

Early Procurement by Partnering

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Abstract

The procurement strategy "Partnering" has been and is used in Sweden, although to a rather limited extent. One variant of this strategy is when the contractor very actively works in the market in order to get in touch with a client and in order to enter into a building or construction project in a very early phase. This variant can be called "Early Procurement by Partnering" (EPP). This paper describes a project with the aim of studying and analysing this special procurement strategy. Based on interviews with four individuals, three cases are described and analysed.

The results of the project are mainly the following:

- In order to have successful EPP-activities, the construction company must have employees with a suitable character, attitude and interest and with appropriate technical and economic competence.
- EPP-projects can have a great economic importance for a local division of a construction company. It has not been possible, however, to express this importance in quantitative terms.
- The interviewed individuals have mentioned that there are several advantages of EPP-projects. Among the most important is a simplified situation for the client and possibilities for the construction company to have long-range planning and to take its experience and wishes into consideration at the design stage. For individuals within the construction company the main advantage is that they have the possibility of joining a project very early and thereby having the potential to influence it and to be creative and innovative.

Key words: early procurement, partnering, relationship, design and build

1. Background

The 1990s were, in many respects, a difficult decade for the Swedish construction sector. A slowdown in business activities, on a national as well as on an international level, combined with the fact that the government housing subvention system was more or less dismantled, caused a deep recession within the sector. The general recession with anxiety and unwillingness for investment caused the supply of construction projects to be unusually low. The consequences of this are well known. Many construction companies went bankrupt; others had to reduce their activities to a great extent.

This difficult situation led to different measures within different companies. Most of the measures can be regarded as defensive, i.e., they were taken as an answer to the declining supply of construction projects on the market and the consequences of this, i.e., a declining number of orders and thereby a declining profit margin.

There are, however, examples of offensive measures that construction companies have taken, i.e., measures taken in order to increase the supply of construction projects for the company. One example of such a measure is, what is popularly called "Early In the Market", in this paper abbreviated EIM of practical reasons. The essence of EIM is that the construction company is active in looking for or even initiating a construction project with the aim of getting involved in it. The intention is, of course, to enhance the possibility of utilising the productive apparatus of the company, but also to get involved in a project as early as possible in order to make use of the special knowledge and experience of the company. The division of a big, national Swedish construction company in Halmstad, has for a long time proved to be active and successful as regard EIM. This was one important reason why this division in Halmstad managed to handle the general crisis within the construction sector during the first half of the 1990s in a good way.

One important type of EIM is so called "Project Development". The essence of this is that the construction company is active in forming the ideas; financing or in some case purchasing of a building site; design; construction and facility management or sale, see e.g. Falk et al (1999). No client is involved; only the construction company develops the project.

Another type of EIM-project is what in this paper is called "Early Procurement by Partnering" – of practical reasons abbreviated here as EPP. The decisive difference in comparison with "Project Development" is that a presumptive client is contacted very early in the project, see below.

The procurement strategy "Partnering" has been developed, used and studied to a rather great extent during the last 10-15 years in some countries, especially the United States, Great Britain and Australia, see Kadefors (2002). The literature available on the topic is also rather extensive, and in some cases well elaborated, see e.g., Ronco and Ronco (1996). Also in the Nordic countries this procurement strategy has gained interest during recent years. Some studies have recently been executed in Sweden, see Kadefors (2002) and Josephson and Lindahl (2002). In the last-mentioned study, the need and possibility of continuing the discussion and studies of different forms of partnering and cooperation is underlined.

At Halmstad University a research project, with the aim of studying and developing EPP, has been started.

This project, which is a first explorative study, has so far been composed of interviews with four employees of the construction company mentioned above. These interviews, which were recorded in writing, are mainly the basis for this paper.

2. Early Procurement by Partnering – basic and characteristic features

Based partly on Larsson (2000) and partly on information obtained at the interviews, see below, the following three, basic and characteristic features connected to this procurement strategy can be presented:

1. *The construction company plays a very active early role in the market in order to obtain an assignment from a client.*

This active work of the construction company can differ according to the situation, see below. In this stage of a project the role of the client is passive.

2. *The construction company tries to get in touch with a presumptive client in order to establish a relationship based on mutual understanding and confidence.*

The intention is that this relation shall be established very early in the project and then continue throughout it. Against this background it can be stated that one important and basic part of this procurement strategy is "partnering", namely so called "informal partnering", see McGeorge and Palmer (1997). Even if planned and formal partnering workshops, see Kadefors (2002), not are included, the main essence of partnering must be recognised to be present. This main essence is described as follows by Best and de Valence (1999): "Partnering involves the commitment of two parties to establish a cooperative relationship that promotes a spirit of goodwill and fair dealing with the common view towards the success of a project and is therefore a strategy that is very strongly focused on the win/win principle." The single EPP-project may aim at "project partnering", i.e., to a cooperation based on mutual trust and understanding in the project in question, but can in some cases develop into "strategic partnering", i.e., a relation on long-term basis including more projects.

3. *The intention of the construction company is to get involved in the project at a very early stage in order to be able to influence the planning and the design using its own knowledge and experience.*

Very often the engagement of the construction company will be in the form of "design and build". With regard to the fact that the construction company will be involved in the project at a very early stage, the variant of the design and build theme can be named "develop and construct", see Cox and Townsend (1998).

3. Early Procurement by Partnering – description of the process

In order to give a picture of what "Early Procurement by Partnering" can mean in practise, three cases are described below. The description is based on interviews with four individuals. The first case is in some regard fictitious, as it is a combination of many cases handled by the individual in question.

Case no. 1 – Minor industrial building

During the recession in the beginning of the 1990s, this employee of the construction company was active in trying to get assignments. He visited industries in order to evaluate their need for more building facilities, etc. In some cases the industry in question had not considered its own needs. Because of this the employee forwarded a concrete proposal which could lead to an assignment for the construction company. In one case the proposal in question was a minor industrial building where the chain of activities was as follows. The employee wrote a letter containing a proposal to the presumptive client. The letter was followed by a telephone call, which in turn led to a meeting face to face. The intention was to meet the presumptive client on "home ground" in order to listen and get insight into the activities of the presumptive client. It was important to grasp both the entire technical activity but also to grasp details, e.g., the need for ventilation. The next step was to visit a reference building. All the time it was very important to become acquainted with the client and to associate, for example during meals. After some time an architect was contacted in order to obtain draft-drawings (1:100), so far without any expenditure to the client. A draft-proposal, which gave a full picture, including financial, was now presented to the presumptive client and the following two options were given:

- ❑ If the client chose not to build at all, then the construction company would pay for the design work executed and would not ask for any compensation.
- ❑ If the client chose to use the draft proposal but to have another construction company execute the work, then the client had to pay for the design work.

In this case the client accepted the proposal and accepted that the construction company would execute the work. The cooperation, therefore, continued. Among other things, the construction company helped the client with banking contacts and provided the client with security. A design and build contract was finally signed.

Case no.2 – Business premises

An employee of the construction company had for a rather long time thought about an appropriate use of a specific building site. He considered different options as to how this site could be utilised. The site was situated in a commercial area in a town which was characterised by good and rapid economical development. For many years this employee had good contact with both a real-estate company and two retail companies. He had worked together with these companies in connection with building projects for a long time, approximately 20 years.

After negotiations with the local government a concrete project-proposal was worked out. The proposal, which was comprised of investment calculations, drawings, etc., was complete. The employee worked for about one month with this proposal. Thus it was possible to get a proposal adapted to the needs and wishes of the customers. The intention in this case was that the retail companies would be tenants of the real-estate company. Because of this the latter was contacted initially to discuss, among other things, acceptable tenancy conditions

The real-estate company finally accepted the proposal and purchased the building-site from the local government. The price was favourable, as the matter was prepared together with local government. Finally, the construction company erected the buildings through a design and build contract.

Case no. 3 – Home for elderly people

Initially a discussion was held between the construction company and the local government. Neither the local government nor the construction company wanted to be the owner of the discussed home for elderly people. At this stage the construction company assumed the responsibility to find a presumptive owner, and after some time, succeeded in this. The next assignment was to present a comprehensive proposal with drawings and investment calculations to the presumptive owner/client. This proposal was accepted and the construction company finally agreed to erect the home through a design and build contract.

The descriptions above show that the concept "Early Procurement by Partnering" is a wide concept with great variations from case to case. It is, however, possible to identify three common phases – see the model presented in Figure 1.

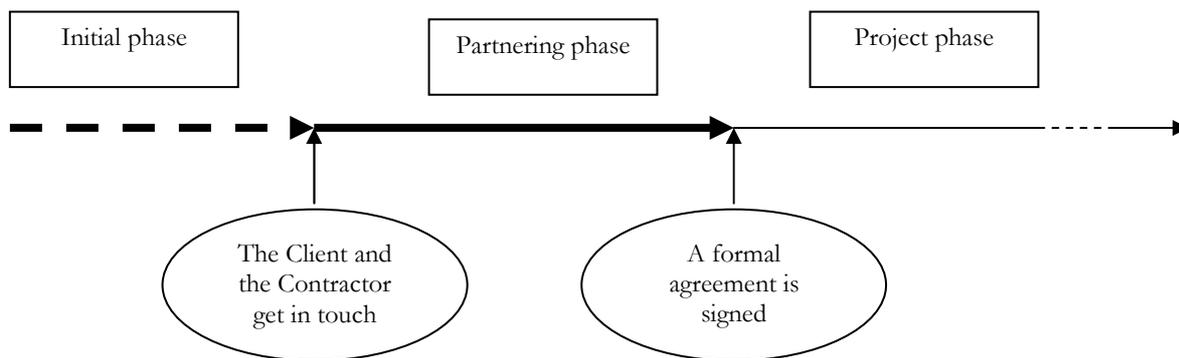


Figure 1. Early Procurement by Partnering - model

Only the first two phases of the model are discussed here. The project phase, which in most cases uses a design and build contract, is rather common and because of this is not discussed in this paper.

The initial phase is characterised by the fact that the construction company is searching for ideas or projects in order to get in touch with a presumptive client. The intention is, of course to get an assignment, at a later stage. This can be done in different ways and with regard to different time lines.

At the interviews it has been stressed that it is crucial that the employee of the construction company has broad and wide contact-networks in the society. First of all a good contact with the local construction market is needed. In addition to this a good contact with the society in general is needed, e.g., in regard to contact with the local government and contacts through social activities.

In the partnering phase the construction company approaches a presumptive client and presents an idea or project which is developed into a concrete proposal. A very important condition is that mutual trust between the presumptive client and the contractor is gradually developed and that the technical and economic know-how of the contractor is put at the disposal of the client. This is the core of "Early Procurement by Partnering". It is of great importance for the construction company to listen to the client in order to really understand the needs and requirements. The aim should be to develop a solution or proposal which is favourable from an overall financial point of view and which is adapted to the conditions and needs of the client.

4. Conclusions

During the interviews several aspects on EPP were forwarded and discussed. Below a summary of what has been judged as the most important aspects is given.

4.1 Conditions for EPP projects

A very important condition in order to have successful EPP-activities is to have employees with a suitable character, attitude and interest. Of decisive importance is the ability to create contacts, gather information and gradually create and keep the confidence of the presumptive client. Another important part is the qualification or competence of the representative of the construction company. A person working with EPP-projects must have a broad knowledge covering both the technical and economic field. The last-mentioned is very important, as it is necessary to make realistic financial estimations for the client at an early stage.

4.2 Economical importance

The persons who have been interviewed have been or are working at three of the local divisions in Sweden of the construction company mentioned above, namely at divisions in Halmstad, Kristianstad and Lund, respectively. They have all underlined that the EPP-projects have had a great economical importance for their local division. It has not been possible however to express this importance in quantitative terms.

4.3 Advantages and disadvantages – opinions about EPP

The persons who have been interviewed have all extensive experience from working with EPP-projects and they all represent the same construction company. Their attitude towards this procurement strategy is naturally positive. The advantages they have expressed are mainly the following:

- ❑ One advantage for the client is that activities in and work with the project will be simpler compared to the situation with traditional procurement strategies. The client has to deal with only one party instead of several. Another advantage is that the client can grasp the overall economy of a project at an early stage. Furthermore, the total project duration time will be shorter.
- ❑ From the viewpoint of the construction company the main advantage is that EPP-projects give the possibility of long-range planning in the activities of the company. Another advantage is that it is possible to take the experience and wishes of the construction company into consideration at the design stage.
- ❑ Working with EPP-projects also gives advantages for the individual within the construction company. The main advantages are that one has the possibility of joining a project very early and thereby have the chance to influence it. This strengthens one's interest and commitment. One's total technical and economic know-how is utilised and one has the chance to be creative and innovative.

At the interviews no major disadvantages were mentioned. However, interviews with representatives of other parties with experiences from EPP-projects, e.g., clients or consultants, have not yet been executed.

In Larsson (2000) a more systematic, partly quantitative study is presented. The study is of experiences obtained in connection with four industrial buildings all erected by the same construction company in Halmstad. The four industrial buildings (building area 800 m² – 5000 m²) were all EPP-projects executed on the basis of design and build contracts. Through an inquiry the client, the contractor and the consultant were asked to respond to some questions/statements by

choosing among five alternatives. The opinions forwarded by the clients, contractor and consultant were, by and large, very positive. It can be added that the same consultant participated in all four projects.

5. Further research

The aim is to continue with the project with interviews with clients and consultants who have been involved in EPP-projects. Factors and aspects that will be emphasised in connection with this include different demands on the client, and the possibility for and the consequences of an improved relationship between the client and the contractor. Furthermore, the possibility of obtaining fulfilment of the client's requirements and, finally, the consequences of the absence of competition between different contractors in a single project, will be analysed.

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