of your potential subcontractors/suppliers

Would the information they are receiving, the information they are being requested to provide and the time frame within which they have to provide it (taking into account the value of the relevant package) encourage you to bid? If you have any doubts, take soundings from potential bidders before you send out tenders.

Look for the 'win-win' solution

A successful outcome will be where you make a profit and so does your supply chain. This extends not just to the initial pricing but also to the delivery on site – a properly planned delivery will be more predictable and likely to save time and money.

A word about retentions

Don't get a reputation for holding on to retentions or unreasonably delaying payment. Subcontractors and suppliers compare notes on how particular contractors/individuals within contractors perform and persistent late payers will find that subcontractors/suppliers are factoring in to their prices contingencies for the fact they might not get paid all of their retention or might not receive it for many months after completion.



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