

Procurement strategies: advantages and disadvantages



The Janus plc is a dynamic retail and leisure group in UK. The Janus group are constantly investing in their ventures and develop several proposals with considerable facilities to expand their group forward. In UK the Janus group already consists of two other proposals which are in operation. As a part of their plans the organisation has decided to make new development proposal at malchester. The organisation is planning to develop the new proposal in two phases.

This report is an assessment of the procurement strategies and options for selecting the procurement strategies for design and construction of the new proposal at malchester. The study on the procurement methods and strategies in this report tell us how to process the planning of the project to achieve value for time, cost, quality and helps the client's organization business to move forward. The report also suggests the best suitable strategy with effective implementation offers on time delivery, cost effective, specific quality and makes sustainable delivery of the project. As the selection of procurement makes the work easier to the client in making the project successful and achieving the goals of the organization. It also makes the right decisions for avoiding the risks. So the selection of procurement method plays very important role in constructions.

At last the report recommends and justifies the selected potential procurement method for design and construction process with proper guidelines for delivering the efficient project and also to meet the standard quality for service in attaining maximum profit which will move the organization's business forward.

Introduction:

Procurement is also called as sourcing, which means gathering services and goods from the preparation and of request through the approval of statement for payment. This involves purchase planning, financing, making the purchase, inventory control and stores, specific development, standard determination, supplier research and selection, supply contract administration, disposal and other related functions, value analysis and price negotiation. Procurement plays major role in work relationship between parties involved in the construction process.

Identify the primary and secondary objectives of the projects, Risk innate in the proposal, Environmental determination, which it will be implemented and selecting the appropriate procuring method for the proposed project.

Procurement was not about a building, it was about entire project which includes obtaining goods and services, also includes obtaining human recourses like, consultants, contractors, sub-contractors, suppliers and specialists for some purpose. It is the very important step which can show some significant impact on the project success.

Critical analysis:

Janus leisure plc is leisure group which seeking to move its business forward. Janus leisure present operations having six racecourses which stage 20% of all racing fixtures held each year. Which makes them one of the UK's largest of horseracing. It also includes one of the oldest classic races in the world, the 5000 guineas stakes and also some high profile race meetings throughout the year.

Conferencing and banqueting facilities will be provided at all of Janus racecourses and making them capable to operate 365 days. Janus leisure offering 18 hole golf courses at two of their racecourses. One includes leisure club and an integrated, branded hotel at third racecourses.

Now Janus proposing some improvements to their racecourses, which was hosting 5000 guineas stakes every year in malchester. The redevelopment consists of two phases.

Client requirements:

Phase – 1

Demolition of existing grandstand.

Construction of new 5-storey grand stand to include an extensive conference and exhibition centre and associated external works (Budget £25m).

Refurbishment of two existing stand circa 100 years old (Budget £5m).

N. B to enable redevelopment during phase-1, the 2011 guineas stakes meeting and the 2012 5000 guineas stakes, schedule for mid-September must return to malchester.

Phase – 2

Construction of a new 120-bed hotel facility and casino (Budget £12m) to be operational for the 2013 5000 guineas stakes meeting in mid-September.

As Janus Leisure Company mentioned that they require finishing phase-1 by mid September 2012 for 5000 guineas stakes and phase-2 by mid-September 2013 for 5000 guineas stakes. As the company is trying to develop all their venues they will be having less concentration on a single venue and also the client knows what they required and what they expecting from the contractor. This project also includes demolition of existing grand stand and refurbishment of two existing stands. Which means it includes mixture of different kind of construction process. The main things in this project were time completion and budget. Completing the project in budget and maintaining the quality of construction.

Clients have different needs and it is necessary to ensure satisfactory results to the development process by the contractor.

There are some procurement methods which meets our client's requirement.

The main factors when considering the appropriate procurement method:

- Project size
- Budget
- Complexity of project
- Time
- Probability of change in design and construction phases
- Quality importance
- Ability of contractors to undertake the project (Organisation)
- Design

In this project we decided to go with Design and built type of procurement method which was suitable for this type of client. Our client needs racecourses by the 5000 stakes time, so it's necessary for the contractor to complete the project by the time without delay.

Price certainty: The certainty of price for the total construction work period.

Price certainty will change at the time of process of project. Getting the firm prices before the construction of the project, this enables approximate estimates for the client. The cost of the project will be within financial budget. Public employers consider less important in price certainty. And they focus on quality and the functionality of the work done. For private client it is important to control their financial budget by obtaining the price certainty.

Dead line: The majority of clients will make the decision and want to complete the project as quick as possible. Here our client need our project in time to extent and start his business soon in malchester. Time availability also influences the project to choose the construction techniques. The implication is under some circumstances such as time, cost and quality.

Design: Design and build is the only method which takes into account Buildability, and produces a design in terms of construction. Traditional procurement method of contract was failed in design aspects. Some management contracting type of procurement processes have a grip on the design. If the client was been approaching a single contractor for a long time, it was beneficial to the clients. The main design factors considered are:

- Function
- Maintenance

- Buildability
- Standard design
- Design before build
- Design prototypes

Procurement methods:

There are several ways to categorised procurement methods.

1. Risk taken by each party
2. Information availability at the time of distributing contracts.
3. The way of design and construction is ordered and maintained.

Choosing the procurement systems is risk decision. The main risks obtained at the time of project to clients, contractors, sub-contractors, design team and suppliers are in completion deadlines, construction cost, design adequacy, liability or defects, safety, quality, workmanship etc.,.

Source: Turner (1997) Building Procurement (2nd Ed)

Source: Smith (1999) Managing Risk in Construction

The contractors or consultants are selected by some competition or negotiation with a single organisation. In short listing tenders the points to consider were,

- Financial standing and records
- Experience in similar contracts in recent periods.
- Capable management.
- Capacity.

Time, Cost and Quality of construction are the different options used to address the clients' objectives.

There are many different procurement methods available. Some have a long life which was continued till now. Some are disappeared. It depends on the results of the past projects. Some systems are in extensive use. Some will suite for the contractor. Some will be suitable for the clients.

Procurement types:

- Lump sum or traditional procurement
- Design and build
- Management contracting
- Framework agreement
- Public private partnerships
- Construction management

1. Traditional procurement:

This is most common method of procurement. It is suitable to all clients, including in experienced clients and it is time predictable and cost certainty. It is suitable for fast track projects. In this method client appoints a team of consultants to prepare drawings and also tender documents. The client appoints building contractor as well, to build the structure as per design with completion date as per approved rates. Most work will be distributed to the sub-contractors and the contractor remains responsible. Client appointed consultants administrates the project and advise the aspects associated with progress, design and payments. This is low risk option for the clients to minimise the delays, design failures etc. But some times the risk will

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increase, when the design phase is rushed and also when tender documents are not fully completed. The two stage tendering is referred as the accelerated traditional method. By this design and construction process will at the same time for a while.

2. Design and Build:

In design and build procurement system a single contractor or single consultant will be appointed for both design and build or management of construction operations. Subcontractor will be appointed by the main contractor or consultant.

The main characteristics of this procurement method are:

Single organisation will be appointed for both build and construction of project.

It may be contractor or consultant.

The construction works will be carried out by subcontractors when handled by the contractor when the project is given to contractor. Client will manage subcontractor when the project is given to the consultants.

The design and build procurement system is defined as:

Design and built organisation behaves as consultant with direct contact with client for design and building of project. All packaging works are between designs and build organisation.

Diagram : Flow chat of Design and Build procurement method

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Using this contract design and build system, clients obtain single or two competitive bids. The suitable contractor who contains the client's requirements and design will be issued the contract. Tender requires stating lump sum management fee and also offers a guaranteed maximum price in the bids. The contract awarded is mainly based on financial level. The GMP approach will also sometimes considered by the client at the time of management contracting. Management procurement systems are undetermined by instance of GMP involvement with agreement between contractor and employer. This is not demanded in design and builds type of procurement system.

The design of project will be carried out by in-house designers, external consultants or by both of the in-house designers and external consultants. Whatever is the source of the design, the total responsibility is on the design and build contractor.

There is a close contact with clients, designers and subcontractors. This will make the project quite easier. Whatever the problem occurs i. e. in design, packaging works and price issue, he can approach everything and everyone directly in this design and build method of procurement.

Construction work is carried out by means of trade. Work packages and it enable to overlap the design and construction. This conditions made the design and build contractor to provide site establishment works. The best example of using the design and build procurement method is construction of £25 million Nissan car plant complex at Washington in 1984 to 1985.

This approach highlights the difficulties that can cause by all of the management oriented methods to cope the client decision till last moment. Apart from difficulties this method provides accurate final cost of the project. Any late changes are likely to be a current or complete work may delay the entire process of the project. Late changes are agreed by such alteration, if something necessary can be allowed. In most projects the client will appoint the financial consultants, usually quantity surveyor to give advice on financial and contractual aspects of the project. Once the design and build contractor appointed, the formulation of work packages, financial monitoring and control of project is subject of joint management and lies between two parties.

Design and build usually compensate sum of:

- Management fee
- Design fee
- Net cost of site establishment
- Final accounts of all the subcontractors to the GMP.

When GMP is in corporate in contract it is accordance with the tender documentation. If the contractor made savings against GMP will be penalises when sum exceeds as a result of mismanagement.

Payments will be made on net cost of work contractors. Open book method accounting will be done in designing and build method to make the financial records available for the clients or financial advisor, to verify the actual cost of the project with records.

The quality control will be problem with the duty for functions allowed to the design and build contractor. But developing quality control was done by form of inspectors, which were appointed by the client. The contract is an initiative to the contractor to minimise the costs and also need him act as an independent consultant. In this circumstances the quality may drop down, unless additional care was taken is supervision of specification of materials and equipment. Employing and managing the supervisory staffs are must undermine the relationship between design build contractor and the client who indented to form fundamental basis for the success of project where design and build type of procurement method is used. When consultant led design and built is a practical and commercial approach to implement the project. The system creators belief that the most construction projects suffer as a result of poor communication and unwanted large and complex management hierarchy, over planning and lack of commitment to the clients cause by most participants in the project.

The principles for management of project were:

- Drawing and documentation is not a product by means o communicating the client's requirements to the construction manager.
- Communication between the employees is as direct as possible.
- As we expecting changes in construction field, full preplanning is not the best control and more flexibility and less detailed short term planning should be adopted.
- The interest of client is best served to participant to the project objectives not individual aspirations.

3. Management contracting:

Management contracting is one of the most common methods of procurement. In this client appoints consultants to prepare drawings and project details. The management contract was selected by tendering, paid bases, prime costs and management fee. The main role of management contract is to manage the execution of work. The main contractor does not involve in any kind of construction work directly. It will be done by packages which were undertaken by sub-contractors, which were appointed by management contractors. In some cases the management contractors also agree design liabilities. In this the works contracted were directly and contractually responsible to the management contractor. The management contractor's obligation is to accept responsibility for design and construction means. It referred as 'Design, Manage, Construct' it is called as featured as contractor-led procurement. In this the led designed responsible for overall design and manager was responsible for coordination of work. It is suitable for fast track projects, complex buildings and developing brief. It is not suitable for inexperienced clients. Cost certainty, and not possible to transfer the total risk to contractor. This approach will overlap design and construction progress. The payment is made on the basis of cost of work with agreed fee by the managing contractor. Success of project is mainly depends on the contractors team. Price certainty is less because the construction starts before completion of all design works. This means many of packaging works to be tendered later in the construction stage. Means the design and work packages are adjusted properly to keep the project within

the budget. Design and construction tends to be less than design and build methods.

4. Framework agreement:

Framework agreement is established with limited number of suppliers or single suppliers. It will allow suppliers bring together with relevant experience which will save both the parties when more projects involved. This method of procurement includes all forms of procurement methods. Like traditional, design and build etc. the developing framework agreements for consultancy service will be done by LSC (Learning and skill council).

Reduced transaction costs

Continuous improvement within long-term relationships

Frame work agreement with number of suppliers or single supplier can result in significance savings to both parties. No need for constant re-tendering at call of stages. When the contract conditions are unchanged for all projects, there will be substantial gains from continuous improvement. When the term changed, small competitions with in frame work will takes place. Client may have more framework suppliers for different requirements. The resource implications for client should be decided whether they need one frame work supplier under one frame work agreement are not.

Frame work agreement may be used for design and build and primary contracting procurement methods. Frame work agreements also suitable for maintenance requirements. Client with small and rare project will consider collaborating with similar type to share frame work agreement. Every frame

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work agreement completed and advertised with procurement rules. There must not be any commitment to the frame work agreement contractor for any other kind of business until the first contract completes.

The savings in cost and time will come from the following:

Not necessary to rebid for every individual project.

Continues development will earn by transferring from one project to another.

Working relationships will be improved.

Continues work flow.

Speed of procurement.

Public private partnership:

Public private partnership is a partnership between public and private sector means the government and private parties carried out the project together on the agreed division of tasks and risks. Each party keeps its own identity and responsibilities. The public private partnership is growing due to demand in infrastructure. The limited fund in the public sector leads to join with private sector, in this provision of infrastructure. The principle believes PPPs is that the public sector is responsible for the proper delivery of service and it is not responsible for actual providing service.

Major public sector projects have always undertaken by private sector contract. The major difference between all the procurement methods and this method was, private sector regarded as a fully fledged performer.

The essential characteristics were:

Responsibility and risk is transferred from public sector to private sector.

The contractual agreements were made to perform based outcomes.

Long term contractual agreements.

Identification

Option analysis

Planning and approval

Implementation

Post-transaction

Political risk

Construction management:

In construction management procurement the total services were been between the package contractors and clients. This will show the difference between management contracting. In this approach the client will contact directly with sub-contractors. Here the construction manager acts as an employee agent. When dealing with sub-contractors.

The main points in this system are:

Construction manager was appointed as consultant at initial stages and have equal status as design team members.

Payments are made by lump sum or percentage fee to construction manager.

The main works in the projects are carried out by sub-contractors. The role of construction manager is to supervise, co-ordinate and administrate.

The role construction manager is defined as consultant role and responsible to the client. The construction manager work for a safety and all works are carried out by sub-contractor, between client and sub-contractor.

This type of procurement method was first started in US during 1960s. They usually called this method as construction project management. This procurement method was started to use in UK in 1970s. This was needed to control the risk, cost and time in large projects. After the uncertainty in the world's economy takes place the higher interest rates made commercial builders to large financial risks. From that stage this method was used in major projects.

There are variations in construction management procedures. The construction manager has the equal level as designers. The both designer and construction manager have a direct contact with clients.

In construction management method the involvement of client is more than the other methods. Thus this method will be taken by the entrepreneurial clients, who have ability and resources, unless they must be ready to appoint construction manager to protect their interest. Tough process will takes place to appoint a construction manger.

The main roles of construction manager:

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- Planning and management
- Inception and completion
- Design to ensure built ability.
- Value for money and economy.
- Advising the client of their time and cost.
- Safety policy for the site.
- Division of work to appropriate sub-contractors.

Interim payments and final accounts with work contractors (sub-contractors) and advising client with proper documentation.

Before starting of the project construction manager also involves in preparation of project cost budget. Also involves in preparation of tender documents and solution of potential subcontractor and managing tender documents, evaluation and recommendations in acceptance of tenders were also done by the construction manager.

Construction manager will not do any construction work by his own.

Construction manager was responsible for control and co-ordination of subcontracts. Programme control and time management. Applications for the payment to the subcontractors were examined by construction manager.

The manager will submit the applications to the client with appropriate member of design team.

Advantages and disadvantages:

Traditional method:

Advantages:

- Design was fully developed and cost is detailed before the building contractor being signed.
- This method will give clients very customised building.
- The design and construction was split into separate sections will give clear responsibilities.

Disadvantages:

- It's difficult to fine the responsibility for errors and omissions.
- Different parties involved in the contract can create climate antagonistic.
- Unexpected circumstances will change the final cost of the project than original tendered amount. But proper planning keeps this under control.

Design and Build method:

Advantages:

- Single point of Responsibility: the manager is responsible for design and construction. The client should have single point of responsibility. This method is more advantageous than other, where the client employee separate designers and construction agreements. If the claim is done, the contractors, designers and architects blame each other of their responsibility.
- Price certainty: Design and build gets more price certainty than other forms of procurement methods. Many of design and build contractors include guaranteed maximum price (GMP). Design and build contractor can't claim for loss and expenses for late instructions from architects.

This kind of claims can be done under traditional form of procurement method. The fee paid for the professionals is also less and depends on the roles of the professionals.

- **Speed:** It can be easily achieved from design and build method, by starting the work at site earlier than the traditional forms of contract. The contractor is not relaying on design and supply information, this is called single point of contract. This type of method will allow budget and programmes level of control to the contractor. So the construction process is likely to be quicker.
- **Buildability:** The contractor is responsible for design and construction, so the project is more likely to be buildable than other procurement methods.
- **Claims:** It's not easy to claim because it's a single point of responsibility.

Disadvantages:

- **Design quality:** Design and build method is not an exact procurement method where high priority of design quality is not given because of certainty among the architects.
- **Additional design fee:** If the client likes to take independent advice on design matters where the building contractor involved, then this will cost the client to pay additional fee to the design team of the contractor.
- **Inflexibility:** Once the contract proposal is agreed, the scope for client to make changes in his requirement is less otherwise the cost consequences will be prohibitive.

Management contracts:**Advantages:**

- This system enables client to obtain Guaranteed Maximum Price (GMP) for the construction element of project from the management contractor.
- It is used to accelerate the project process. The risk of delay will be overcome by timely targets.

Disadvantages:

- Project cost incurred in this system is higher, when compared with design and build system.
- When guaranteed maximum price (GMP) achieves, the management contractor position with clients as consultants will be at risk.

Framework agreement:**Advantages:**

- Single tendering for the life of the framework agreement.
- Reduction of cost and administrative efforts.
- Initial tendering allows contractors to know competitive supply and should offer competitive prices for expected value of business.
- The range of supplies will be provided in short time by contracting authority, it reduces the stock holding for goods and also reduces time and equipment maintenance and repairs.
- Long term working relationship can be established with the supplier.

Disadvantages:

- This is a closed system, once the framework agreement is established then new suppliers cannot be admitted.
- Competitive reopen can be considered onerous, if its structure is not planned properly in framework agreement.

Public private partnerships:**Advantages:**

- Value for money
- Risk transfer
- Long term nature of contract
- Performance measurement of contracts.
- Private sector management skills
- Cost efficiency
- Time to delivery saving
- Reduction on the public treasury
- Board support
- Improved cost calculations

Disadvantages:

- Insecurity
- Higher transaction cost
- Higher capital cost
- Inefficiencies
- Culture gap
- Short term rigidities

Construction management:**Advantages:**

- Positive attitude and more constructive being exhibited at all levels. i. e. management, supervising and operative level.
- The proper using of value engineer by construction manager.
- Client's involvement is a bit higher when compared when compared with remaining procurement methods. It will promote better working relationship with project team.
- In this method the clients will direct contact with subcontractors, which will improve subcontractor's cash flow. Means direct payments from the clients.

Disadvantages:

- Client must involve deeply into all course of works. He must also able to manage construction manager and design consultants.
- The fee to the construction manager will vary from project to project; it will depend on the size of the project and roles of the construction manager.

Procurement strategy:

The customized nature of construction project increases inborn risks. These risks include the work which was not exactly required in the project completion. This includes late delivery or costs more than the client pay. These kinds of risks will impact client's core business. The procurement strategy should balance these situations at early stages. The main points which are co-dependent and frequently in tension are:

Time: Speed and certainty of completion as per deadline.

Cost: Level of price and certainty in cost.

Quality: As per performance and functionality.

Procurement strategies will accomplish,

Cost and time certainty for the design is developed by an architect. This consequently slow process. Also known as traditional procurement process or design-bid-build process.

In cost certainty and relative speed, the design is responsibility of a contractor. Gradually client will lose the control over the design process in design and build procurement.

Virtual speed for the design developed by an architect and cost is uncertain till completion called as management contracting or construction management.

After careful analysis of the project brief it is clear that the main factors essential for the project are time, cost, quality and reputation of the organization. In time, cost and quality the top priority goes to time and then followed by cost and quality. So the procurement method which is going to be selected should be very efficient and fulfil all requirements and objectives of the project. The selection of procurement system depends upon the nature and objectives of the project. After careful considerations of all the above factors and objectives of the client's organization the design and built

contracting procurement method is suggested as it is best suitable for the client