Background

CASME RoundTable meetings on the procurement of construction services were held in Shanghai, San Francisco, Sydney, Dusseldorf and Sao Paulo during a period from March 2016 to August 2016. The following main topics were discussed:

- Strategy and approach
- Suppliers and the marketplace
- Sourcing
- Pricing and contracting
- Delivering and measuring successful outcomes
- Future trends.

This Digest provides the key points, good practices and insight into future trends identified by delegates around the world. Full notes from each meeting are available on the subscriber-only CASME Resource Centre.

Strategy and approach

- Services being used for construction projects include conceptual and architectural design, layout and specifications for new buildings and renovations, material supplies, insurance, trades, and the services needed for qualifying, commissioning and decommissioning buildings.
- Ideally Procurement should be involved during strategy and feasibility studies through to project completion.
- Procurement typically engages in construction services for projects with spend above a defined value; this may be the total cost or the cost per square foot/metre. Procurement's support typically includes:
  - Developing sourcing strategies, evaluating and reviewing suppliers to establish a panel of preferred suppliers
  - Co-ordinating with stakeholders, providing supplier and market intelligence, information on cost trends and benchmarking data
  - Creating and issuing requests for proposal (RFPs)
  - Managing compliance
  - Defining and implementing a transparent change order process
  - Developing templates to support others in managing low spend projects.
- Engineering, Maintenance, Facilities Management, Legal, IT, business unit representatives and other internal and external stakeholders, all participate in developing individual project statements of work (SOWs). Procurement may evaluate SOWs for adequacy and to support the debate, while encouraging standardisation rather than customisation.
- A global category strategy is most effective for the largest projects or where consistent design is important; for example, in laboratories, retail spaces, offices or warehouses.
- Projects undertaken in different countries can present challenges with matters such as local legislation, civil codes, health and safety regulations and supplier knowledge.
- Facilities management (FM) teams or integrated facilities management (IFM) suppliers may manage smaller value renovation projects, especially office accommodation work. For larger projects, the project management may be outsourced with the requirement to use the organisation's approved suppliers.
- Market intelligence and benchmarking reports are obtained from providers such as Beroe, F&G Hospitality Consulting, Frost & Sullivan, IBISWorld, Infosys Portland and Turner & Townsend, in order to gather general information regarding market capacity and trends.

Suppliers and the marketplace

- Economic conditions have a significant impact on the availability and cost of labour. Also, changes in supply and demand and currency fluctuations influence the cost of materials; therefore, the construction services market varies significantly between regions and over time.
- Currently, there is more construction work available in the USA, Ireland, the Netherlands than there are contractors to perform the work. It can be difficult to find suitable, qualified suppliers in Australasia and in some countries in Africa.
• For projects below a defined spend threshold, local suppliers are typically used; for those above the
threshold, using regional and/or global suppliers is preferred. For projects related to FM and soft services,
global suppliers are preferred but for construction and hard services, using local suppliers is the better
option. Architectural engineering may be carried out in low cost countries (LCCs).
• Organisations select suppliers that follow company policies and industry standards to protect their reputation
and brand. Additional factors evaluated when considering suppliers for participation in RFPs include
Corporate social responsibility (CSR), sustainability and diversity, as well as industry standards such as the
Electronic Industry Citizenship Coalition (EICC) Code of Conduct compliance and ISO certifications.
• Identifying first tier diverse suppliers in the USA can be challenging. Projects with low risk and low spend
can be good opportunities to award business to diverse suppliers. Primary contractors can be obliged to
identify and use diverse suppliers, which becomes tier two spend.
• Companies such as Dun & Bradstreet provide financial information on suppliers, although it is acknowledged
that this historic information and may not be reliable when considering suppliers’ financial stability and ability
to pay their subcontractors. Some organisations implement supplier information systems such as those
provided by Achilles and Avetta to support Procurement in measuring supplier quality, safety, accreditation
and financial criteria.
• Country-specific issues such as fraud and corruption need to be monitored.

Sourcing
• Cross-functional teams should evaluate proposals by considering overall supplier capabilities, geographical
scope, reference checks, health and safety standards, project management experience, previous
experience with the supplier (rated by project owners), commercial aspects, and CSR requirements.
• Different approaches are taken to project delivery, often to align with customs and practices in different
parts of the world, or to react to the time available to conclude the project. For example:
  o Design and guaranteed maximum price (GMP) or lump sum or applying a design-bid-build (DBB)
    model
  o Outsourcing to a provider of engineering, procurement and construction management (EPCM)
  o Using original equipment manufacturer (OEM) teams for fitting
  o Integrated project delivery (IPD).
• Factors to consider when bundling construction services include project type, market strength, risk level and
project timescale. Decoupling may better meet project needs and reduce long-term costs. Competitive
bidding is normally used for individual parts of projects. Sub-categories may be decoupled to mitigate the
risk of long lead times, or when work is taking place in countries known to be at risk from corruption, or to
meet diversity spend targets.

Pricing and contracting
• International standards are used to ensure compliance and best practices are applied in construction
projects. Standards used include those provided by industry bodies such as:
  o International Federation of Consulting Engineers (FIDIC)
  o The Joint Contracts Tribunal (JCT)
  o NEC Contract
  o SAE International.
• Penalties may be applied to suppliers for failure to meet project milestones or exceeding the budget.
Liquidated damages are challenging to apply, as tangible losses are usually difficult to prove.
• The most appropriate pricing model to apply depends on the scope of the project. Options include:
  o Open book and agreed profit margin, lump sum with no risk or variations
  o Guaranteed maximum price (GMP)
  o Design/build/operate/maintain (DBOM)
  o Beneficial occupancy date (BOD).
• Requirements for change orders often originate from the business, resulting in schedule overruns,
inefficiency claims and resequencing of work. A good practice is to establish an internal authorisation
process that requires change orders to be approved by senior management and the budget holder, in order
to maintain visibility of increasing costs and schedule risk.
• Common key performance indicators (KPIs) used in construction contracts include: safety, quality, cost, delivery to schedule, customer service and technical competency. Even if some are subjective and not incorporated into contracts, they can be used at business reviews to encourage accountability.

• In some regions, value added tax (VAT) is an important consideration as it is payable according to the type of commodity being purchased and on the import documentation stating the importer of record (IOR), which determines liability. In India, companies in certain economic zones and industries, such as IT, can apply for exemption; in China, free trade zones have the same effect.

Delivering and measuring successful outcomes

• The project team is usually responsible for the execution of the contract, with Procurement responsible for contract administration.

• Supplier prequalification is a critical factor in ensuring success in construction services projects. Criteria such as company experience, project team structure, integrity and financial stability are evaluated.

• Metrics used for measuring project effectiveness include: on-time delivery against targets, cost savings, reductions and avoidance, internal efficiencies, change orders submitted, and budget performance.

• Common project concerns are contract execution, scope creep and sub-tier supplier management.

• Post-project reviews are conducted and are very useful for identifying areas for improvement. Instead of reviewing lessons learned at the end of a project, one approach is to review and address these at the start of the next project so they can be used to improve ongoing practices.

Future trends

• In geographic areas where there is a lack of coverage from suitable suppliers, organisations should seek expertise and guidance from other industries already present within the country. For example, in Africa construction services for the pharmaceutical industry are rare, but the oil industry has a long history there.

• Suppliers need to become smarter contractors, with factors such as building information modelling (BIM) management and waste elimination increasing in priority.

• Buildings constructed off-site and installed on-site.

• The introduction of free trade agreements (FTAs) between Australia and several Asian countries including China, and also the USA, is yet to have an effect and the likely outcomes are not known or understood. Manufacturing is decreasing in China, and production is moving to other parts of South-East Asia, which will affect the supply market.

• Cameras initially established for time-lapse photography, or live web streaming, have become valuable tools at construction sites for managing variations because they provide an impartial view of what happens.

Resource Centre Links

The following are links to the full meeting notes for each region:

Asia, Shanghai
Australasia, Sydney
Europe, Dusseldorf
Latin America, Sao Paulo
North America, San Francisco.
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**Important**

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