Procurement in the Water Industry
What is Partnering? -What does it mean for the industry?

by
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The latest round of procurement events in the water sector, as companies get ready for AMP4 and beyond, has certainly focussed the mind of everyone who has an interest in this important market sector. Whether you are a contractor or a consultant, the glittering prize of a long-term framework agreement is something that simply cannot be allowed to slip away. The effort and cost that goes into preparing tender enquiries and the subsequent tender responses is understandably significant. Decisions that are made relate to billions of pounds worth of expenditure and have a long term impact on all of the organisations involved.

An interesting aspect of the process has been an apparently common approach with so many of the water companies talking about partnering or alliancing. It has been a recurring theme in the majority of enquiries that have been sent out. But what do each of the water companies mean when they say that they are looking to enter into long term partnering or alliancing arrangements?

As anyone who currently works for more than one of the large water companies will know, and anyone who is about to, will soon find out, partnering or alliancing can mean very different things depending on who you are working for or with.

There can be little doubt that there are genuine examples of the best that partnering has to offer within the water industry. Equally, there are some very clear examples of the concept being at least misunderstood and at worst, abused.

So, what is partnering? What does it mean for the industry?

There is little doubt that long term commercial arrangements carry potential benefits for all parties involved. But partnering or alliancing has much more to offer than just the longevity of the contract.

Properly constructed, partnering should be seen as a sophisticated commercial arrangement where all parties share the rewards of exceptional performance while also sharing the burden of poor performance. It allows an approach to risk management that was not available under the old, so called traditional way of procuring that was first and foremost adversarial in its nature.

Those organisations who are fortunate to work in arrangements where innovation is encouraged, continuous improvement sought and success rewarded will have no difficulty in recognising the differences that exist in other partnering or alliancing arrangements where the available workload is used as a stick to beat contractors and suppliers into accepting profit levels negotiated to rates which very few industries would regard as either sensible or sustainable.

It is to be regretted that partnering, hailed as the redemption for an industry beset by disputes and adversarial approach at all stages, should be so widely misunderstood. There is a significant risk of contract arrangements breaking down because of the inequitable nature of the terms. This will allow cynics to say that partnering or alliancing does not work. Yet, if you scratch below the surface of the arrangements, it is clear that they have little or nothing to do with partnering.

Why should this be? Why do organisations say they are partnering when in reality they regard the process with a degree of disdain?

One of the widely recognised principles of partnering is honesty. It is ironic that some organisations are not even honest about the way they wish to procure. If a price led selection process with limited early involvement and little share of risk and reward is the way that an organisation wishes to engage with contractors, why pretend that it is anything other than a traditional approach to procurement?

Some may believe that because partnering and alliancing are the current by-words, then they must also be seen to follow the current trend. But once procurement rounds have been concluded and some tough commercial negotiations have to be confronted, it will be interesting to see how many of the new found alliances survive,

There are very few of the major players who are solely dependent on the water industry. There are enormous expenditure programmes being lined up in other utility areas such as gas and power, which will offer a viable alternative to organisations that can deliver major civil schemes. If the commercial arrangements, long term or not, do not yield the rewards that contractors or suppliers require, expect to see a gravitation of the work force to other sectors.

It is perhaps unpalatable for major procurers to acknowledge, but it seems likely that the days of being able to treat the market with contempt are behind us. The markets are moving on and the contractors will go with it if there are greater rewards or more equitable agreements to be found.

No doubt, there will be those who, by design or by denial think they will always be able to dictate to the market place because of the size of their capital expenditure.

It will be interesting to see, in three to five years time, how many of the long term framework agreements are still entirely intact. It may well be that, on closer inspection, the glittering prizes of long term framework may appear to be a little tarnished.

The warning that the water industry should heed is that, if it does not present an attractive face to the market, there are other industries which have real need for the same skill base. Those industries are currently re-vamping their approach to procurement in order to re-invent themselves as a much more attractive proposition.

The only works companies who should not be unduly concerned by the warning are those who are truly committed to a partnering approach – beware those who just say they are.■

Note: *The author of this article, Neil Taylor, is Partner - Chandler KBS.*