

Traditional Values

In times of economic instability astute companies are restructuring their cost base as well as driving harder for revenue. As a result companies are auditing their workplace needs and are relocating, reorganising or refurbishing their business premises with a view to improving productivity and reducing cost ratios.

But if you're seeking to make such changes, how are you going to ensure best value for money?

INDUSTRY

A whole industry has been created out of managing the process of procuring construction works. The top 50 companies spend £31bn between them and this industry accounts for 10% of the UK's GDP.

How can those businesses achieve value for money from contractors and suppliers notorious for their ability to manipulate contracts to their own gain?

Let's say that you have a relocation project. Let's also assume that you have found a building that is suitable. Unless you have struck it lucky and the layout is already perfect then the building will have to be adapted to accommodate your company's staff, equipment and business needs.

With typical refurbishment costs of £15-£25 per square foot, the stakes are high. Choosing the right approach is critical to the project's success.

OPTIONS

The interior fit-out market offers two main procurement routes:

Turnkey contractor – also known as Design & Build (D&B)

"Traditional" consultant led approach – can also provide a one stop shop but independently driven solution.

The 'Traditional' approach is further modified so that the client now has an integrated consultant team. This team is put together per project to include relevant specialists but is generally based on a core who are well versed in working together. Here we compare this against the D&B route.

TYPICALLY THE DIFFERENCE BETWEEN THE TWO APPROACHES CAN BE SUMMARISED AS FOLLOWS:

ITEM	DESIGN & BUILD	TRADITIONAL
Design Responsibility	Contractors	Consultants
Prepare Spec / requirements	Client	Consultants
Cost Management	Client	Consultants
Construction Responsibility	Contractors	Consultants
Quality Audit the Work	Contractors	Consultants
Control over quality of materials used	Contractors	Consultants
Payment Responsibility	Client	Client
Contract Administrator	Client	Consultants

Under D&B, the client has an **increased burden of responsibility** and therefore needs to allocate more of its management time.

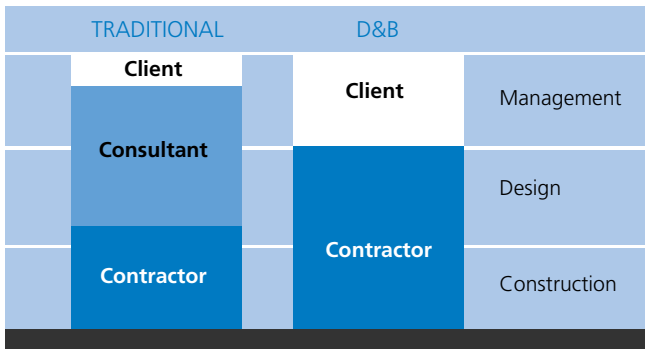
The more an independent consultant manages for the client the greater control the client will have on **specification and cost**.

Quality control of materials and of workmanship standards is relinquished to the contractor under D&B. Its value, however, depends on the accuracy of the project requirement information prepared by the client (see below).

Control – Under the Joints Contracts Tribunal Ltd standard form of building contract 1998 'With Contractors Design' (the industry standard) it is the **client's responsibility** to prepare their 'Employer's Requirements' detailing the works. The **contractor** will then submit its 'Contractor's Proposals' and it is again the **client's responsibility** to ensure these proposals meet its requirements. The control of the overall project specification should therefore be in the hands of the client but if they are not used to the process and not represented by a professional, then contractors will have the upper hand.



THE TIME INPUT FOR EACH ROUTE CAN BE VISUALISED AS FOLLOWS



The client has responsibility for initiating the project in both cases but has a **greater management burden with the D & B route**. This includes cost management, variation and claims validation, design and quality auditing.

The "Traditional" route adds another layer to the process **but reduces** the demand on the client's time and reduces their risk. The contractors are involved only in the construction.

Estimates show that projects between £500k to £1m take up management time in excess of 1hour for every £1k.

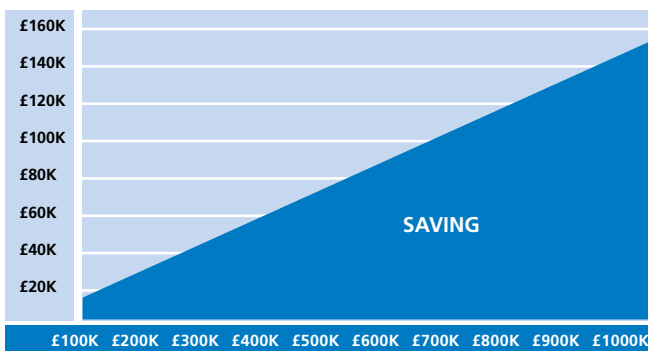
DECISION

When deciding which route to take the client must first ask itself what the key issues are. For most the measures of success can be simply defined as performance on **cost, quality and time**.

Cost – Ever tightening budgets and easier access to scrutiny by both senior management and shareholders leads to **cost** commonly being the main driver. Those who are not used to the detail needed for the procurement of construction works can struggle to control the process.

The **best way of achieving value for money is by requesting competitive quotations**. Success, however, depends on ensuring that the tenderers price for the same works. For complex construction works this is only achieved by issuing detailed drawings and a specification. Obtaining parity of pricing on D&B contracts is by definition more difficult.

SAVINGS ON TRADITIONAL PROCUREMENT v D&B



Total Project Spend

Recent case studies have shown that the project costs for a D&B procured contract will be on average 15% – 20% higher than that of the specified & tendered "Traditional" route.

Quality – The competitive nature of the market over the last 10 years has led to quality improvements in the service delivery of both Consultants and Contractors. Looking at materials and workmanship though, higher costs (as described above) do not always lead to higher quality.

With D&B, the onus is on the client to specify the quality requirements. Under the "Traditional" route the professional consultant compiles this key document.

Time – The issue of timing often overlaps with cost, for instance, when the client runs two premises while the new one is being adapted. Should the procurement route be protracted, then the time paying for both properties increases.

Typically the fastest way to get people working on site is to tell a D&B contractor to get on with the job. However the inexperienced client may fail to tie the contractor to an agreed completion date. If the contract is delayed then the contractor can apply for extension of time costs. It is hard to prove responsibility in contracts with no stipulated time clauses.

CONCLUSION

The "Traditional" route is proving popular by those who wish to obtain, and those who need to be seen to be achieving, value for money. In summary it delivers:-

- Greater Control
- Reduced Risk
- Reduced Cost
- Less Client Management Time

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