



Construction Clients' Protocols Best Practice Guide 4: Procurement

Written by clients for clients

Procurement

The successful procurement of construction outputs, (buildings, infrastructure, etc.) is best viewed as part of a broader asset life cycle, rather than a standalone process.

Procurement is therefore, part of a system that commences at the inception stage, (with a robust business case based on the desired organisational outcomes) and is concluded only when the facility has been brought into use with proper arrangements made for asset management.

This guide aims to bring together current ideas and language surrounding procurement in a simple, accessible form with the aim of improving all round understanding of current industry best practice.

What are the benefits to you?

- Continuous improvement across all aspects of project delivery
- Better whole of life value from your construction project
- Happier users of the facility, asset or end product
- Clearer, more accountable investment decisions
- Better control of risks
- Enhanced predictability of cost and time
- Improved Health & Safety on your project
- Reduced disputes and their associated costs

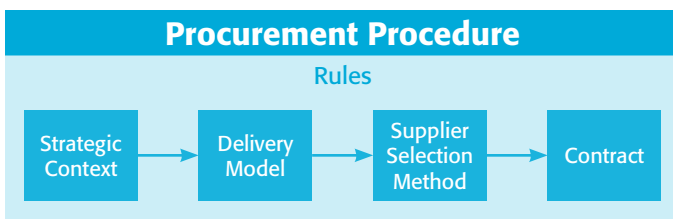


Figure 1: Procurement Procedure Model, Source: NZTA Procurement Manual

“At its heart, better procurement and industry integration is about improving efficiency, eliminating waste, raising safety standards and reducing project risk”

What does Procurement include?

Key principles of best practice in procurement which have been proven to deliver best value outcomes can be viewed around three main areas:

Client Leadership – The Groundwork

Having a robust procurement strategy and funding model, adequate governance, client skills, a clear business case and brief are fundamental aspects of procurement.

Acquiring the supply team

Establishing long-term relationships based on continuous Performance improvement, early involvement of supply chain and a focus on acquiring suppliers who possess quality indicators, demonstrating a track record in efficiency and elimination of waste, are all key factors in delivering best value performance outcomes.

Managing the team

Establishing integrated teams with frameworks, encouraging collaborative behaviour and measuring performance in a 360 degree process are critical aspects of managing the team in modern procurement methods. Challenging teams to beat their own targets is a key benefit of long term relationships.

Supply chain partners should be challenged to demonstrate their:

- Competence
- Capability to undertake your project
- Capacity to do your project
- Ability to collaborate
- Commitment to working in an integrated way
- Commitment to training and up skilling their people and supply chain
- Ability to innovate
- Understanding of whole of life
- Ability to work with and understand the needs of end users
- Openness and honesty
- Transparency and trust
- Fair payment practices e.g. 30 day payment periods
- Ability to understand and manage risk
- Pro-active mechanisms to manage out disputes
- Successful past performance
- Quality Indicators, (KPIs)

How do you do it?

Client Leadership – The Groundwork:

The Business Case: For each individual procurement activity, ensure that a robust business case has been developed with clear value statements which can be communicated to the market and the successful supply chain.

Value for money and Cost Benchmarking: Clients should be aware, when they go into the market for construction work, what its price should be. At the outset of the project, benchmark similar projects, (which have been proven to deliver value for money) for cost, time, quality and outcomes in order to set the standards required. Include a 'cost ceiling'.

Align design/construction with operations and asset management: Clearly define end user requirements and involve end users and supply chain partners in the establishment of the business case and the project brief as well as the delivery of the output further down the line.

Understand the difference between Procurement Strategy, Delivery Models, Supplier Selection processes and Forms of Contract, (See Figure 1, NZTA Procurement Procedure model overleaf).

Building Information Modelling (BIM) is a major contributor to significant savings in time, cost and overall waste. Consider your policy on BIM and how you can influence the supply chain to deliver your projects using this modern tool. It may be worth investing in your supply chain upfront to reap greater benefits further down the line. Consider as part of the business case.

Establish Supplier Relationship Management processes, especially if your organisation procures from different centres across the country. Ensure that there is a single point of contact at the right level in the hierarchy of both the client and supplier for each supplier used frequently.

Publish your planned programme of work with your preferred supply teams to enable them to gear up with the right level of skills, innovation, and equipment.

Review the risk in the project and work to allocate responsibly and appropriately. Clearly identify and financially quantify risk, allocate in line with ownership and ability to manage. Remember that only the client holds the ultimate risk of the facility/end product not delivering the required benefits.

Acquiring the supply team

Establish long-term relationships based on continuous performance improvement, project to project, whilst maintaining mechanisms to retain a competitive tension and enable new entrants to your portfolio. **There are established methods of achieving this which are publically available, so carry out some research if there are any concerns.**

Involve appropriate suppliers early in the process, (at business case if possible) and ideally, 'buy the team before you feel your 'facility' coming on', i.e. develop long term relationships via

'preferred suppliers' 'frameworks', 'panels' or other mechanisms around your portfolio.

Efficiency and elimination of waste: Pre-qualify suppliers to reduce repeated submissions of information project by project. Move towards standard forms of contracts with minimal amendments. Use integrated project insurance. Ensure fair payment provisions are set in place at the project outset. Recognise that tendering is a cost to the market and can impact on a suppliers sustainability. Long term supply relationship such as panels, frameworks and preferred suppliers will reduce the cost of tendering project by project to a wide market.

Set robust quality attributes in acquiring businesses that focus on excellence in all aspects of their people, customer, supply chain and financial management. Satisfy yourself that each supply is financially stable.

Collaborative Working: Acquire main contractors and consultants who work collaboratively with each other and their supply chain and can demonstrate positive results of doing so. Aim for a fully integrated team.

Integrated Teams: Empower the preferred contractor to bring their preferred team of suppliers to the project via documented evidence of value from past performance rather than force them to bring the 'cheapest bidder'.

Managing the team

Encourage a single collaborative programme developed and bought into by all project team members.

Encourage a single collaboratively managed risk register with fully costed mitigation plan managed on a day to day basis.

Encourage collaborative behaviour and work with the team as a collaborative team member.

Measure Performance in a 360 degree process with live feedback throughout the team.

Challenge the teams to beat their own targets and set up reward mechanisms to drive such behaviour. Become familiar with 'pain, gain' mechanisms.

Engage a culture of continuous improvement.

Encourage Lean Construction principles to help reduce waste and drive up productivity.

Be aware and available to make the right decisions quickly.

Set up a single point of contact for client side decision making.

Pay on time using fair pay principles.

When do you need to do it?

At the start of any project your procurement strategy should be in place to engage the supply chain early in your project decision making process. This will enable you to get better value from your construction procurement and to get best performance from your supply chain partners.

Clients' Action Plan

The Clients' Action Plan brings together the 7 key steps vital to delivering construction projects on time, quality, safely and to budget. They represent the principles which will enable clients to get better value from their construction projects and exceed existing industry best practice. This simple yet effective process should enable all stakeholders in the supply chain to collaborate more effectively in the adoption of this framework for action.

Step 1: Be aware of the capability and capacity of your organisation to effectively undertake procurement activities strategically and professionally. Obtain external assistance if required.

Step 2: Develop and implement a strategic procurement plan and procurement policy, reviewed at regular intervals.

Step 3: Invest the optimum level of time and resources in planning at an early stage, considering such issues as; developing a robust brief (knowing what you want) taking into account whole of life and total cost of ownership, alignment to organisation goals and objectives, market analysis, etc. Include end users and stakeholder representatives in the concept design process to help achieve this. The detailed design stage is too late.

Step 4: Carefully select the appropriate delivery model for the programme or project, (e.g. traditional, design build, alliance, early contractor involvement, supplier panels, frameworks, performance specified maintenance contract, etc.). Consider the adoption of a collaborative approach.

Step 5: Manage and measure performance of the construction team (client, contractor(s), consultant(s)), use appropriate tools and templates for reporting and recording/addressing issues. Analyse performance, provide feedback and identify/implement improvement actions.

Step 6: Be a good client, be decisive when needed/appropriate and pay the contractor on time. Do not delay making payments for undisputed claims (or the part of a claim that is not disputed).

Step 7: Ensure that the facility/end product is effectively 'handed over' to the end users so that the intended function of the facility is fully realised. This includes maintenance schedules, as-builts, owner's manuals etc. Conduct a Post Occupancy Evaluation to gather lessons learned for future procurement activities.

For Public Sector Clients

Government agency construction clients need to also be aware of the five principles of good procurement contained in the Government Rules for Sourcing and the associated rules as they apply to their organisation. This document is available from www.business.govt.nz/procurement.

These principles state the need, (as a default position) for an open, competitive process of acquiring a supplier relationship. This does not preclude from operating an open competitive process to establish a panel or framework of suppliers to establish a long-term relationship.

Further advice & guidance

- NZTA Procurement Manual
- Auckland & Christchurch Procurement Programmes
- www.business.govt.nz/procurement
- MBIE
- Treasury
- Construction Industry Council
- Construction Clients' Group
- Constructing Excellence NZ
- Productivity Partnership

About the Construction Clients' Group

The Construction Clients' Group (CCG) is a New Zealand group dedicated to learning, sharing knowledge and innovating to create better value for money from construction procurement.

CCG supports both private and public sector customers of construction as well as organisations throughout the delivery supply chain representing a significant proportion of New Zealand construction. We recognise that our members need to work collaboratively to achieve the key CCG objectives.

Alongside our best practice role, the CCG provides its members with a credible voice to industry stakeholder groups and Government agencies.

As an organisation we:

- are a voice for all construction clients and our members
- provide opportunities for clients and supply chain companies to network and share best practice
- provide regional events in Auckland, Wellington and Christchurch
- influence government policy and industry improvement programmes
- offer opportunities for training and development
- publish guidance and disseminate best practice
- further information can be found on the CCG website (www.clientsuccess.co.nz)

Maori Proverb

Ehara taku toa, he taki taki, he toa taki tini

My success should not be bestowed onto me alone, as it was not individual success but success of a collective