

Alternatives to Traditional Tendering

Module: Project Control & Contract Administration

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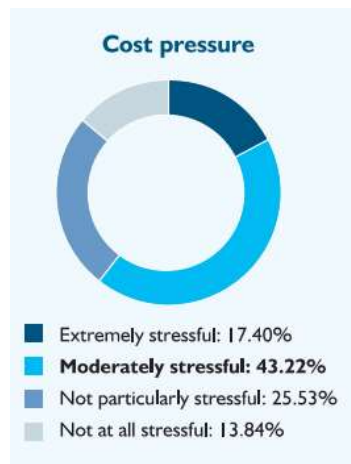
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Introduction

The 'custom of the sea' that is alluded to in James Cash's article in The Building Engineer Journal is an accurate metaphor to describe the predicament that the construction industry is currently in. In this article the shipwrecked mariners of the 19th century who feed on their shipmates to survive are likened to the contractors of today. All "gnawing at each other's profits" (*J.Cash, 2021*) to survive in the industry, by being favoured by the clients who's only concern is initial capital cost. This downward spiral of constant cost suppression is contributing to the demise of reputable firms such as Carillion and most recently Midas Group. It's not solely the companies that are struggling in the industry. Individuals who are working in construction's mental health are being affected first-hand by the strains on the industry. In a recent survey conducted by CIOB (Chartered Institute of Building) individuals were asked how stressful they found 'cost pressure'. Moderately stressful was the level of stressfulness indicated by 43.22% of people, which is a significant percentage.

Appendix 1



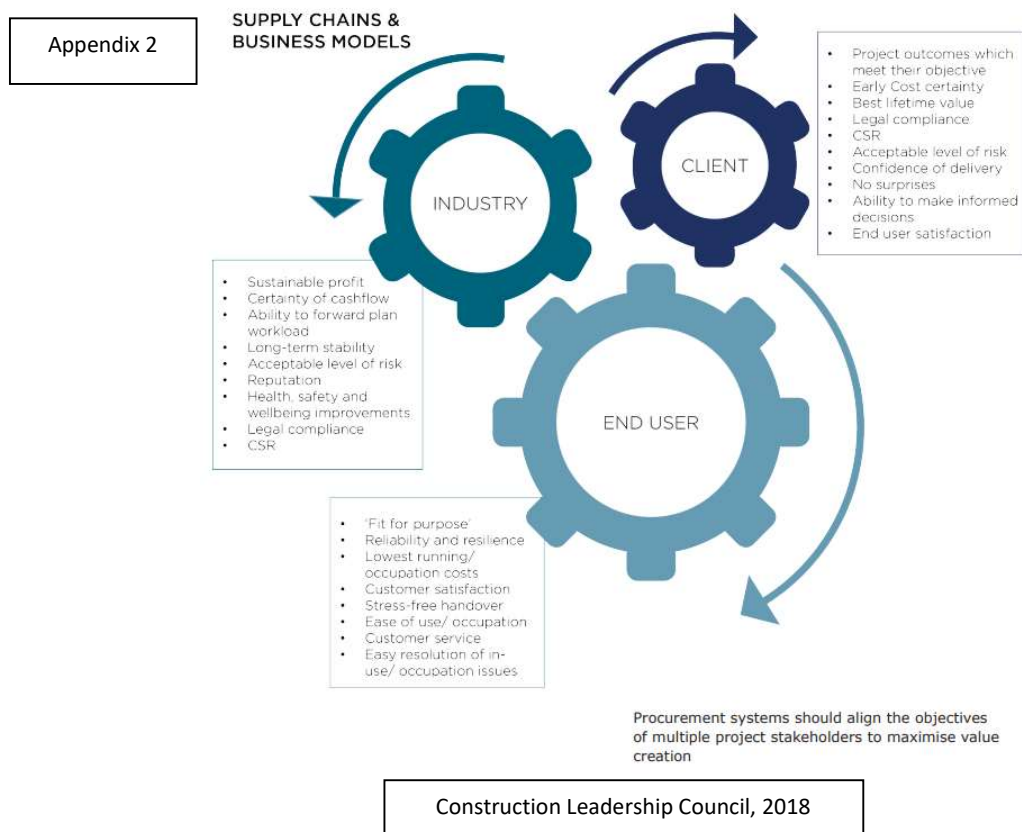
CIOB, 2020

The lowest price tendering strategy that is being regularly adopted is causing a decrease in the quality of the end product. Contractors are reducing the time and effort that they are applying to their individual jobs as there's been a reduction in the price paid for these jobs. The low-price tender submissions are a result of contractors cutting corners in order to maintain a profit. This doesn't produce an overall best value to the client. Best value includes good quality workmanship and competency, which will in turn lead to cost-effectiveness. These attributes will lead to higher quality buildings boasting improved performance and end-user satisfaction. This is the correct perception of 'best value', and can be achieved by more collaboration, trusting relationships and active management.

Alternative approach to Procurement and Tendering

Changing the perception of value

Clients perceiving that the cheapest price tender is an indicator to best value is becoming a common theme in the industry. This perception is incorrect and is a belief that only takes the tender submission at face value. The lowest tender price may indeed mean lowest initial capital cost; however, it doesn't imply lowest cost throughout the life cycle of the entire project. This attitude towards tendering is systematic within the industry and may be caused by a lack of common standards and a lack of knowledge on the client's behalf. Low costs often coincide with underpricing, which results in poor workmanship and a bad end-user satisfaction. These consequences do not align the objectives of multiple stakeholders, as the tenants will have sub-standard homes to live in and the client will be inundated with complaints and snags. From a contractor perspective, they will also not benefit from this approach as re-calls for rectifying work will be a common occurrence, resulting in loss of profit.



Rather than being caught in a downward spiral of artificially low costs, a sustainable cycle as shown in the graphic above may be preferred to benefit all stakeholders in a project. By adopting this model of procurement clients will benefit from better lifetime value and project outcomes which meet their objectives, whilst the supply chain achieve certainty of cashflow and long-term stability. All the while the end user gains reliability and resilience and ease of use and occupation. These perks for the stakeholders are a result of enhanced competence of practitioners that engage with

the design team at the early stages of the project. This may come with more upfront cost, however, may result in lower cost throughout the lifecycle of a project and means broader industry objectives met.

For this new perception of value to be regularly adopted by clients within the industry, defining value and having real evidence is needed. This is exactly what The Construction Innovation Hub is now creating. To help define value for clients, the hub is creating an array of tools that will consider specific project and clients' needs as value may be a different thing depending on these. These tools will also provide a benchmark against which you can indicate future performance against and establish a value profile. In order to define value, the tools can develop a value index which can be used to assess tenders against. Thus, turning a qualitative concept into a quantitative tool that clients can rely on to understand and score value.

Partnering

This route of procurement is a form of collaborative management which relies on multiple companies collaborating and becoming dependant on one another to improve performance and agree on mutual objectives. By having a close contractual relationship and actively managing the project instead of waiting for issues to surface, continuous improvement is made, and gains are shared. Risks are shared between the organisations, however good teamwork and organisation can delegate risks to those best capable of resolving them. This optimisation of differing parties' resources can result in problems being resolved quickly and complex designs addressed. The main factor of this type of procurement is that it deviates away from the traditional construction approach, which includes blame culture and sees the different parties following different contracts which contain separate objectives. Partnering promotes trust and onerous behaviour, with all parties being bound under one unified agreement.

There are many benefits to implementing this procurement method, especially for longer contracts where there's greater opportunity for forming working relationships and identifying and converting financial goals. A small project may not justify the high level of management, time and dedication required to have a successful partnership. However, small projects can benefit from partnering's perks by being part of a long term relationship which integrates these shorter projects into multiple. This shows that it can be a versatile procurement method. Another key benefit of partnering is that it minimises miss managements due to all parties having a personal interest in the decisions being made. This extra diligence from all parties' results in a better end product than one if all parties were only concerned about their direct input.

With this alternative approach to procurement, an alternative insurance policy is better suited. The Integrated project insurance (IPI) is a single policy taken by the client, which will cover all parties in the partnership. It's an alternative to the traditional professional indemnity insurance which is liability driven. Instead, IPI covers money lost due to overrun costs that exceed the specific amount outlined in the policy. It's very well suited with partnership in construction as it creates a common interest for all parties to work collaboratively and ensure deadlines are met to avoid any overrun. In addition to being a more practical policy for a modern-day construction industry, it also improves the quality of work life for each of the individuals involved. The shifting of blame and arguing that would occur to due the liability driven culture is negated with IPI as everyone works together to achieve a common goal. From a financial point of view, the blame is shared between everyone.

Case Study: Sheffield Hallam University Campus Masterplan

An example of a project where Partnering has been implemented is the Sheffield Hallam University Campus Masterplan. The project has seen BDP-Arup, BAM, and CBRE join alliances to form Hallam Alliance. These parties include a design consultancy, construction firm, and management specialist respectively that have joined to collaborate, innovate and produce an effective and efficient development.

They have all entered into a NEC4 contract which sees them share losses and gains in profit and allows them to make decisions on a 'best for project basis'. The organisations have made unanimous agreements and successfully collaborated to create a design and methodology, seeing the £220 million pound project obtaining approval by councillors.

Appendix 3



Sheffield Hallam University, 2018

The project includes sustainability aspects such a public green which comprises of more than 400 square meters of greenery. The inclusions of heat pumps and photovoltaic cells also boast a sustainable consideration to the lifecycle of the project. This partnership contract gives the ability for “the clients, designers, construction contractors and FM providers to all have the same goals and objectives” (P.Cleminson, 2021) which allows the parties to integrate significant sustainable emphasis into a functioning building.

Alternative Tender Procedures

A very common tendering procedure that is regularly utilised in the construction industry is the single stage 'open' tendering. This isn't the sole reason as to why contractors who submit the lowest price tenders are being favoured. However, the process lends itself to the situation due to its characteristics. In this tender procedure the design of the project is completed up to RIBA Stage 4, which means that it has achieved technical design. The information that comprises the technical design is issued along with invitation to tender documents to the competing contractors. The tendering contractors produce a bid to complete the works based on the same identical information. Once the bids are submitted before a pre-determined deadline the client decides the preferred contractor by analysing the cost and quality of each submission. Due to the contractors providing a fixed price bid of the remainder of the works, the client is no longer responsible for the design anymore. The contractors build the project based on their proposals and 'as-built' drawings are produced once the works are complete. For this reason, many clients decide to select the lowest cost tender as the contractor must carry out the works at a fixed price, which creates cost guarantee for the client. Quality can often be overlooked as some prices are too profitable to turn down. A variation on this tender method is the single stage 'selective tendering'. It is the same concept, however only select contractors are issued an invitation to tender. These contractors are often proven and competent, which ensures the project will be built in accordance with the client's objectives in mind.

In recent years, as the construction industry modernises untraditional tendering procedures are becoming more popular. They coincide better with current industry objectives such as more value-based procurement. One of these tendering methods is Two stage tendering. Tender enquiry documentation is only completed up to RIBA stage 2 or 3 before issuing to competing contractors in this method. Unlike single stage tendering, the client is not selecting a contractor based on a bid for the entire project. At this point, the client chooses a contractor based on the quality of the organisation members, preliminaries cost and profit and overhead put on the bid. The successful contractor "then joins the design team on a consultancy basis using a pre-construction services agreement" (RICS, 2015). Once the design has been completed up to Stage 4 a bid is then presented for the remainder of the works. This is a very robust method of tendering because there is still some cost certainty along with good quality designing and construction proposals. Some cost certainty is achieved for the client as the contractor chosen at the first stage has already submitted their rates, along with preliminary cost and profit and overhead allowance. Also, the client benefits from advice and expertise throughout the technical design from a contractor. By the construction stage, the contractor has a very intricate understanding of the project, resulting in a better-quality product. Two stage tendering is a true best value approach as the early engagement of a contractor can input their specialist input into complicated aspects of the project.

Building Information Modelling (BIM)

Building Information Technology (BIM) is a process whereby digital information such as detail drawings and specification are created and managed. All relevant parties in a construction project mainly comprising of the design team have access to this process. It serves as a visual representation of a project that allows for “identifying and managing model-based issues in 3D and 2D sheets, including addressing clash groups” (Revizto, 2021). It allows for more calculated decisions to be made throughout the design, as all the relevant information is digitally visual. This results in less mistakes being made at the construction stage. The process of BIM is the future of construction as it uses the most modern technology and is built off of effective collaboration. It goes hand in hand with value-based procurement and high quality projects as it provides a platform in which everyone in the team can access and add on to.

The Building Engineer Journal – The Perfect Storm

'The Perfect Storm' is an article written by James Cash which highlights the very relevant problem of the procurement system in the construction industry. The article describes the procurement process as a downward spiral. Underperformance and lack of pride in work is part of the blame for clients pursuing lowest cost bids. This system alters and ruins supply chain business models as they must reduce costs to remain competitive in the industry. This results in poor quality work which leads to poor quality end products involving higher maintenance costs. This outcome reinforces the clients view that quality can't be guaranteed, resulting in them opting for the lowest cost bid. Thus, resulting in the vicious cycle continuing. In order to break out of this downward spiral "firstly clients must move away from the lowest capital price as a primary metric of success, to an approach that focuses on ensuring that projects are reasonably costed and that the supply chain and all the way down can make a reasonable profit" (R. Harral, 2021).

The article also explores another reason for clients opting will lowest price tenders. Ann Bentley (Global Director at International Cost Management and Quantity Surveyor Rider Levett Bucknall) says there's "conviction that lowest price gives the best value, even though the evidence tells us that isn't the case" (A. Bentley, 2021). This reinforces the fact that clients lack the knowledge and expertise to be selecting contractors to carry out work based solely on price.

Summary

As implied in the article 'The Perfect Storm' by James Cash, procuring for best value needs to be the driving force for change in the modern construction industry. This will allow the industry to break out of the downward spiral that it is currently in and will benefit all stakeholders from the clients down to the tenants inhabiting the buildings. Up take for this new method is beginning to increase with large firms undertaking high-cost project in this new collaborative manner. The following years are vital in proving that the collaborative system produces better value construction. Too many reputable firms are being sacrificed due to the current procurement system. Procuring for value by collaborating will be the crucial in concluding this awful occurrence.

Appendices

<u>Appendix</u>	<u>Description</u>
1	Mental Health Data, Understanding Mental Health in the Built Environment, The Chartered Institute of Building (CIOB), 2020
2	Supply Chains and Business Models, Procuring for Value, Construction Leadership Council (CLC), 2018
3	Sheffield Hallam University, Image of new campus depicting the sustainability aspects at the heart of the development, 2018

List of References

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