

Newsletter Article, Procuring for Collaboration on Projects, 24 March 2021.

Martin Gosden, SWWE Branch Co-Chair, introduced tonight's Webinar. The Branch was delighted to hold its 7th Webinar event this year. Our speaker, Ian Heptinstall, Co-Chair of APM's Contracts and Procurement SIG, and PM Lecturer and Course Leader at Birmingham University, talked about how procurement can support collaboration across the whole team of client and suppliers.

Ian introduced himself as an unabashed fan of collaborative project contracting. To help Ian understand his audience, he asked some interactive questions about their sector, their preferred procurement approach and their understanding of project alliances / integrated project delivery, (IPD).

Ian started with how you choose a procurement approach. Supply positioning (Kraljic Analysis), looks at the supply risk in the market vs the budget for the project. A collaboration approach is most suitable for projects with high supplier risk and high cost. Competition is more appropriate for low supplier risk. Competition and collaboration are fundamentally different. Competition focusses on squeezing the margin available to the supplier, whereas collaboration focusses on reducing the overall costs. Competition is analogous to a door – in or out, based on market forces. Collaboration is analogous to a boat, with the customer and supplier in it together and sharing the impact and risk if the project fails.

From a team perspective, members who freely collaborate do produce better results in terms of time, cost and quality. They will be more innovative and creative driving costs down and quality up. The team is more fun and less stressful to work in.

However, common procurement approaches do not encourage collaboration. Fixed Prices, and associated penalties for breach encourage win-lose mentality, increased costs, conservatism and hidden cost cutting. Cost Plus incentivises increases bills and disincentives suppliers to find savings or improvements. In terms of alignment of goals and objectives, fixed price encourages the parties to look after their own interests. Whereas incentivised fees and Cost+Fixed+Variable, (CFV), Fees encourage maximum alignment of goals and objectives – we are all in it together.

Ian discussed the issues with fixed prices, including changes and claims, risk not pooled, risk to quality, all of which can result in lower return on investment.

The conventional Prime contracting model was compared to an Alliancing model in which the client and top level (prime) suppliers are part of the same team, with separate supply chain sub-contractors. The alliance team shares the risk and profit margins are driven by overall project success.

The benefits of an alliance approach include better project performance (time, cost, quality), less stress and lower risk.

Ian used a case study, the 'Fix 7' project to highlight the advantages of an alliancing approach using a CFV fee structure.

Supplier selection was quick and focussed on values and behaviours, much like selecting a CEO or other senior leader. A long medium, short list approach was used over 4 weeks.

Payments were made monthly, with the incurred Costs, (Salaries, invoiced 3rd Party costs, etc), paid plus the agreed Fixed fee. The Variable fee, based on actual performance was paid at the end of this relatively short contract, based on agreed, (included in the contract), KPIs, covering safety, shutdown, schedule, cost and behaviours with measures and weightings. The Variable fee was agreed in less than an hour on completion based on the agreed KPI metrics.

In summary, a project alliance is easier & faster to set up and manage, as long as you stop the practices you used in other traditional approaches.

If the project alliance is not expecting to cost less than a reliable fixed-price, then something is wrong as Alliances work because you remove unnecessary work and risk, which costs money.

A bespoke contract can be easier and faster to put in place than standard contract templates as even many “alliance” templates require informed modification.

It brings the fun and enjoyment back into projects and contracts. People can focus on the underlying project, rather than their employer’s commercial risk.

The webinar concluded with a lively and engaging Q&A session.

Martin Gosden

SWWE Branch Co-Chair