# Common Problems in Construction Procurement




Like many other industries, the construction field has undergone significant and widespread change in the modern era.

However, even as materials and methods have evolved to meet changing tastes, updated legal requirements, and ecological concerns, age-old problems persist within the framework used to obtain the goods and services necessary to create construction projects of all sizes.

Construction procurement—in particular, construction management procurement—is undergoing a massive shift as it attempts to control costs, solve communication problems, and ensure both high quality and adequate profitability for contractors.

## An Overview of Construction Procurement

At its most basic, procurement in any field is about balancing risk against reward to achieve goals and build value.

For construction projects, procurement methods go beyond mere acquisition of goods and services and can rightly be considered a support structure for a

temporary production line; i.e., every construction project is itself a small factory producing a single item, and the procurement function exists to enable completion within the constraints of time, scope of work, and budget.

A project is “successful” if it falls within these parameters while still generating a profit for the contractor.

The traditional procurement method in construction work is known as design-build or design-bid-build (DBB). In this model, an architect, engineer, or both design the project and then open it for bids from interested contractors by issuing request for proposals (RFPs).

The lowest bidder able to meet the requirements of the project is generally awarded the construction contract.

The contractor then handles the procurement of the goods and services required to complete the project, ideally with an eye toward the highest level of quality that also allows for efficient use of resources—and a healthy profit.

However, the differing priorities of bidders and designers, as well as the potential for discrepancies between a bidder’s best price when responding to an RFP and their ability to complete the job on time and in scope, present in the design-build model has led to the rise of other ideas regarding construction procurement strategy, including:

- ## Engineering, Procurement, Construction (EPC)

  A single contractor oversees all three aspects to create a cohesive and streamlined approach to project completion using construction management.

  This can also be described as prime contracting, and may involve one or more contractors overseeing the procurement process at different stages of a project (this is known as multi-prime contracting).

  Prime contractors should bring to the table a robust and well-vetted supply chain (which includes sub-contractors and professional services), a strong record of past performance, and, in some cases with large jobs, the

ability to cover the expenses of multi-year projects upfront while receiving incremental payments defraying the total project cost.

- ## Job Order Contracting (JOC)

  This method is common with public works projects. Public owners and/or public agencies release a detailed request for qualifications via public notice, and contractors who meet those qualifications (subject to review by the issuing agency) can bid on available contracts.

  JOC contractors can bid on small projects within larger projects, or, if they meet the qualifications and have solid past performance, entire projects.

  Regardless of which method is used, the number of "balls in the air" procurement managers must juggle when handling complex construction projects, big or small, presents an array of challenges to successful completion within required parameters—including profitability and value-building for both clients and construction contractors.

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# The Most Pressing Construction Procurement Challenges

1. ## Miscommunication

   Perhaps the client failed to communicate their expectations clearly. Maybe the contractor has a decentralized approach to managing their supply chain that's lead to shipping delays, under-performing customer service, or the wrong product being ordered.

Or maybe your designer has caviar tastes but the client has a tuna fish budget—and the low-bidding construction manager's caught in the middle.

Tick-tock…that sound you hear is your profits counting down to zero.

It doesn't matter if the project is a kitchen remodel or a new multi-million-dollar civic centre; without transparency and complete information, your project's in danger.

As an EPC contractor, ensuring your firm has a centralized and comprehensive procurement solution will reduce confusion and consternation.

You'll be able to evaluate and streamline your supply chain to combat rogue spending, keep all stakeholders up-to-date (and collaborate instantly) with mobile access to contract documents, framework agreements, and spend data for every aspect of the project, and keep your timetable humming with automated approvals.

## 2. Purchasing Predicaments

Construction is a complex and sometimes messy business. Your team might have the occasional need for a one-off buy at your local hardware shop or even on the site itself.

Without a well-developed supply chain and clear best practices for purchasing and inventory management, your staff could be overspending, double-buying, or purchasing outside the project's requirements, creating even more expense via replacement costs and lost time.

Preserving profitability requires strategic spending. Cloud-based, centralized procurement software gives construction professionals a convenient way to buy online from their phones and tablets, whether they're onsite or in the office.

They can request approval for one-off purchases easily, and even add new vendors for review.

You can leverage existing agreements with vendors to preserve important relationships and ensure you pay the lowest possible price for on-time delivery of the best goods and services whenever possible.

Beyond one-off purchases, procurement software can also help you minimize the need for one-off purchases through:

- *Strategic and effective two-stage sub-contractor and supplier pre-qualification.* Approving purchases from pre-approved vendors through your procurement system will help support full transparency of spend data.

  Requiring contractors to meet full project requirements before submitting a bid will reduce risk from day one and make it easier to track and evaluate performance.

- *Best-value source selection.* Beyond price, suppliers should be evaluated for the value they generate for the project and your company as you complete it. Bottom-basement prices are no bargain if the supplier can't be relied upon for timely shipments or fails to meet basic safety requirements.

  Procurement software lets you track vendor performance over time and develop a picture of the value they provide.

## 3. Lack of Flexibility

In addition to a certain tolerance for complexity, construction requires a measure of adaptability. Codes change. Client requirements evolve. Weather events can create costly delays. Labor shortages or strikes can cripple even the best-laid plans.

Machine learning built into procurement software solutions can help you roll with the punches.

Rather than being trapped within the confines of an initial bid and scrambling to meet the timetable and budget, you can use project data to collaborate with your clients and suppliers to adjust deadlines, renegotiate contract terms, and create new relationships to ensure the

project gets finished—while keeping costs low and value high.

You can also collect, analyze, and use your past performance data to create informative and targeted reports highlighting your certifications, industry-specific experience, safety record, customer satisfaction ratings, and cost-effectiveness when bidding for jobs.

This can make it easier to under-promise and over-deliver for your clients.

You may even discover untapped opportunities to bid in areas you hadn't previously considered!

# On Time, In Scope, Under Budget

The challenges procurement staff face when dealing with construction are formidable, but not insurmountable.

By integrating the right technology with a collaborative approach and smart source selection, you can develop a construction procurement strategy that builds not just your next project, but strong relationships and solid value for your company.

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