
Procurement and Contract Strategies for Construction

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Chapter 1

Introduction

1.1. Purpose and structure of the book

This book is intended to provide the reader with a detailed walkthrough of the procurement process used to engage suppliers to deliver a construction project. It covers all aspects of the development of a construction project from initial business case to project commencement and completion. While written in relation to a construction project, the general process and principles can be applied to procurement of other activities, including facilities management, information technology and software development.

The book is structured to follow the decision stages that would normally take place in the development and implementation of a procurement strategy. However, procurement is not a linear process and it is common for certain steps in the process to change order or to require a client to re-evaluate and retake previous steps. It may also be that a client has already undertaken a number of the steps in the process and the book is written so that the chapters, while interlinked, can be read in isolation.

The book covers the development of a procurement strategy which determines what needs to be procured and how, and then goes on into the mechanics of the procurement process. It also covers the selection of the contract to be used to engage a supplier and key aspects of this, including the commercial model.

In this book the term 'client' is used to refer to the organisation that is undertaking the procurement. The client may be a government body or a private company and could also, depending on the context, be a supplier who, once appointed, wishes to subcontract some of the works to other suppliers.

The term 'supplier' is used to describe the organisation or person to be engaged through the procurement exercise, though in certain chapters specific types of suppliers such as contractors or consultants are referred to, where the context requires.

The term 'works' is used to describe the activities that the supplier is being engaged to provide. This may include physical construction works, preparatory works, professional services, including design, and the supply of goods and related services.

1.2. Structure and contents

This book comprises nine chapters which follow the procurement process outlined in Figure 1.1. The contents of the chapters are as follows.

- Chapter 1 provides an overview of the procurement process.
- Chapter 2 identifies the issues to be considered when developing a procurement strategy, specifically in respect of defining the client's requirements and any constraints.
- Chapter 3 deals with supplier engagement, which is used to gain an understanding of the marketplace from which the suppliers will be drawn.
- Chapter 4 looks at how a project will be procured and whether it will be broken down into separate packages of work and if so, how these packages will be determined.
- Chapter 5 considers the allocation of design responsibility between the client and the contractors who will construct the works.
- Chapter 6 considers the most commonly used forms of engagement models/contractual structures under which suppliers will be appointed by the client and their relative advantages and disadvantages.
- Chapter 7 reviews the most commonly used commercial models and their relative advantages and disadvantages.
- Chapter 8 provides an overview of the forms of contracts that can be used to engage suppliers under the procurement strategy developed.
- Chapter 9 looks at the final part of the procurement process: the selection and engagement of a supplier who will undertake the work being procured.

1.3. What is procurement?

Procurement is a wide-ranging term that can have different meanings in different contexts. In simple terms it is the act of procuring works, goods or services. In the context of this book it is the process whereby a client engages a supplier to undertake an aspect of work required as part of a construction project.

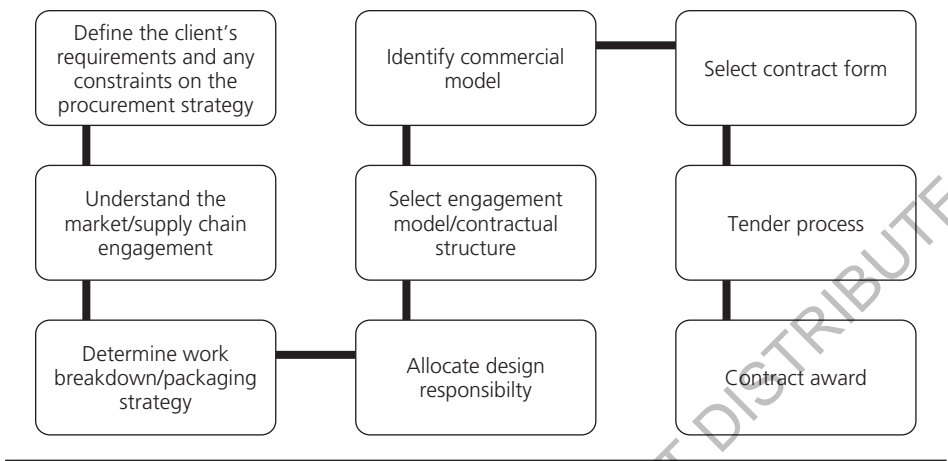
Procurement is not a definitive science and is actually a mixture of science and art. While there is a structure to a procurement process that requires a series of decisions to be made, these will not solely be made by reference to a formal evaluation of the options available on a mechanical basis. Such decisions will need to be overlaid with the experience, knowledge and preferences of a client. A mechanical process will commonly lead to a number of possible solutions being suitable and there will often not be a single 'right option' and so a client will have to make a judgement based on a weighted evaluation of the relative advantages and disadvantages of each option and ultimately their own experience and preferences.

1.4. The procurement process

The procurement process will vary depending on the works to be procured, the nature of the client, the project and the commercial, cultural and legal environment in which it is taking place. Other factors that will influence the procurement process will be time, value and risk. These factors will be examined in more detail in later chapters of the book.

A procurement process will typically follow a series of steps as outlined in Figure 1.1 and the structure of this book will follow the steps in this figure, although as previously

Figure 1.1 The procurement process



noted, procurement is commonly not a linear process and may not involve all of the steps shown in Figure 1.1 or some of the steps may need to be repeated as the procurement exercise progresses.

It is important that sufficient time is allowed for each step in the procurement process. Clients often underestimate the time required for the procurement process and in particular they do not allow time for a part of the process to be repeated or extended and work on over-optimistic timescales. This can lead to steps in the process being shortened and in particular the time to prepare robust tender documents and to undertake a thorough tender assessments being compromised. Clients also need to build in time for internal, and where required external, governance procedures which can often take an extended period of time. Linked to this is consideration of any stakeholder engagement that will be required in the development and implementation of the procurement process.

In order to allow sufficient time, clients either need to work back from the date they need to start the work under the contract to determine when they need to start the procurement process or work forward from the date the procurement process starts to determine when a contract can be awarded by.

One of the first steps in any procurement process should be the development of a procurement programme detailing the steps that are required, the timeframes for them, how they interlink and who is responsible at each point in time. This programme should then be regularly updated as the procurement process progresses and used to actively manage each step to ensure that the right resources are mobilised at the right times and that sufficient time remains for the outstanding activities.

Clients need to ensure that sufficient resources are committed to the procurement process and they have the necessary skills and experience required to undertake the tasks assigned to them.

Figure 5.3 Design and build

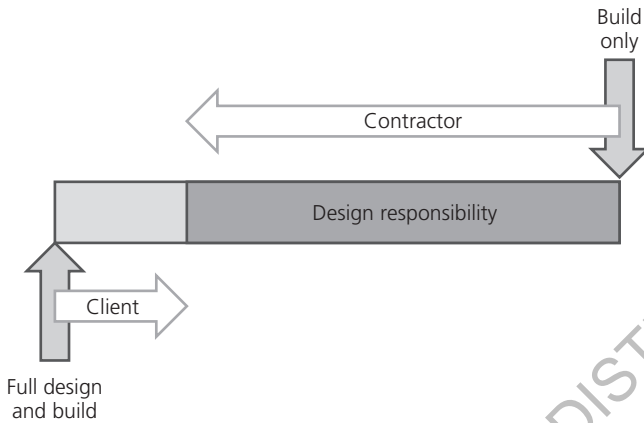
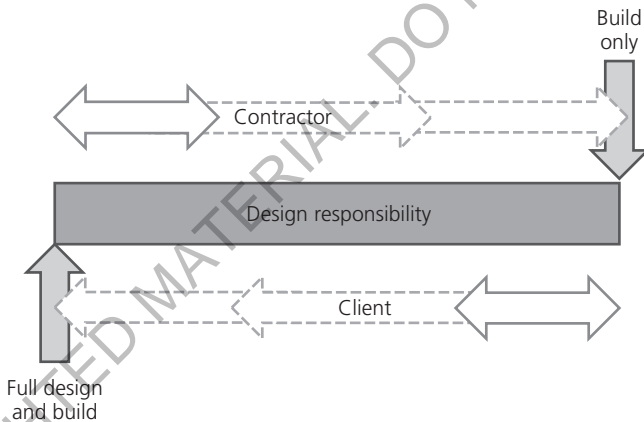


Figure 5.4 Flexibility over allocation of design responsibility



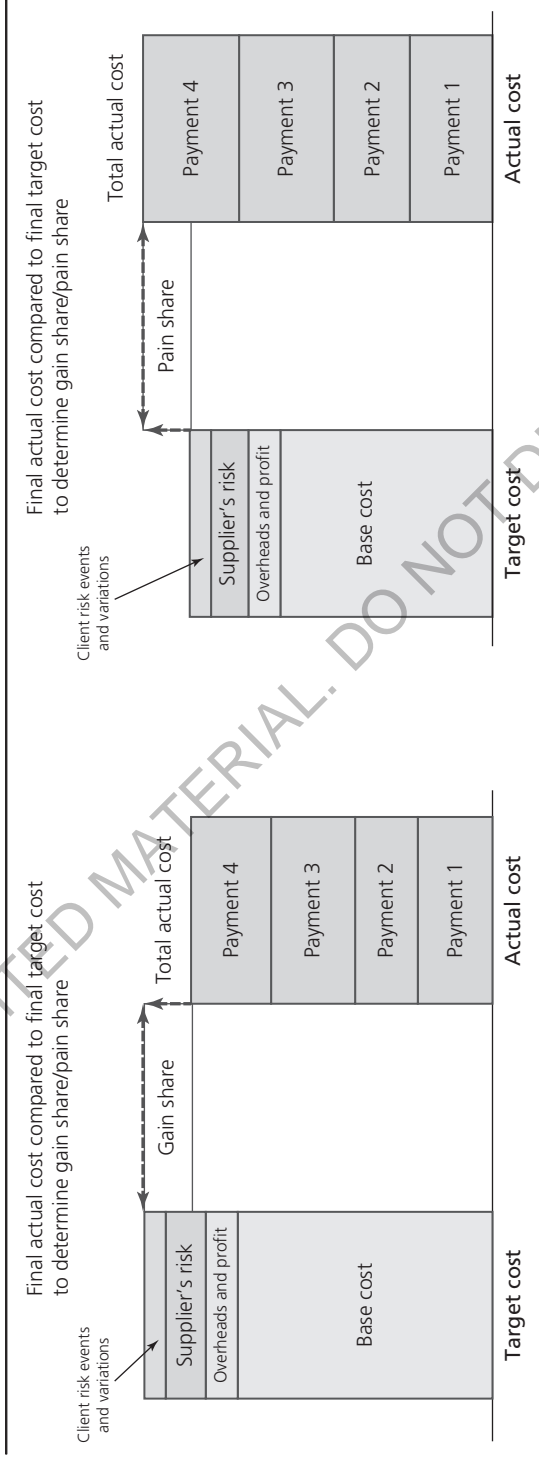
5.2. Client design

When the client chooses to take responsibility for the design, as noted above they will commonly engage a design consultant to prepare the design for them. In this approach a contractor is engaged to build the works based on the design prepared by the client's design consultant, as illustrated in Figure 5.5.

5.3. Design and build

In a design and build approach, the client engages a contractor to undertake both the design and construction of the works. A contractor may have in-house design expertise they can use to undertake the design, although more commonly they will engage a consultant to undertake the design for them. The consultant may well be a similar company to that the client would have engaged directly if they were going to undertake the design.

Figure 7.1 Target cost mechanism



9.3. The tender process

The choice of tender process will be determined by a number of factors, including the type of work to be procured and the organisation procuring it. The process may also be impacted by the value of works being procured, with a greater level of control and administration being required the higher the value of the works to be procured. Other factors that will impact the choice of tender process include

- number of potential bidders in the market
- frequency of the need to procure similar types of work
- degree of specialisation of the works and
- urgency of the works.

An outline of a typical tender process is shown in Figure 9.1.

Preparation of tender documents

It is essential that sufficient time and resources are allocated by the client for the preparation of the tender documentation. A successful tender process and the resulting

Figure 9.1 Typical tender process

