



Procurement Chain Disruption: Dealing with Owner-Supplied Material

Procurement Chain Disruption: Dealing with Owner-Supplied Material

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Outline

- Original PCMCI Research
- What has changed
- Current Research
 - Objective
 - Approach
 - Results



PCMCI Research 2003 Study



Issue:

Some general contractors (GC) are taking control of material and equipment procurement. These GCs suggest that this will provide the owner with 3 benefits:

- Cost savings
- Faster occupancy
- Wider product selection



Conclusions

- General Contractors cannot provide the owner lower cost than can be achieved in other procurement methods
- General Contractors can procure equipment earlier in the project. However, this may cause lost time later in the process due to lack of expertise.
- General Contractors cannot provide a wider product selection to the owner.



2003 vs. 2017

- What hasn't changed since the original research on PCMCI
 - Generic supply chain models
 - Cost drivers of construction
- What has changed since the original research
 - Winds of change have exaggerated the issues and their impact
 - Gross margins have dropped, requiring reduction of composite rate for competitiveness and profitability
 - Knowledge of material and knowledge of work are more critical than ever
 - Explicit knowledge requires decentralized information management
 - Evolution of distribution
 - Moving beyond Generation 1
 - More engagements beyond Level 1 (“partnerships”)
 - Ecosystem has changed



Winds of Change and Their Impact so Far

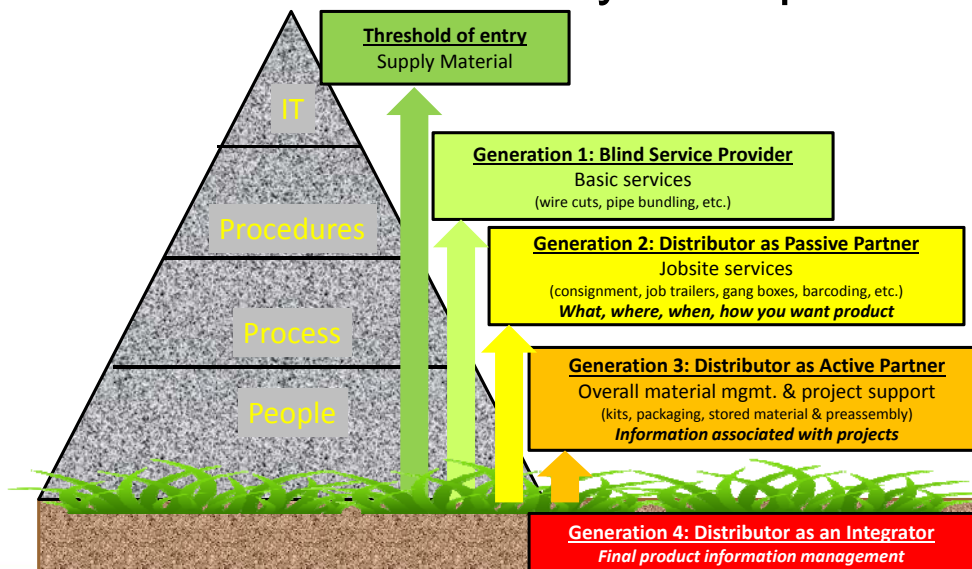


The Event Horizon of the Industry

- When these three shifts happen:
 - Industrialization
 - Disruption
 - Market shift
 - The industry is at an inflection point, which then requires:
 - Business model change
 - Culture change
 - Transformation
-to compete and survive
- Historical success no longer guarantees the future



Distribution Industry Disruption



Proposed Research



Overview

1. The issue of direct material purchased by owners or GC's has resurfaced.
 - We believe this behavior is advocated based on models used by Dell and other manufacturing-based companies, through recommendations of consulting companies (i.e. McKinsey).
 - Based on our previous research (PCMCI, 2004), these advocated models don't take into account the know-how of the value transfer between distributors and specialty contractors. In other words, there is more to the model than just "markup" and material dollars.
2. Procurement Vs. Purchasing
3. Price Vs. Cost of Material
4. Proposed research outcome and work plan



Research Outcome

- **A Check list for pluses vs. minuses**
 - A table of the qualitative risks & benefits for various procurement chain models
 - A table of the quantitative costs & savings for owner purchased material
 - A one-page summary letter that can be used by EC's for simple presentation to customers
- Monetizing the risk of direct purchase



Work Plan

- Initiate a cross industry investigation to:
 - Root cause the issue
 - Find capabilities
 - Find alternatives
- Use some of the ongoing collaborative EC, Vendor and Manufacturer operation models to verify alternative for value transfer
- Develop qualitative and quantitative models for risk/benefit and cost/savings of procurement chain models
- Suggest the "Supplier of Choice" model
- Test the Risk Monetization Table



Research Progress

- Progress To-Date
 - Taskforce establishment
 - Interviews
 - Conceptual model development
 - Survey to collect data for monetizing the model
 - Final model development
- Next steps
 - Test the model
 - Finalize marketing one-pager



Findings & Synthesis from Interviews

- Someone has to pay for the risk of the manipulation of labor at the final installation on the jobsite
 - Identified 3 models that will be characterized, quantified/monetized
 - Sub buys & adds profit to it & carries the risk
 - Sub includes part of labor risk as “extra money” & GC buys this “labor factor”
 - Sub & GC/owner work together to reduce structural costs



Competing in The New Construction Environment: A Compilation To Lead The Way



Construction is facing a revolution. No industry will remain untouched by the technological improvements in the communication, processes and tools. The construction industry is no exception.

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<https://mca-soft.com/books/>



Questions?

- *Don't forget...*
- 10:15 am – 11:30 am – General Session with Jim Donald
- 11:30 am – 4:00 pm – NECA Show Hours

