

# Commodity vs. Value-Added Contractor Services “Lost in Translation”

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Commodity vs Value-Added Contractor Services

# What has Changed

- 2009-RT 205 data compiled in Fall 2004
- Economy
- Mix of Active Construction
- Unemployment
- Technology
- Administration
- Sustainable Design

# Agenda

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- Problem Statement
- Methodology
- Definitions
- Results
- Updated results/Findings Nov. 2009
- Nuggets
- Sustainable Business Practices
- General Questions & Answers Session

# Lost In Translation

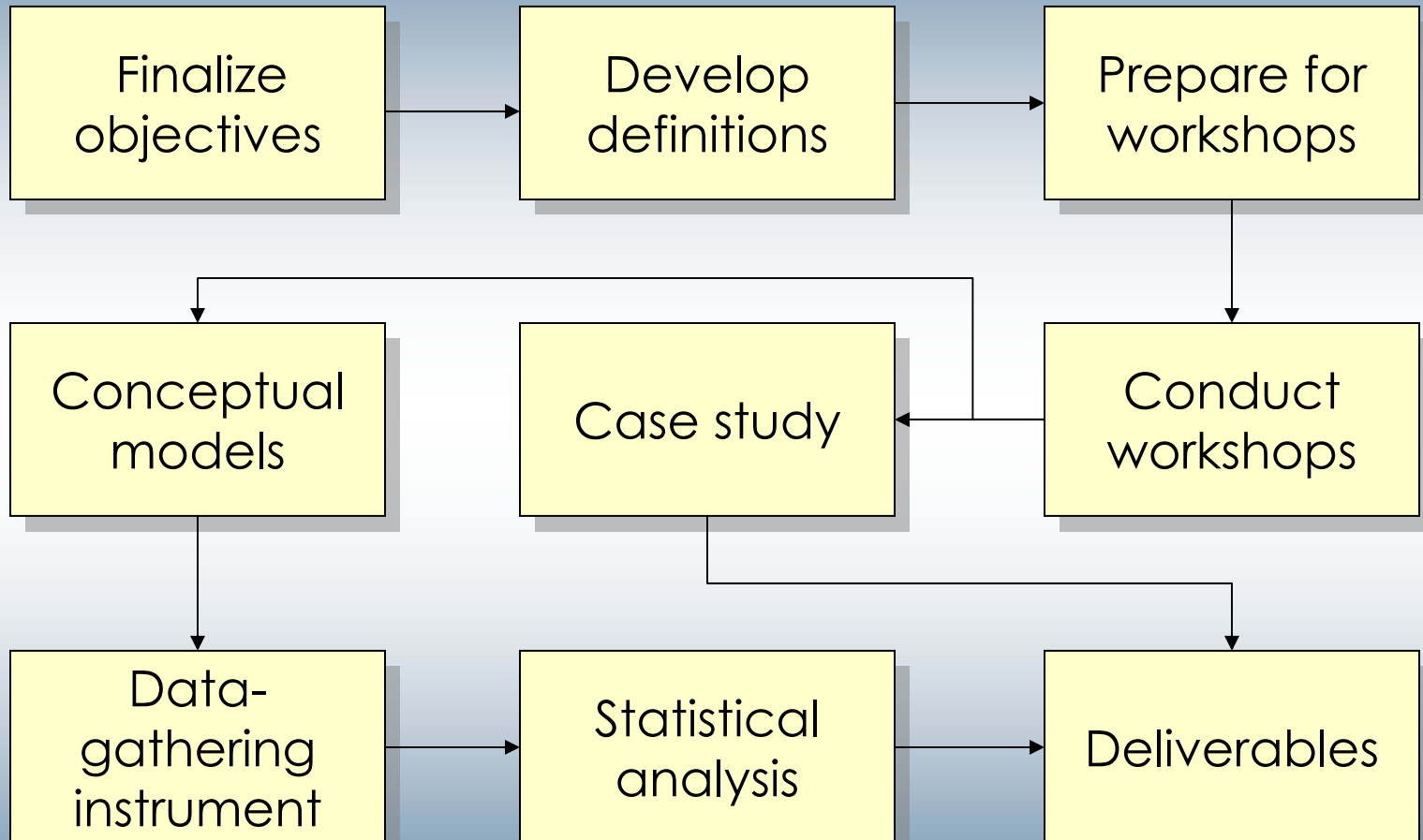
# Problem Statement

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Lack of common understanding of  
**“commodity” and “value-added”**

1. Causes owners and contractors to often misunderstand each other.
2. Makes it difficult for owners to approach the market for contractor services.
3. Makes it difficult for contractors to develop responsive proposals and strategic marketing plans.
4. Reduces the chances of an owner receiving highest value-added contractor services.

# RT 205 Methodology



# Definitions

## *Value*

Benefits provided (used with modifiers such as market value, perceived value)

- *Value-Add*

Marginal increase in value created by features/functions of a good/service

## *Net Value-Added*

Value in relation to its associated cost (same concept as economic value-added).

# Definitions

## *Differentiation*

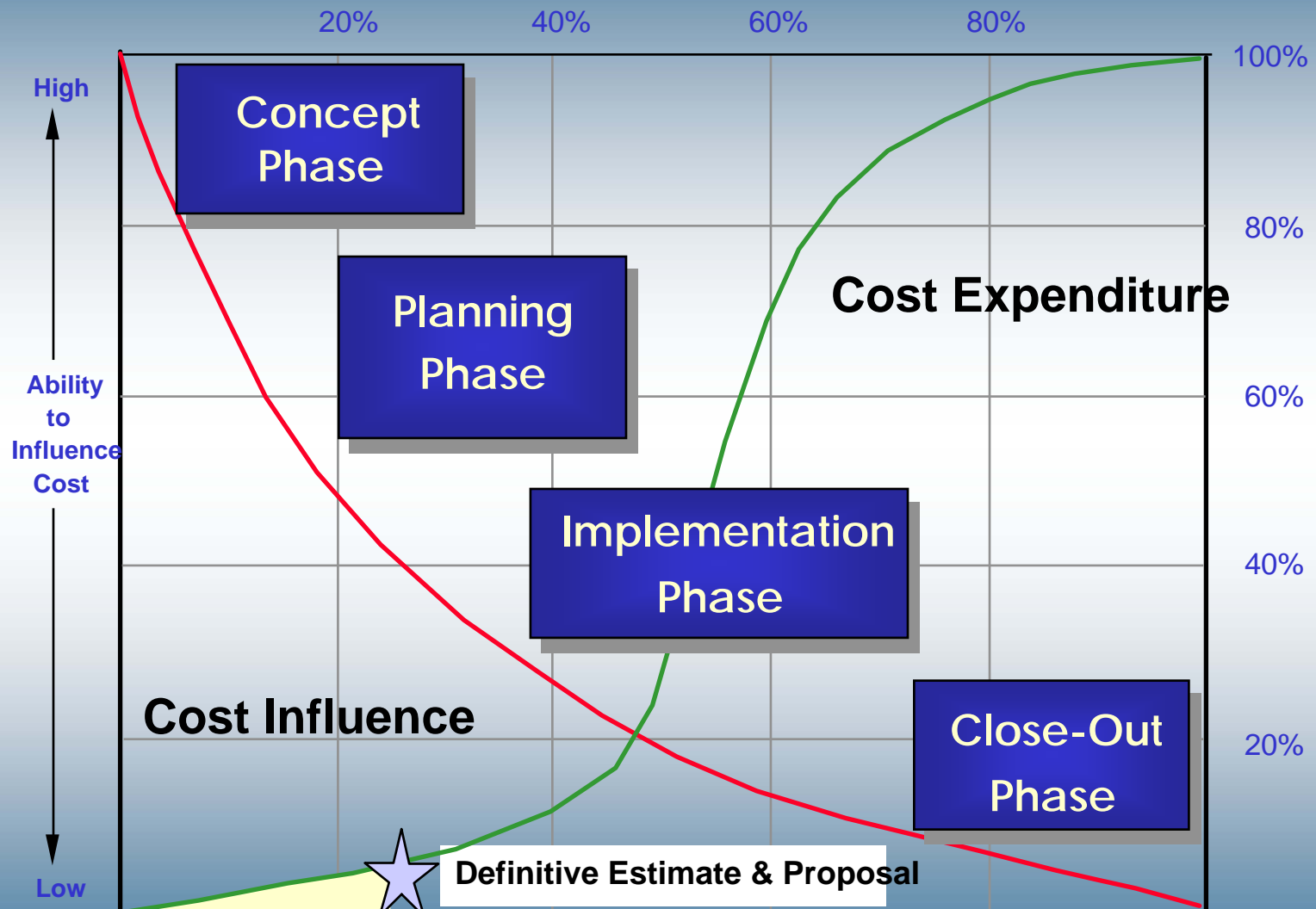
The dissimilarity of the features and functions of a good or service.

## *Commodity*

An undifferentiated good/service.



# Case Study Result for 18 Projects - Influence Curve Confirmed



Every dollar spent in project scoping returns three dollars in reduced project cost, reduces project schedule, and reduces risk.

# Key Workshop Result

- **Owners** believe that **more investment in front-end loading** increases life-cycle net value-added. (Influence curve)
- **Contractors** believe that **earlier contractor involvement during design** process for a project produces a higher net value-added.

# Key Workshop Result

- Owners believe that a **higher level of risk sharing by a contractor** produces a higher perceived contractor value-added.
- **Contractors** believe that a **higher level of risk sharing by the contractor** requires a higher pricing strategy.

# Key Workshop Result

- Owners believe that **low-price owner procurement tactics** for contractor services **promote commoditization.**
- **Contractors** believe that contractor's **competitive advantage is not a perceived value-added to owners** who don't measure net value-added.

# Owner/Contractor Translation Interface

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## Basic truths:

- Both owners and contractors want successful project for owner.
- Everything cannot be most important — trade-offs must be made.

**“When everything is important, nothing is important.”**

Old management maxim

## Key issues:

1. Which differentiators are relatively important to project success?
2. How do owners use these differentiators in evaluating contractors for a specific project?
3. How do contractors determine their specific competitiveness on each differentiator for a specific project?

# Perceptions - Lost in Translation

	Perceived Top 3 Differentiators Final Bid	Differentiators Linked to Net Value-Add - Final Bid
<b>Owner</b>	<ul style="list-style-type: none"> <li>• Contract price</li> <li>• OSHA recordable injuries</li> <li>• Acceptance of terms and conditions</li> </ul>	<ul style="list-style-type: none"> <li>• Definitive safety plan w/ accountability</li> <li>• Reduce ongoing facility ops costs</li> <li>• Financial penalties</li> <li>• Safety personnel experience</li> <li>• Demonstrate delivery track record</li> <li>• Unique field delivery strategy</li> <li>• Constructability capability/experience</li> </ul>
<b>Contractor</b>	<ul style="list-style-type: none"> <li>• Project management experience</li> <li>• Provide &amp; manage skilled work force</li> <li>• Contract price</li> </ul>	<p><b>Negative Correlation to NVA</b></p> <ul style="list-style-type: none"> <li>• Office Locations</li> <li>• Compatibility of software</li> <li>• Contract price</li> <li>• Parent company ownership/support</li> </ul>

# Differentiators-Final Bid

Rank the "Final Bid "differentiators	- Prior Survey	- Prior Survey	New Survey
Questions and Differentiation	Owner Rank	Contractor Rank	Contractor Rank
Price-Amount-Final Bid	1	2	2
Safety performance such as recordables-Final Bid	2	4	6
Risk-Acceptance of terms and Conditions-Final Bid	3	11	4
Contractor resources-Demonstrated ability to provide and manage skilled workforce-Final Bid	10	1	1
Delivery; Management and Methodology-Demonstrated capability of schedule and sequencing activities-Final Bid	11	5	3
Contractor Financial Status-Contractor is financially sound with good financial history-Final Bid	12	8	5

# Differentiators-Pre Qualification

<b>Table 1</b>			
<b>Rank the "Pre-Qualification" differentiators</b>	<b>Prior Survey</b>	<b>Prior Survey</b>	<b>New Survey</b>
<b>Questions and Differentiation</b>	<b>Owner Rank</b>	<b>Contractor Rank</b>	<b>Contractor Rank</b>
<b>Safety Performance such as recordables-Prequalification</b>	<b>1</b>	<b>3</b>	<b>3</b>
<b>Safety-Contractor Commitment to zero injury goal-prequalification</b>	<b>2</b>	<b>1</b>	<b>9</b>
<b>Contractor Financial status-Contractor is financially sound with good financial history-Prequalification</b>	<b>3</b>	<b>8</b>	<b>2</b>
<b>Safety systems such as field audit, hazard communication, accident investigation, and safety data analysis-Prequalification</b>	<b>4</b>	<b>5</b>	<b>10</b>
<b>Contractor Personnel Capability-Contractor has needed staff expertise for this project-Prequalification</b>	<b>12</b>	<b>10</b>	<b>1</b>
<b>Delivery; Management and Methodology-Demonstrated capability of schedule and sequencing activities-Prequalification</b>	<b>13</b>	<b>6</b>	<b>6</b>



# Differentiator Categories Related to Higher Net Value-Added

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Delivery Methodology	24%
Safety	20%
Quality Management	17%
Facility Operating Performance	14%
Financial Considerations	12%
Risk Management	7%
Customer relations	6%
	100%

# Key Commodity vs Value-Added Nuggets

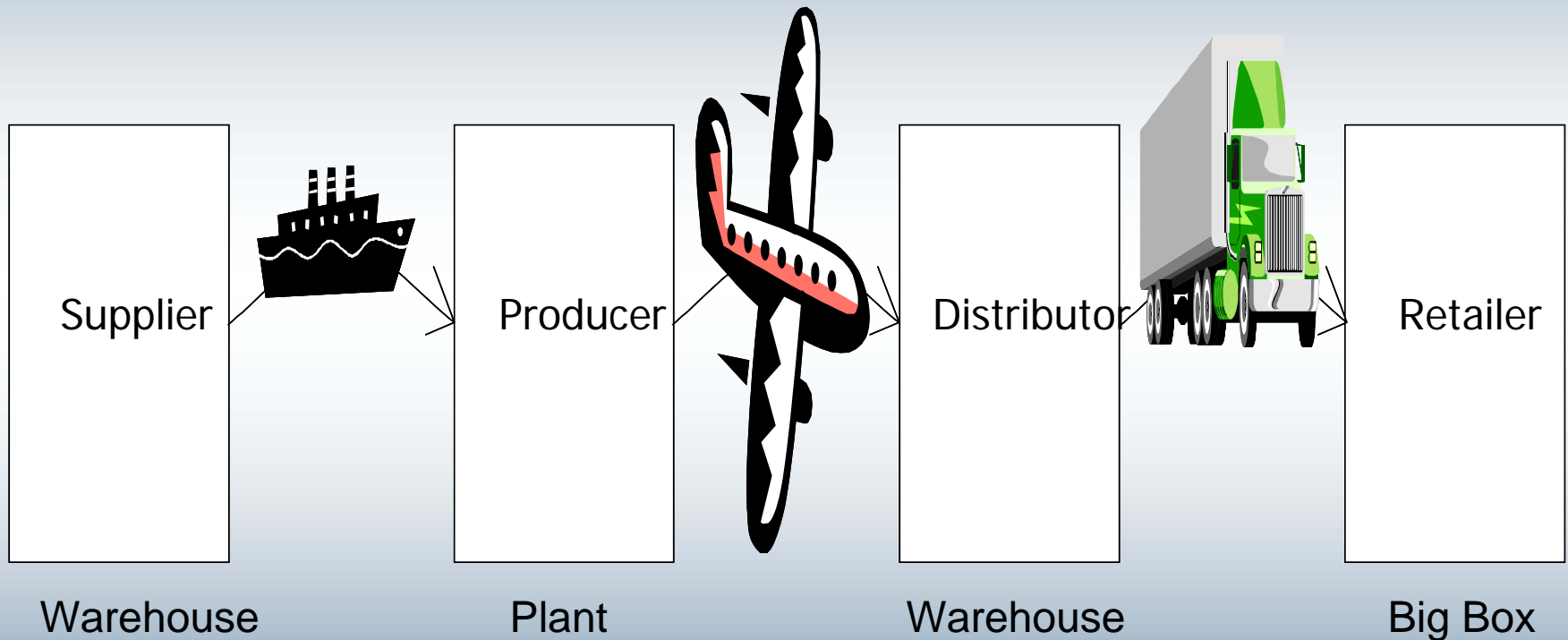
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- Owners and contractors **do not communicate effectively** – “Lost in Translation.”
- **Value** can only be measured from **owner’s perspective**.
- If owners are **buying on price**, they are **missing net value-added**.
- If owners are **not able to fully define what they want** (eg., can’t achieve low PDRI), they are **NOT buying a commodity**.

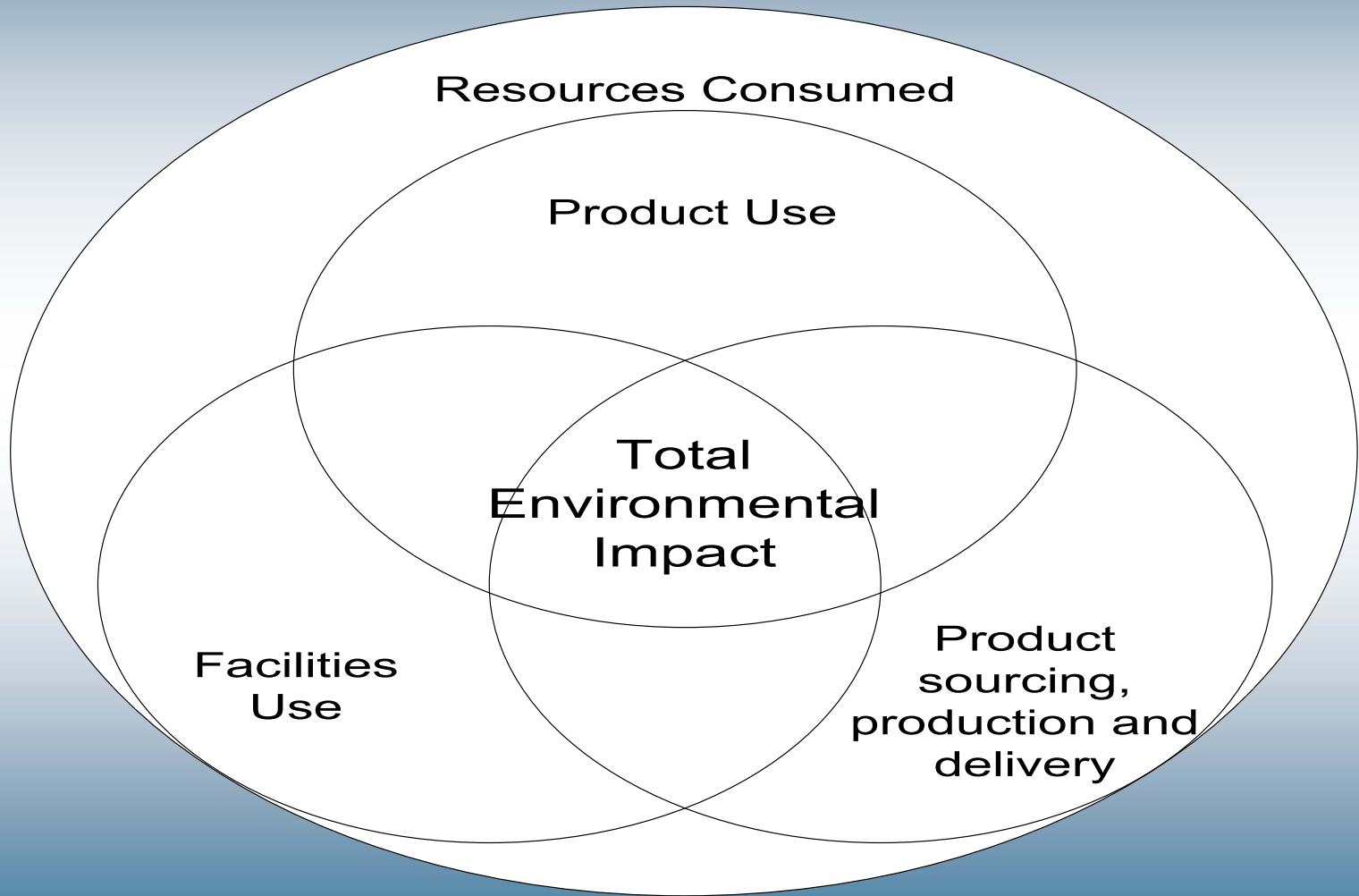
# The Role of Facilities in Product Supply Chain Sustainability

- What is “Product Supply Chain”
- Impact of Design and Construction
- Alignment of Owner and Contractor

# Figure 1: A Facility View of a Product Supply Chain



# Figure 2: Total Environmental Impact of a Product



## Therefore.....

- Is your business “Commodity” or “Net Value Add”
- What are Owners Buying
- List the most recent three key changes to your business
- What comprises your client’s Supply Chain
- How do you enhance the Owners Product Supply

# Questions