Chief Executive Comment by Chris Olsen
NZ Contractor, March 2011

Innovative Procurement Needed for Innovation

Late last year I heard that a contractor had offered a roading client an alternative product to that specified in the RFT at a lower cost with twice the warranty period.

It's hard to believe but the roading client declined the alternative bid.

It's also hard to believe that other roading clients have taken over two years to accept superior products to those specified even though they have had a well proven international track record in circumstances worse than those found in New Zealand.

These examples are typical of feedback I've received highlighting a lack of innovation within the traditional procurement model. The only innovation I hear occurring is in performance based, design and build, or alliance type contracts. The sad thing is that once a contractor has had a number of alternative bids rejected it takes a lot to convince him or her to keep trying.

To be fair I need to acknowledge that it can be difficult to evaluate alternative bids within the traditional contract tender evaluation period. There are usually huge time pressures on the tender evaluation process to have the contract awarded as quickly as possible. Trying to deal with the technical and commercial risk of new products under these pressures can at best be difficult.

Some clients say that the best way to overcome these problems is for the contractor to approach the client well before tender time to have any new products/services/processes approved before the tender process begins.

Most times I've run this suggestion past Roading New Zealand members I've had the Tui Ad "Yeah Right" response. Bitter experience has taught them that discussing a new product/service/process prior to tendering usually ends up with the new product specified in the RFT for everyone's benefit.

So what can be done to remedy these problems, thereby ensuring that the Land Transport Management Act's procurement requirements for achieving best value are always optimized?

Here are a couple of thoughts.

One suggestion is to set up a product evaluation scheme that can certify products/services/processes as meeting required performance criteria. This would be similar to a "BRANZ" for the roading sector. The cost of certifying products would be met by the supplier on the understanding that if a product had been certified it would be accepted for use in the sector.

The second suggestion is to recognize that new products always involve a capital investment which needs to be recovered at a time when volumes and economies of scale are small. The best example of this is new technology – computers and plasma TV's. When these are introduced into the market they are 2 to 3 times the price of what they will be in a couple of year's time.

The same economic principles apply for new technology in the roading area. It's no wonder that it's almost impossible to introduce new products under the traditional contracts model based on lowest price tender evaluation.

Twenty years ago reseals using imported bitumen and "low noise" asphalt were good examples of this. These days it's recycled asphalt and "horses for courses" new technology emulsion seals.

Other industries and sectors have overcome these problems by taking a fresh approach. Isn't it about time we did too?

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