QBS Construction Procurment has Advantages During Economic Recession

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Kimball has been engaged by numerous colleges and universities, as well as state and local government agencies, to provide capital improvement planning and adminstrtive oversight of procurement of professional construction services using advanced Qualifications-Based Selection procedures.

What difference does economic recession make on the decision whether to use Qualifications-Based Selection (QBS) procurement or to use price-based procurement for professional construction services, such as Construction Management At-Risk or Design-Build services?

QBS is a procurement strategy and process that gives the construction project owner a structured, managed, and publically defensible approach to hire construction services based on the owner's judgment of demonstrated merit and value of providers competing on specified criteria, not price.

Increasingly popular, including with public owners, QBS allows owners to develop a more collegial team of construction project collaborators among designers, builders, and consultants together with the owner. QBS's antithesis, "hard bid" or "low bid" price-based procurement, is an inherently adversarial zero-sum game.

As we all know, the current economic recession has been pounding the construction industry. Unemployment figures for construction sector workers are beginning to rival those from the height of last century's Great Depression. Construction services firms have been cutting margins just to keep the best of their crews together in uneasy hope of better times to come.

The global recession's building slowdown has been one of several factors pushing downward construction materials prices in the buyer's favor, also. As commodity prices fall, construction owners with cash and courage have found in recent months a complete reversal of their experiences only a year or so ago. Back then, cost estimates almost always misjudged inflation, leading routinely to busted construction budgets. Not so now. We frequently hear of bid prices coming in well below budget.

Construction owners always are strongly tempted to look to the near term and overvalue the "first costs" of construction projects as compared with life-cycle costs. Anecdotal evidence suggests that owners in the current recessionary circumstances—even those who have used QBS in the past to procure construction services—are now relying more on low bid procurements as their default procurement strategy to give them an apparent recession bargain.

But is taking the lowest bid a low-risk bargain strategy or, still, a high-risk gamble? Does the current recession truly offer a lower risk to the owner using low bid than do more "normal" economic conditions?

Fundamentally, assuming a non-commodity type construction project, all factors that would make low bid procurement of construction services an inferior strategy remain in effect regardless of whether construction materials prices are rising, falling, or stable. For example, high quality construction companies often cannot compete on price alone with companies that cut costs on skills or safety training, equipment, technology, supervision, and so forth. These factors are crucial to a high quality firm because they directly affect performance effectiveness and efficiency, and, crucially, affect firm reputation and relationships, so very vital to our best construction firms. Hard bid procurements value none of these factors, which are central to a successful project.

What about profit margins? Under price-based procurements, the owner has neither clue about nor right to know a construction company's profit margin. Under recessionary pressures, no doubt profits are minimized, but not without rising risk to the owner of concealed cuts to scope and quality, increased time to completion, change orders, disputes, claims, and contractor bankruptcy.

In contrast, under QBS, the owner may and should consider financial attributes of competing firms in order to manage these risks by selecting only a strong, stable, qualified contractor. After final selection, the owner and the selected provider will negotiate to agree upon a fair and reasonable fee. In recessionary times, using QBS, an owner may expect to negotiate lower fees than usual, further reducing the justification to gamble with low bid procurement.

Moreover, with the typical "open book" accounting of expenditures for the cost of the work under QBS-procured project delivery methods—such as CM at-Risk and Design-Build—the owner can see precisely how project dollars are being spent and can plan collaboratively regarding uses of savings or necessary cuts.

In order to gain these QBS advantages, the owner must resist the temptation to overvalue first cost and must avoid being deceived by the false "certainty" of low bid procurement.