



White Paper

Developing a Robust Procurement
Process for Capital Infrastructure
Projects: A Power Utilities' Guide

Date: 05/20/2021

Table Contents

| | |
|---|----------|
| Introduction..... | 2 |
| How Strategic Procurement Differentiates from the Tactical Approach | 3 |
| The Elements of a Robust Procurement Process | 4 |
| Essential Considerations for the Development of a Procurement Strategy | 4 |
| Stakeholder Engagement..... | 4 |
| Market Sounding..... | 5 |
| Solicitations Documents | 5 |
| TCO-Informed Proposal Evaluation..... | 6 |
| Proactive Contract Management..... | 6 |
| Document and Record Keeping | 7 |
| Conclusion: Strategic Procurement Ensures Success in 2021 & Beyond | 7 |
| About Maven Consulting | 8 |

Introduction

In successful power utilities and other organizations, strategic procurement plays a key role in the planning and execution of capital infrastructure projects. In these organizations, procurement is no longer simply a cost center that performs administrative, tactical, and transactional activities. Rather it is leveraged strategically and acts as a value adding partner and a fully integrated strategic function within the project execution team.

Ryals and Rogers¹ define strategic procurement as an approach that reduces the supplier base, negotiations, and communication, and also maintains long-term supplier relationships. The Chartered Institute of Procurement and Supply notes that this approach is:

“particularly relevant considering globalization...the development of cost-saving communications and widely available IT, improved logistics and procedures, dynamic competition, high consumer demands, increasing environmental awareness and requirements for transparency. All these developments make operative procurement tasks obsolete and calls for a more strategic approach aligned with the wider organizational strategy.”²

Indeed, a strategic procurement approach yields numerous business and operational benefits. Chief among these is cost control and savings. Strategic procurement reduces costs by maintaining schedules and mitigating risks in acquiring goods and services. By placing emphasis on planning and analysis, procurement professionals can also better identify cost-saving contracting solutions. Research recently published by *Harvard Business Review* reports that organizations that position themselves to succeed after a recession “reduce costs selectively by focusing more on operational efficiency than their rivals do”³. Therefore, the cost savings associated with strategic procurement is an increasingly vital consideration in the current economic downturn.

Additionally, strategic procurement approach focuses on supplier relationship development and management. This builds stronger and more productive ties with suppliers, and drives shared innovative solutions.

In this White Paper you will learn how to develop a strategic procurement process by exploring:

- The elements of a robust procurement process
- The importance of stakeholder engagement as part of procurement process
- The importance of market sounding
- Preparation of solicitation documents and utilization of suitable and efficient contractual terms and conditions
- Total cost of ownership focused proposal evaluation
- Proactive contract management and record-keeping

¹ <https://isiarticles.com/bundles/Article/pre/pdf/16907.pdf>

² <https://www.cips.org/knowledge/procurement-topics-and-skills/strategy-policy/procurement-strategy-development1/strategic-procurement/>

³ <https://hbr.org/2010/03/roaring-out-of-recession>

How Strategic Procurement Differentiates from the Tactical Approach

The traditional, tactical approach to procurement focuses primarily on purchasing goods and services and ensuring supplier's compliance to organizational guidelines. However, this approach often leads to inefficient contracts that are not aligned with the goals and objectives of the project. Conversely, a strategic approach exemplifies and showcases procurement's potential to drive an organization's competitive advantage. Strategic procurement leads to successful implementation of every phase of a given project.

Key elements of a strategic procurement approach, include:

Early Involvement

Procurement is involved at the early stages of the project which enables the procurement professionals to provide valuable input in the development of the project execution strategy.

Proactive Supplier Communication

The procurement professionals engage in needs identification, high level scope requirements, and market assessment through initial discussion with suppliers.

Procurement Strategy Development

The Procurement Strategy comprises several key components: Project delivery models, compensation models and sourcing model which will be synergistically combined and integrated within the Project with the objective of supporting the successful execution and completion of the Project. The Procurement strategy should consider, among others, such elements as: the objectives and constraints of the Project, the risks that may arise during the delivery of the Project and how those risks are best mitigated and the level of complexity of the Project.

Packaging Options Analysis

The procurement professionals analyze packaging options for the acquisition of equipment and materials. This involves identification and assessment of procurement package combinations based on factors such as complexity, value and risks.

Procurement Model Screening

Screening procurement models for each component package is based on commercial and technical aspects. When needed, procurement professionals may perform qualitative and/or quantitative analysis.

Collaboration with project team

Working collaboratively with the project team members such as project managers, engineering, safety, environmental, quality assurance and subject matter specialists within the project team ensures that the project objectives are well addressed in the procurement process and that

commercial requirements are aligned and support the achievement of these objectives. Strategic procurement professionals take care to align engineering and other disciplines needs with procurement activities, ensuring excellent project management.

The Elements of a Robust Procurement Process

A robust procurement process addresses key execution elements of the acquisition. It acts as a high-level plan that supports the delivery of the project within an uncertain environment.

Key elements of a procurement strategy include:

- Supplier identification and relationship building early in the design stage
- Identification, management, and mitigation of supply chain risks
- Selection of contract types that blend risk and are aligned with the project vision
- Materials management
- Adoption of a total lifecycle approach to sourcing and contracting
- Development of supplier strategies that are aligned with the project's short-term capital needs and long-term operating and maintenance needs
- Definition of materials and services requirements
- Conversion of materials and services requirement into accurate supplier specifications
- Establishment of commercial agreements that are aligned with the changing technical and project management needs arising throughout the project lifecycle
- Development of risk profiles that enable the project team to mitigate supplier and logistical risks and subsequent impacts on the project's schedule and cost

Essential Considerations for the Development of a Procurement Strategy

Stakeholder Engagement

It is essential to identify key internal and external stakeholders at the planning stage as these players have particular interests and undeniable influence. Engagement ensures alignment with stakeholder objectives and identifies any potential challenges associated with the procurement.

Despite all of that, procurement professionals and organizations frequently miss the opportunity that stakeholder engagement represents. In fact, according to research by Deloitte⁴, only 44% of procurement organizations measure internal customer satisfaction—a clear yardstick for stakeholder engagement. The 56% who aren't choosing to engage are failing to gather pivotal knowledge and strategies.

Professionals who do engage with key individuals within and outside of their organization gain a deeper understanding of compliance and strategic issues, as well as opportunities for value-adding and cost-saving.

⁴ <https://www2.deloitte.com/uk/en/pages/operations/articles/cpo-survey.html>

Market Sounding

Market sounding is defined in Article 11.1 of the European Union's Market Abuse Regulation⁵ as comprising: "the communication of information, prior to the announcement of a transaction, in order to gauge the interest of potential investors in a possible transaction and the conditions relating to it, such as its potential size or pricing, to one or more potential investors." Hence, sounding is another form of engagement that informs a truly strategic procurement plan.

By conducting a market sounding, a procurement professional can determine and validate desired outputs and outcomes and establish the market's capability and capacity to deliver the requirements. This helps determine the best route to market. It also indicates possible approaches suppliers may take to deliver the project. It also gauges market capacity and interest. Finally, this act of engagement provides insights as to the potential effects of other projects and market conditions.

Solicitations Documents

To support a strategic procurement plan, procurement professionals should create solicitations documents with clear, well-formulated instructions and requirements. When executed correctly, these documents ensure a clear understanding of the submission requirements and the goods and/or services required.

To that end, there are a few best practices professionals should observe. First, needs should be described in detail. These will inform a clear overview of the deliverables and key performance measures, which will ultimately support successful implementation. Secondly, the bids received should be consistent with the Owner's expectations. If the contractor's delivery is consistent with the owner's requirements and the intended benefits, the desired outcomes will be achieved. Overall, this ensures an effective (and quite often more seamless) evaluation of bids and management of the subsequent contract.

Generally, the requirements must:

- Be unambiguous
- Reflect an achievable solution that is achievable
- Be measurable
- Be meaningful
- Be complete
- Not conflict with other statements in other sections of the solicitation documents

Appropriate Contract Terms and Conditions

The Contract Terms and Conditions (Ts&Cs) should provide a suitable contractual framework and allocation of risk. They also outline appropriate remedies to best resolve issues that may arise during the contract execution.

⁵ <https://www.finanssivalvonta.fi/en/capital-markets/issuers-and-investors/market-soundings/>

In contracts with well-designed Ts&Cs, the respective obligations and responsibilities of the owner and contractor are clearly laid out. The contract's structure also provides an optimal balance of project and supplier risks.

TCO-Informed Proposal Evaluation

Strategic procurement professionals evaluate proposals based on total cost of ownership (TCO) and not just initial capital costs. This entails accounting for capital, maintenance and service costs, desired outcomes, and benefits over the period in operation. Financial considerations are balanced against factors like quality and security of delivery, business criticality, and affordability.

Overall, the TCO approach takes into account:

- Purchase or contract total cost
- Costs of delay or performance failures
- Cost of additional features, enhancements, or upgrades
- Limitations associated with proprietary or patent rights or constraints
- Legal or technical costs
- Shipping and packaging
- Transition and training costs
- Licensing costs
- Regular and ongoing maintenance
- Lifecycle costing
- Warranty, parts and repair
- Disposal and remediation costs

Proactive Contract Management

A comprehensive contract management plan provides a structured and systematic approach to how, when, where, and by whom a contract will be implemented, monitored, managed, and administered. Ultimately, this ensures that what is procured will be delivered. The contract management plan should be fit-for-purpose with the level of detail and length of the document being proportionate to the scope, value, risk, complexity, and duration of the contract.

Such a plan is characterized by several features. There is a clear understanding of the contract context, complexities and interdependencies. Disciplined governance arrangements are supported by appropriate systems and controls. There is continuous monitoring and measurement of contractor's delivery and performance as well as monitoring and mitigation of the contract risks. Contractual requirements and remedies are carefully enforced. There is strict control over change management decisions. The plan is supported by a comprehensive communications strategy.

In general, a comprehensive contract management plan supports two important outcomes. It ensures that the owner is getting full delivery and expected value, including high quality results. It also ensures contractor performance in accordance with the guidelines set out by the contract.

Document and Record Keeping

Within a strategic procurement approach, all documents and records are maintained to a high standard of accuracy and thoroughness. This creates an audit trail of all the elements that all parties have discussed and agreed to at all stages. Every change to a relevant document, no matter how small, is made in writing and formally accepted by all parties.

In the event of a dispute, excellent record-keeping practices prevents finger pointing. It supports the parties concerned to jointly determine the cause, the effects on the contract, and possible roads to resolution. Ultimately, it becomes more likely that the responsible party will be compelled to accept responsibility and produce solutions.

Conclusion: Strategic Procurement Ensures Success in 2021 & Beyond

Procurement should be elevated above its traditional, tactical roots in 2021, when organizational success depends upon the operational efficiency that a truly strategic approach provides. As BGC observes:

Procurement can indeed be fertile ground for identifying and realizing cost savings in organizations that give the procurement function a strategic role and sufficient latitude to work effectively. When the procurement function is enabled in this way, we have seen step-change reductions in supplier costs, with savings that reach as high as 10% to 20%—without any sacrifice in the safety or quality of delivered goods or services. Moreover, the utilities have often begun realizing these savings immediately, with cash accruing during the same year as implementation.⁶

Much more than a cost centre, procurement is an opportunity for value-adding in a number of areas. From controlling costs to developing better relationships with stakeholders and clients, a truly robust procurement plan represents a fully integrated strategic function within the project execution team.

To create a strategic procurement plan, professionals should consider doing the following;

- Conducting internal and external stakeholder engagement and market sounding to provide a solid foundation.
- Follow best practices surrounding Terms and Conditions Agreements and Solicitations Documents to establish clarity between parties and ensure risk mitigation.

⁶ <https://www.bcg.com/en-ca/industries/energy/power-utilities/what-strategic-procurement-can-do-for-utilities>

- Evaluate proposals according to Total Cost of Ownership considerations; Much more comprehensive approach than simply accounting for capital costs.
- Practice proactive contract management and meticulous record-keeping to reduce the likelihood of disputes and provide a way forward if they do arise.

All of these considerations and strategies amount to a truly strategic procurement approach that will drive organizational success in the years to come.

Maven and its team of Procurement Management professionals are wholly supportive of other professionals in the power utility space. As this industry grapples with the complex challenges ahead, Maven is inviting all those who wish to learn more, contribute to the conversation, and brainstorm best practices to reach out. For any questions related to the contents of this article, please contact Alex Caw. (email: acaw@mavengroup.ca, Phone: 604 818 5853)

About Maven Consulting

Maven is one of Canada's fastest growing engineering and construction consulting firms for the Power Industry. Their team has a proven track record of leading procurement management, engineering, project management and construction projects for power utilities. The Maven Principals have operated engineering consulting and program delivery companies servicing the Canadian utility industry for more than 15 years. They deliver dependable results so utility clients can be assured that their projects will be handled with competence and professionalism.

