

Project Control & Contract Administration - Alternatives to traditional tendering



Image Reference –
<https://www.forbes.com/sites/smartsheet/2018/11/29/how-technology-is-transforming-the-construction-industry/>

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Module: Project Control and Administration

Task Description:

In a recent article in The Building Engineer Journal , 2021.James Cash wrote, "Evidence that the procurement eco-system is distressed is compelling. Top tier suppliers' race to the bottom on price in order to win business to the detriment of those further down the supply chain. Profits and liquidity are consumed by over-competitive cost-cutting at every level as suppliers gnaw away at each other's profits".

There is a need for the UK Construction Industry to move away from lowest cost tendering. Suggest an alternative approach to procurement and tendering, which considers other factors other than lowest cost.

Discuss perceived obstacles that may obstruct the move to a different approach to tendering in the UK and comment on the article.

1.0 Introduction

In this assignment we are asked to discuss perceived obstacles that may obstruct the move to a different approach to tendering in the UK and comment on the article.

Competitive tendering is a extensively utilised procurement method within most organisations. The impression of competitive tendering is that it obliges contractors to contest so much to the extent that the client/organisation will in the long run make savings.

Competitive tendering contains an organisation promoting its interest to obtain labour or resources and invites these contractors to send their tender packages back with all costs required in it. Selected countries across the world use the tendering process as a compulsorily method.

When discussing obstacles that obstruct moving to a different approach to tendering there are a large amount of thoughts that need to be considered, firstly what is the level of relationship between the client and contractor. If the client has a good history of works with the contractor then it is more likely for them to provide works to said contractor.

2.0- Tender Methods

2.1 Two-stage tendering

The procedure of this process is when a contractor is invited to tender before all data required to complete a tender is given, this process gives the contractor additional time to work out a fixed price quicker.

When using a design and build route, two-stage tendering is most commonly used. It lets the contractor work personally together with the design team selected by the client/organisation from an early part in the project. The advantage of this method is that it lets the client and the contractor to form a better functioning affiliation and helps the contractor to lay out thoughts that they may have and implement them into designs for the project, this could be seen as a great benefit as a contractors experience may add more depth to existing designs. One more benefit that could be mentioned with two stage tendering is the control that contractors can have over certain elements like lead times of certain materials and arrangements of different aspects of labour, this is because contractors have an array of different options of suppliers and sub-contractors, this can help the project in financial terms and in terms of keeping within the agreed programme. Two stage tendering from a blunt perspective is a split between two processes. The first of these includes the organisation/client giving an their take on the design of the project, they then send this design out in their tender package which then reaches all contractors the client wishes to hear back from in terms of costs etc. The costs received can then be used as a schedule of rates, these means that all costs received back as a rate will be used for the rest of the contract for any adds and omits raised by an early warning notice and then actioned with a compensation event.

2.2 Single Stage Tender

This process is when a tender package including a scope of works, drawings, contract information and many other elements is sent out to contractors at the same time to allow a more competitive and fair approach to tendering. Once these costs are given back to the client and heavily analysed, the most appropriate contractor for the job is then chosen, this decision is made on how much they can do the work for, the quality of their work and if they have a good history of works as this shows a good strength of reliability.

2.3 Negotiated Tender

The last process that needs to be mentioned is the negotiated tender, now this process is very similar to the one stage tender process, only with the negotiated tender process the tender package is sent to only one contractor. This creates a clear method of conversing different ideas with just the one contractor. This method is usually used when the client has a very good history with the contractor and there is a strong element of trust between the two. This method is used more frequently on repetitive jobs, for example if a client has used a contractor for refurbishment works inside of a hospital, it is more likely that the client will use this contractor in future as this contractor now has a history with working in said hospital and has made friendly relationships with staff and other parties associated with the hospital.

An issues that can be seen with negotiated tendering is that it takes the opportunity away from other contractors to price up the works sent out. This could also come to the disbenefit of the client as it takes away the possibility of a contractor doing the work for a cheaper cost.

“A negotiated tender has a good chance of being satisfactory because, more often than not, it is based on previous satisfactory working together by the employer and the contractor. When invited to tender the contractor submits his prices, and if there are any queries these are discussed and usually settled without difficulty” – The Constructor 2017

3.0 – Advantages & Disadvantages of Open Tendering

When considering advantages and disadvantages of lowest cost tender there are a good amount of different views on the matter. These views can be based on client history, quality of work and of course what price they are offering.

3.1 - Advantages

Open tendering promotes a high level of competitiveness and clearness amongst all relative contractors, this can come as an advantage to the client/organisation who issues the tender package, this is because the client/organisation will receive different costs to choose from.

When this implementation of fairness is established amongst different contractors it gives them more motivation to conduct better/cheaper costs than the other contractors, this results in a bigger saving for the client, therefore works can be complete for a cheaper cost which is one of the main targets for any client.

If a contractor is a preferred option for a client and has a long history of working with said client this can sometimes influence the contractor to raise their costs over the years and take advantage of their situation, that situation being that they know that they have won the work before even pricing it. But with open tendering it takes away that comfortability and forces that preferred contractor to price more competitively.

3.2 – Disadvantages

This tendering process consumes more time, if the works are always given to the lowest paying contractor, time is saved comparing quality and background checks, but this also results in a high risk of there being a poor quality of work. It consumes more time because of there being analysis of just one contractor it may have to be five or six contractors whose costs, history of works and other elements will have to be put into consideration. New contractors who haven't been selected in the past will have to have pre-qualification questionnaire to fill out also, this is a fantastic way of finding out how reliable this contractor is. The questionnaire contains questions on previous works, if the contractor does not have a long consistent history of working then it would be unwise to select this contractor based on the size of whatever project it is. This is because bigger contractors with a longer history of working have experience of problem solving as the job goes on, if there is a problem with the project that needs to be resolved it is better that a contractor with experience is at the helm of it all, this is because they will react quicker and have more resources to solve said problem. A smaller contractor with less experience will struggle to resolve problems as fast.

5.0 Procurement Processes

The construction industry in the United Kingdom commonly has four different versions of procurement processes that are utilised and benefitted from. Below I will list these four different versions of procurement processes and their advantages and disadvantages to grasp a better understanding of which is the best for each different project:

Design and build - This procurement route can be found as very beneficial for both client and contractor. The contractor can benefit from this because they have full control over the design and construction of the project, this helps avoid delays and potential disagreements over design elements. It helps avoid delays because the contractor does not need to wait for a third party to issues them updated construction issue drawings whenever there is a change of works on the project. The client can find this beneficial because it takes away all responsibility of design from them, it creates less work for them to get agreements from just the contractor and not a joint agreement between contractor and designer. This also creates less work for the client when the O&M manual is required at the end of the project, because the contractor is responsible for the design of all elements of work, they are also then responsible to provide all data sheets and as built drawings for the manual itself.

Traditional procurement – This procurement is used in single staged tendering, a design team is selected by the client/organisation. After the designer is chosen they will create different drawings, these drawings will then be issued to a contractor who will in line then submit their costs relating to said drawings. As the project then goes on any changes in designs will be issued in different PMI's aligned with construction issue drawings showing said changes.

Partnering procurement - This procurement route is about accomplishing the overall better worth for all organisations involved, this procurement route uses a more open ended method of dealings between client and contractor. It shows the way in where organisations act and the different ways behaviour becomes adapted.

“Partnering is a method which allows people to minimise or avoid conflict when they are engaged in a complex project. It is a way of unifying all the parties as stakeholders in a project into a team” - Charles MacDonald, Chief Engineer, Thiess Pty Ltd 2014

Management contracting - This procurement route is not very popular amongst most clients but is still used to this day, it is when multiple contractors are selected to do carry out different elements of work, a project manager is then selected to make sure all selected contractors are completing their works to the upmost efficiency. This method can cause a lot of problems on site as contractors could get in the way of each other in terms of them having different ideas about certain aspects of work. Also the client and the project manager will have to liaise with several contractors instead of just one, this could delay communications that can prove to be damaging to the programme of works.

6.0 Potential Obstacles for Moving Away from Lowest Cost Tendering

An obvious but not frequently talked about obstacle for the above is the stubbornness and greediness of most contractors and clients. Like most organisations they both have different profit margins where they wish to make as much money on their overheads as possible. This nullifies any attempts of new methods of tendering. The most common view on tendering from clients is to have the work completed for the cheapest amount possible. But it is with this mindset that cause problems on site, for example a contractor may have the lowest cost but not a good track record of quality works, this can cause the client so many issues that to resolves them it could cost more than the 2nd cheapest contractor who may have had the better history of works, the best mindset when selecting which contractor to undertake works in my opinion is to pick the contractor with the best price not the lowest price.

“Under the current public procurement rules, the process favours the lowest price rather than the best price. Therefore, if the initial brief is unclear, problems are inevitable as the design team works from that brief. It then goes out to tender with documentation that has not been adequately prepared.” - Martin Lang, Director, Main Contracting, CIF 2012

7.0 An alternative approach to procurement and tendering

In my opinion an alternative approach is needed to open tendering, for me open tendering is the best route to finding the most efficient and highest quality contractor for different UK construction projects. This method is the best in my opinion because of the various different backgrounds contractors have, for example there could be two contractors competing to win a tender to construct a new superschool, the first contractor could overall offer a cheaper cost

but lack experience in the construction of a superschool whereas the second contractors costs could be higher but they could have experience in the construction of super schools, in my opinion selection the second contractor would be a safer and in the long term potentially a more financially viable option. The construction industry in its own is seen as still a very dated industry, this is because of the lack of motivation to try new methods of construction and to try to move away from traditional methods.

In my opinion the best procurement route to take on most projects is the design and build route. I feel this way because contractors who are comfortable with the design and build method instantly show confidence in taking responsibility of most elements of a construction project, with this sense of belief in the back of the clients head the costs that are received are now perceived differently. This method does narrow the amount of contractors that can in total price up the job because not all contractors would be willing to take responsibility for the design element of works but this in itself helps the client realise which contractor is best for them.

8.0 Conclusion

In conclusion there is an obvious problem in the UK construction industry highlighting how clients have to change their opinions on lowest cost tendering, as in my opinion it is unfair for other contractors to lower their costs just to scrape a small amount of works. Hopefully in the near future of the UK construction industry we move away from lowest cost tendering and allow more opportunities for open tendering. Understanding of changes of material costs due to the COVID pandemic and Brexit we must still try and strive for equality of job opportunities in the construction industry.

9.0 – Reference Page

Image Links

Page 1 Image - <https://www.forbes.com/sites/smartsheet/2018/11/29/how-technology-is-transforming-the-construction-industry/>

Information Links

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