

## **TOOL A.2**

### **SELECTING A PRIME CONTRACTOR**

#### **1. BACKGROUND**

When commencing a new project, clients traditionally appoint a contractor independently of the other construction industry specialists that they retain to design the building, estimate the costs of construction and even project manage. The Prime Contracting approach aims to eliminate the misunderstandings and inefficiencies that can result from these multiple responsibilities (and much more besides) by the client allocating the project to a single source of delivery - the Prime Contractor - and ensuring that he has the opportunity to meet the client's requirements on terms of:

- the optimal functionality of the delivered building,
- minimal cost of the building, whether expressed in capital or through-life terms, and
- delivery of the building in the shortest time consistent with ensuring that the two criteria above are met (which means that adequate time must be allowed for the design process) and with the quality of the finished product meeting the client's expectations.

The Prime Contractor must be able to deploy all the skills necessary for the achievement of the objectives shown above. Not all the skills will be available in-house. They must be provided through the combination of the Prime Contractor's capabilities - particularly in terms of project management - and those of the key members of his Supply Chain which will include not just specialist trade contractors but also the design consultants.

#### **2. SELECTION CRITERIA**

It is the relevance and effectiveness of this combination which the client must assess when selecting a Prime Contractor. There will, of course, be issues such as Health and Safety procedures and the management of CDM requirements which will be assessed in the same way as on a traditional contract. But the assessment which leads to the choice of Prime Contractor is very different from a traditional assessment which may be principally based on lowest tender price. Assessing a Prime Contractor prior to appointment is based on understanding:

- the relevance of the capabilities and experience of the Prime Contractor and the key members of his Supply Chain to the project being undertaken

- the reasons for the Prime Contractor's choice of the key members of his Supply Chain that he is putting forward to work on the proposed project and the number of previous occasions on which they have worked together
- the Supply Chain management processes that the Prime Contractor has in place to ensure that the team as a whole is able to deliver the functionality, cost, time and quality objectives of the project together with evidence from previous projects that these processes work in practice by repeatedly delivering benefit to clients through, in particular, effective design and cost management.

We now look at each of these areas of assessment in more depth.

### **2.1. Relevance of the Team**

The client needs to assess the capabilities of the individual key Supply Chain members, as well as those of the Prime Contractor, to translate his needs into the most appropriate built solution. The ability of the Prime Contractor and his team to do this will be greatly influenced by their previous experience of working together on projects with similar budgetary, time and functionality requirements. Designers should be familiar with what constitutes good design for such projects and the specialist contractors should be familiar with best practice in their part of the construction of such projects - and their familiarity should be supported by evidence of successful work for other clients.

### **2.2. Prime Contractor's Reasons for Choosing Key Supply Chain Partners.**

The benefits to the client which arise from Prime Contracting are based on the Prime Contractor being able to mobilise the skills within his Supply Chain - those organisations responsible for the design decisions which establish the underlying cost of construction and those companies which account for at least 80% of the actual cost of building. The mobilisation of these skills should take place on the basis that the team as a whole will learn from project to project how to work together more effectively, carrying the lessons learned on one project to the next so that clients benefit through the Prime Contractor being able to deliver ever-improving value for money.

This can only be achieved if the Prime Contractor has a long term relationship with the key members of his Supply Chain with everyone committed to the principle of continually finding better ways of doing things.

So the client needs evidence, when selecting a Prime Contractor, that the members of the Supply Chain that the Prime Contractor proposes to use on the impending project are in a long term relationship and not just selected for this project alone.

That is the first evidence that must be sought. The second concerns the reasons for the Prime Contractor choosing these key partners in the first place. The client should

seek from the Prime Contractor evidence that these partners have been chosen for their commitment to Prime Contracting principles and also such characteristics as:

- their ability to work with the design consultants to contribute to design decisions - and, similarly, that the design consultants are committed to learning from the trade specialists
- their commitment to investment in their people and their businesses
- their technical and process skills
- their record of finding innovative solutions

as well as the more normal criteria of financial robustness and Health and Safety systems.

And since these Supply Chain partners are in a preferred supplier relationship with the Prime Contractor, the client should also seek evidence of the process used by the Prime Contractor to constantly review the costs of these suppliers to ensure that they are competitive.

### ***2.3. Supply Chain Management processes***

The Prime Contractor will not achieve his client's objectives if he does not have robust business processes by which to mobilise and exploit the capabilities of his key suppliers. Prime Contracting demands the analytical review of design and building options, with the selection of each option being decided on wholly objective grounds. Once on site, the construction process must be managed to eliminate waste of labour and materials and look for better ways of doing things.

For this to happen there must be appropriate mechanisms - business processes - in place. So the client must seek evidence during his selection that the Prime Contractor understands and routinely uses those appropriate mechanisms.

These are principally:

- Collaborative cost management, based on agreed and ring-fenced margins with the emphasis on bottom-up costing processes based on a full understanding of the costs of the supply chain members
- Value Management, to ensure that the client's needs are properly interrogated, thus allowing the formulation of a Project Brief which encapsulates precisely what the team are to deliver and which will establish the design strategy. If the Prime Contractor is to ensure that Value Management works as effectively as intended, he will require an output specification from the client as the starting point for the project rather than an input specification which will preclude the evaluation of alternative solutions to the client's needs.
- Value Engineering, to ensure that the design can be built at lowest cost (whether expressed as capital or in through-life terms) consistent with the client's requirements of functionality and quality expressed in the Project Brief.

- Continuous Improvement, to ensure that construction is carried out with minimal waste of labour and materials, and that improved ways of doing things are constantly sought and applied.

These things will not happen effectively unless the Prime Contractor has processes to ensure that they are carried out in a methodical way, with all actions agreed between all the relevant members of the team and recorded to leave an audit trail of decisions.

## **2.4. Management of Costs**

It is the rigorous management of cost that is one of the Prime Contractor's greatest responsibilities to the client, and that can only be done if the Prime Contractor has the ability to work with his key Supply Chain members to understand their underlying costs and how they can be minimised through design for optimal "buildability" and through efficient construction processes. Without this ability, there will be no means by which opportunities to remove cost can be identified and implemented over time.

In selecting a Prime Contractor, the client will want to ensure that the appointee understands - and has systems in place to manage - the underlying costs that his key Supply Chain partners will incur in designing and building the project. The Prime Contractor and his key team members will take full responsibility for delivering a building, or a major element of it, to a price that they will jointly develop as the design develops. The client may not know what that final price will be until scheme design, or even detail design, is complete although all parties may have a firm budget price in mind from the outset.

The discipline which the Prime Contractor must be capable of exerting on the entire team is the costing of design options as they develop. This costing is based on the labour, plant and materials that will be used to construct the elements of the building in the most effective manner possible. It is based on facts, not previous quotes from other jobs and does not contain "risk" sums which are really just contingencies for inefficiencies or incompetence. To those costs will be added the profit and overhead recovery elements agreed between the Prime Contractor and each key Supply Chain member as being reasonable and agreed as part of the alliance between the two in advance

## **2.5. Management of Design**

The client, in selecting a Prime Contractor, needs to understand the capability of the organisation to manage the design process, since that is a fundamental part of a Prime Contractor's responsibility.

The chosen Prime Contractor must be able to manage and integrate many different design inputs. All key members of the supply chain, not just the consultant designers, together with the client's end-users, work together to design the best value for money solution to the client's output (functional) specification. This involves skills that the construction industry as a whole has not developed widely but which the Prime Contractor must be able to demonstrate to be selected.

The process to enable the effective management of design in the way outlined exists in the discipline of Value Management. Few contractors use it regularly but it enables the creation of a number of concept design options leading, subsequently, to the selection of one on the basis of that it provides the best value when examined against the functional specification and a cost baseline derived by the client for budget purposes. A further key competence in design management is the ability to identify at an early stage in design development which are the key interfaces that need to be defined. Each key Supply Chain member can then proceed with its contribution to the overall detailed design work secure in the knowledge that crucial interdependencies are resolved and that the risk inherent on most projects that individual trades will not be able to carry out their work in the most efficient manner possible has been eliminated.

## **2.6. Management of Construction**

What marks out the Building Down Barriers approach from traditional construction at this stage of a project is the relentless search for better ways of doing things so that waste of materials and time is eliminated and that all parties involved in building are able to work together so that planning and scheduling allow trades to operate with minimal interference and delay.

None of these things will happen without the application the most appropriate scheduling tools, underpinned by the disciplines of Continuous Improvement and supported by a project management style that consults with, and enables, the supply chain to operate to its best ability instead of seeking to control by direction.

The client should therefore be seeking evidence that the Prime Contractor understands these differences in management style and has project managers who have the personal maturity to manage a team through effective facilitation. At the same time, evidence should be sought that Continuous Improvement is practised and that the lessons learned on previous projects through these activities is captured and fed through to the benefit of all future projects undertaken by the Prime Contractor.