

ROUND TABLE: MORE FOR LESS

SPENDING MONEY WISELY

On the eve of NCE's Infrastructure Show, David Hayward reports on the magazine's latest round table discussion, which focused on the client's role in providing "more for less".

This NCE round table discussion was sponsored by Bourton Group, an international management consultancy specialising in sustainable performance improvement.

Construction clients must ensure they take the lead in project procurement, be more proactive and knowledgeable, use consultants more selectively and strive to increase communication with their supply chains.

This was the main thrust of recommendations emerging from the latest *NCE* round table discussion, held last month.

Such criticism was more positive than aggressive, and refreshingly open given that most of the 10 industry leaders taking part were themselves captains of major construction clients.

Inefficiency, lack of innovation, inappropriate business models and irresponsible levels of waste – both in manpower and materials – thrived during what has been a decade of decadence in construction, argued the gathering. And it was only through more inclusive use of the total supply chain, with all sectors of the industry working together, that sustainable growth can be restored.

It fell, initially, to Osborne chairman Simon Murray to stress that no single level of construction was to blame. "It is a systemic problem with all of us

in industry allowing the situation to perpetuate," he said.

"We entered the last decade a bit overweight and, after 10 years of gorging ourselves on public money, the industry now faces a serious challenge," he continued. "If we want to get fit we must address the fundamentals of how we do business."

Murray argued that a root cause of this inefficiency was construction's current business model, which concentrated on "breaking things up, securing low prices and transferring risk".

He said clients typically have consultants design their projects, tender for a contractor and then transfer as much risk as possible to the successful bidder. This process is repeated with the contractor appointing subcontractors offering the lowest prices and similarly transferring the risk to them.

This approach has fragmented projects and stifled innovation, claimed Murray. "We fail to tap into the knowledge and skills of our supply chain," he said.

It also added costs, he said, with design work often repeated up to four times and control over construction reduced for fear of bringing risk back in-house.



Holding forth: Network Rail's Ian Ballentine (left) sets out the client's argument, watched by the Highway Agency's Nirmal Kotecha

“There is so much contractual posturing and prevarication in the sector, that makes it difficult to make people work efficiently”

Stuart Smith, Bourton

He suggested simple, inexpensive measures to help alleviate these problems. These included clients becoming experts in their own infrastructure – so reducing their dependency on consultants – and being more innovative at procurement by establishing, where appropriate, a fixed budget for their project. Clients could then ask the supply chain to provide the best product for that price.

Murray further argued that the industry must learn more about total project costs – rather than unit prices – so gaining a better understanding of a project’s value chain. And he urged contractors to retake control of construction themselves,

an operation he claimed to be “currently poorly managed”

Participants nodded approvingly to pleas for a major rethink in a client’s approach to procurement. But they differed on how best to achieve this.

“We want to be a more informed client but you cannot just flip the switch and become one,” suggested Network Rail’s programme director for efficient infrastructure delivery Ian Ballentine. “We’ve got a huge amount of data in Network Rail but we haven’t always been gathering it in a standard format throughout the company.”

A major and unified data gathering operation has just started across the company’s entire capital programme, Ballentine revealed. “We know where we’ve got to get to but currently we are still going to have to rely on competition to tell us what best value looks like.”

He also said that Network Rail was looking at areas suitable for increased in-house design as the company felt, especially in early design developments, that it was not always getting value for money from its suppliers. The company is also re-analysing relationships between its engi-

neers and external consultants.

At present, initial consultant designs are evaluated at an early stage by company engineers who, as Ballentine put it; “move things around”. In future, such in-house analysis will be reallocated further down the design chain to the much later development stage where, said Ballentine “they can add most value to the process”.

Highways Agency major projects director Nirmal Kotecha was, he said, similarly unable to quantify what he gets from the Agency’s consultants.

“Return on investment is a question mark,” he noted.

“The world we are moving into will require a whole new paradigm shift in the way our consultants approach the challenge,” Kotecha suggested. “We have to move away from the time and expenses model to a new one where consultants are genuinely part of a team that is chasing a solution but not timesheets.”

“The client needs to be strong, have real intelligence and authority and also be clear what it is he is looking for,” Kotecha continued. “This aim then needs to be pushed through the supply

chain, with consultants adding value to that process.”

The Highways Agency has recently invested heavily in category management, with Kotecha claiming that it now understands where money and risk flow through the supply chain. The Agency is also attempting to engage with second and third tier suppliers.

His hope is to see a step change in the way that chain thinks and performs: “I’d love to see an attitude that doesn’t start with ‘it cannot be done in the road sector’ but instead says ‘here are 10 reasons why it can’.”

Claiming to already be a “very thin client” with a strong dependency on its supply chain, Kotecha estimated the Agency’s £1bn highways programme carried a client cost of just 1.6% per annum. And he revealed that the shift away from conventional road widening to managed motorways will deliver the same capacity for 40% less cost.

Development director for Tesco Trevor Bacon mirrored this view: “We are also a lean client, able to give a clear definition of what we need to deliver – great shops for our customers,” he said. “And we can offer our supply chain partners – operating through a framework agreement – up to five years work ahead of them. It is a partnership that works for both sides.”

Two years ago Tesco changed its procurement method from a conventional price model to target cost. “We used to procure through consultants advising us and tracking contractors’ prices,” Bacon explained. “But they were simply prices with no cost knowledge at all.”

With its large capital programme, Tesco knew what its stores should cost so started offering its contractors a prescriptive target cost.

“By being an expert client, we have taken standard costs >>

“We used to procure through consultants advising us and tracking contractors’ prices, but they were prices with no cost knowledge at all”

Trevor Bacon, Tesco

LESSONS FROM BAA



Fine art: BAA’s Mike Forster explains the T5 construction philosophy

Construction of Heathrow Airport’s £4.6bn Terminal 5 three years ago was hailed as a major advance in interdisciplinary cooperation. Round table participants were fascinated to hear the client’s analysis of this business model.

BAA infrastructure and sustainability director Mike Forster unconditionally endorsed its application to T5, though he conceded reservations and challenges over the model’s

suitability for all major projects.

He explained that, on T5, BAA was an expert client and “the contractor”. Alongside it were 150 first tier contracts.

For T5 BAA said to its contractors: “Let’s define the project together,” said Forster. “So the product evolved with the whole team on board”. This allowed access for supply chain skills and innovation to influence the outcome against a clear set of goals around cost, time, quality and operational

performance”.

“If you then want to extend the T5 model into a broader and more diverse set of projects, can you still deliver the commercial tension essential for the lean prices you need?” he asked.

BAA is now moving back towards an expert, informed client role, which Forster described as “being very clear to the contractor this is what we want; tendering it tightly to achieve best value and allowing the contractor to go away and deliver it”.

Foster claimed there is a dilemma in trying to marry the ability of an informed client to stand back and be clear what he wanted, with reaching into the supply chain to pull up the specific skills required.

“This is easy to say but very difficult to do in a complex operational environment,” said Forster. “If you keep the risk, you have to maintain the ability to manage that risk,” he argued. “Do it half way and there is a danger of getting neither the benefit of supply chain skills, nor good value.”

ROUND TABLE: MORE FOR LESS



Round Table participants were : Simon Murray (Osborne), Stuart Smith (Bourton Group), Nirmal Kotecha (Highways Agency), Ian Ballentine (Network Rail), Mike Forster (BAA), Miles Ashley (London Underground), Trevor Bacon (Tesco Stores), Peter Emerson (Watson Steel), Dale Evans (Anglian Water @One Alliance) and Lee Horton (NG Bailey Offsite)

» down by 20% over the last 18 months,” claimed Bacon. “And we can now ask our partners to try for an extra 10% next year – so we need them to be innovative.”

Innovation, and the need to encourage it throughout the supply chain, was seen by those at the discussion as crucial in the battle to achieve “more for less”.

London Underground, like Tesco, was unsure whether the industry currently has the right mechanisms to draw out supply chain innovation.

“We often talk about innovation but then we set up systems within our organisation that actually discourage contractors from coming to us with ideas,” said London Underground’s head of stations Miles Ashley. “We are told the ideas are out there, but I am not deluged by contractors banging on my door and saying ‘we want to innovate’. We need to find a new way of attracting them.”

The meeting did hear from one contractor who was keen to champion innovation.

“We win our major projects not on price but on smart ideas, and clients must open their doors to product and process innovation offered by specialist contractors,” argued Watson Steel managing director Peter Emerson. “When you take money off the table, innovation flows. We are the guys who can say ‘here is your solution’.”

Emerson was, however, fully supportive of consultants.

“They are like salt and pepper; too much of them on your meal and you spoil it, just enough enhances it,” he joked.

Such solutions could include new ideas on risk shifting and mitigation, he claimed.

“Everyone wants to palm the risk off. It’s a bit like musical chairs when the final chair is taken away and the last man standing must ring his insurer.”

Specialist contractors could work well with consultants from an early design stage, Emerson claimed. “It’s no use inheriting a consultant design already tied up in red ribbon, and with a starting pistol in the client’s hand,” he argued. “There would be no time to inject the value that specialists can offer.”

But one leading industry observer was cautious. “The layers of consultants and contractors in the supply chain is one of the biggest barriers to improvement,” claimed Stuart Smith managing director of management consultant Bourton Group. “There is so much contractual posturing and prevarication in the sector that it makes it very difficult to get people to work efficiently.”

■ **Delivering more for less is a key theme of the Infrastructure Show at the NEC, Birmingham next week. See show preview p21.**

“We want to be a more informed client but you cannot just flip the switch and become one”

Ian Ballentine,
Network Rail

Viewpoint

Stuart Smith



Cause for optimism?

Spending cuts are an opportunity for the best firms to become more efficient.

The Infrastructure Show has arrived and this year it will be particularly poignant because on 20 October the government will announce the outcome of its Comprehensive Spending Review (CSR). I feel sure that few announcements have been viewed with such trepidation. Depending on who you talk to, the view about the immediate to medium term for the construction sector in the UK range from catastrophic to fairly dismal, most are already feeling the impact. Trade union leaders have talked about strikes and Ed Miliband in a recent radio interview has hinted at the potential for social unrest if the cuts are too deep and too far reaching. Most are hoping for the best but are expecting or already experiencing cuts.

It is not very surprising that capital expenditure has been a major target. That is what has happened in previous post-recession periods. The political consequences are lower than the alternatives and the consequences of cancelling large capital expenditure projects such as infrastructure and IT take time to manifest themselves.

Sadly I think the construction sector will gain little comfort from the review. The public sector workforce on the other hand may be pleasantly surprised. Big government will not end anytime soon and even if the unions’ worst fears of a cut of 200,000 public sector jobs occurs this still only represents about 5% of the public sector workforce.

So the medicine is going to be unpleasant but, as appears to be the case in the manufacturing sector, it may just cure the patient. Manufacturing is seeing a real resurgence after years of decline. It is a leaner fitter industry which was

described by The Bank of England’s regional agents as “the most buoyant part of the economy.” When was the last time you heard the words “buoyant” and “manufacturing” in the same sentence?

Perhaps the CSR will be a catalyst for the construction sector in the UK to become more progressive and entrepreneurial, seeking business in new areas and new countries, while championing greater efficiencies, as opposed to simply cutting back. By focusing on achieving greater efficiencies through cutting waste, improving productivity and taking a much more customer-centric approach, substantial savings are possible without impacting on, and in many cases actually improving, service to your customers.

This is not some impossible pipe dream. Of course it will not suddenly create lots of new projects but companies that utilise methodologies such as Lean and Six Sigma, to improve their business performance and focus on customer need will have a much better chance of winning the work that remains.

I look forward to the day when the Bank of England describes the construction sector as “the most buoyant part of the economy”. Let’s hope we don’t have too long to wait.

● *Stuart Smith is Managing Director of Bourton Group and its subsidiary company The Six Sigma Group www.bourton.co.uk tel: 01926 633333*



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