



## T5 Buy Club

How M&E contractors pool purchasing at Heathrow Terminal 5



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## Acknowledgements

Research and text: Adrian Young – [www.brolga.co.uk](http://www.brolga.co.uk)

Production: The Stables Team – [www.stables.co.uk](http://www.stables.co.uk)

Thanks to personnel in the T5 Delivery Team, Eaton Electrical Europe, Schneider Electric and others who have generously given their time to participate in the case study, and to Graham Manly for his advice on transferability.

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## Foreword

**There is no doubt that the construction industry suffers from waste. Traditional construction procurement methods suffer particularly from duplicated resources and non-value-added processes. BAA, through its T5 Buy Club, clearly sets out a strategy that minimises duplication and focuses on selecting suppliers who offer the best overall value.**

The Buy Club does this through a high degree of integration and early involvement of specialist suppliers and manufacturers. It raises opportunities to maximise the value and co-ordinate design and construction processes. The Buy Club also draws suppliers into the delivery of sustainable projects.

Although pioneered in M&E services, transferring this procurement method to other construction specialists and the wider construction industry would bring about many improvements. For example, initiatives such as NHS Procure 21 and the larger PFI projects would benefit from the Buy Club approach to procuring construction products. The Buy Club strategy could be used by clients with large construction portfolios as well as by construction companies over a number of projects.

Any initiative that offers benefits to all parties, in the way the T5 Buy Club does, is worthy of serious consideration by all construction teams. In the future, it should become the norm rather than the exception.



**Charles Lever** CEng FCIBSE

Director Building Services

Taylor Woodrow  
Construction

## Overview

### Heathrow Terminal 5's Mechanical and Electrical (M&E) Buy Club ushers in a new era of openness, collaboration and striving for 'world class' results.

Out go secretive deals with favoured suppliers. Instead, the M&E Buy Club (see Figure 1) pools the expertise and buying power of five 1st tier M&E contractors and sources each of 13 specialisations from (generally) one supplier who is then responsible for supplying all 16 projects at T5. The outcome is:

- **a consistent approach** to the £600m spend on M&E equipment and materials across the whole terminal
- **specifications** which address the quality and lifecycle actually required
- **the best-value solution.**

The Buy Club applies best practice procurement processes (as normally used for selecting 1st tier suppliers) at the 2nd tier.

#### The benefits

**Cost:** BAA is banking 10-30% of the budget for M&E equipment and materials. Commodities, such as cables and bulk supplies, are yielding savings at the lower end while inputs which are more design sensitive, such as low voltage switchgear, are at the top.

**Time:** Instead of asking potential suppliers to do up-front work on a favour basis, the Club buys their commitment via early appointment, engages them in the design and promotes 'lean' manufacturing and installation. Collaboration to meet Buy Club targets enforces planning by 1st tier suppliers. Consequently, M&E procurement comes off the critical path for all but the first project.

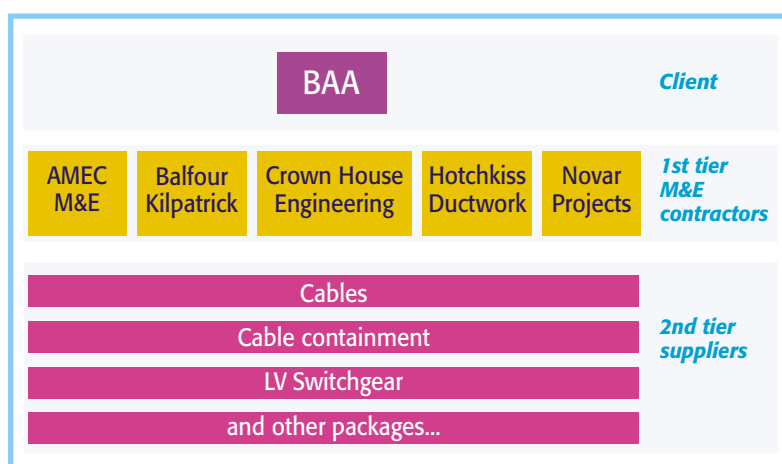


Figure 1: 2nd tier suppliers' contracts span the whole of T5

**Quality:** Early agreement of benchmark prototypes (these are locked away for future reference) means suppliers are actively involved in the design, know exactly what is required and budget and plan accordingly. The rigorous planning BAA expects of the Buy Club reduces the likelihood of manufacturers being asked to produce 'rush jobs' which can compromise quality. An open-book approach to quality reveals issues before they become problems.

**Safety:** Planning by the Buy Club reduces the potential for unsafe working in order to cut corners.

**Logistics:** Simplifying the supply chain across the entire terminal makes logistics so much easier to manage.

**The environment:** Environmental issues account for 5% of the tender assessment score. BAA's environmental policy for construction is written into all Buy Club contracts.

#### How the idea transfers

The Buy Club has been so successful for M&E that BAA is using the same process for the £200m fit out and £50m communication systems packages. The model can be adopted or adapted for procurement in other large projects as well as smaller repetitive ones.

## What makes T5 different

**By any measure, Terminal 5 (T5) is a mega project. It was the subject of the UK's longest ever planning inquiry because of its potentially sweeping environmental and economic impacts.**

BAA is responsible for getting it right. There's all to play for; securing Britain's future as a centre for aviation while balancing and safeguarding the environmental, social and economic interests of all stakeholders. The biggest differences everyone working in the construction of T5 will notice are how the logistics and the delivery team are organised.

BAA has a Code of Construction Practice for T5 that involves:

- keeping people informed
- managing construction impacts
- respecting the local environment
- responding to concerns.

### Construction logistics

Without a fresh approach, the effects on the local environment caused by construction traffic alone would be unacceptable congestion, noise and pollution. That is partly why BAA has created a Master Logistics Plan to control the whole delivery process, which keeps construction traffic off local streets. The plan builds on BAA's experience with the Heathrow Consolidation Centre (HCC), an existing facility at the opposite end of the airport (near Terminal 4 – see Figure 2). It handles materials for upgrading Terminals 1 to 4. The HCC brings three main benefits:

1. Deliveries to the Centre and removal of waste and packaging are controlled so as to minimise local environmental impact.
2. Materials can be batched and delivered overnight to the work place 'just-in-time' for planned tasks to be done more efficiently.
3. Contractors gain a better understanding of the distribution process and learn how to make it less chaotic through the application of logistics methods observed in manufacturing and retailing.

T5 has two consolidation centres (see Figure 2). Colnbrook Logistics Centre (CLC) is a railhead handling bulk materials mainly for civil engineering. Heathrow South Logistics Centre (HSLC) controls manufactured products. Materials will be assembled

Heathrow airport employs some 70,000 directly and supports about 250,000 jobs nationally. It contributes more than £5bn to the economy in wages alone.

T5 and its associated facilities will be funded by BAA not the taxpayer. It will safeguard another 16,500 jobs in operations as well as 6,000 jobs in construction.

When fully developed by 2011, T5 will handle 30 million passengers annually, compared to the present 65 million dealt with by Terminals 1, 2, 3 and 4.

The first phase of value £4.2bn, to be completed by 2008, includes:

- 16 interconnecting projects and 134 sub-projects
- diversion of two rivers
- core terminal and one satellite terminal
- control tower
- public transport interchange
- extensions to the Heathrow Express and London Transport's Piccadilly Line via 13km of bored tunnels
- diversion of the airport perimeter road
- spur road to the M25
- multi-storey parking for 4,000 cars
- 60 aircraft stands and taxiways
- mechanical and electrical services of £600m in value.

Later developments will include a second satellite terminal, hotel and further car parking.

into packages sufficient for a day's installation work. There will be limited storage for modules on trailers. The objective is to hold only a one-day buffer in the consolidation centres. Deliveries to the site via the one gate are programmed on a 30-second cycle.

The difference here is that contractors 'pull' supplies when needed. "Deliver today what will be installed tomorrow" is the maxim all T5 contractors and material suppliers need to adopt.

### Achieving success, together

Contracts with 1st tier suppliers are different from traditional contracts. The 'rules' for working with BAA are set out in The T5 Agreement which has three sections: The Delivery Team Handbook, Handbook Data and Referenced Contract Documents. It is all based on BAA's acceptance that as the client, "the buck stops here". The noticeable differences from mainstream construction contracts are:

- **Flexibility** – The T5 Agreement is a flexible contract because things will change. It doesn't 'look' like a conventional contract.
- **Integrated teams** – Default would be difficult to prove, so it is important to create relationships with better than normal management practices and processes to ensure the desired result is achieved by working together (see Figure 3).

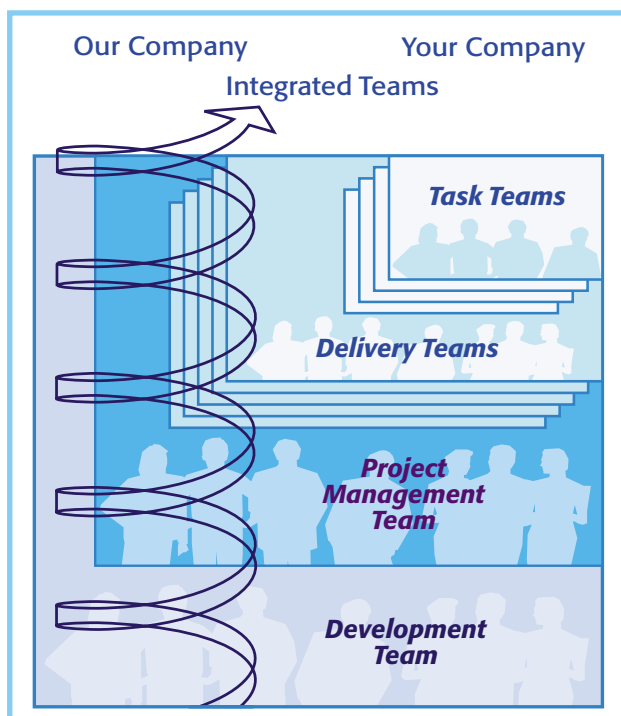


Figure 3: Who are 'you' and 'we'

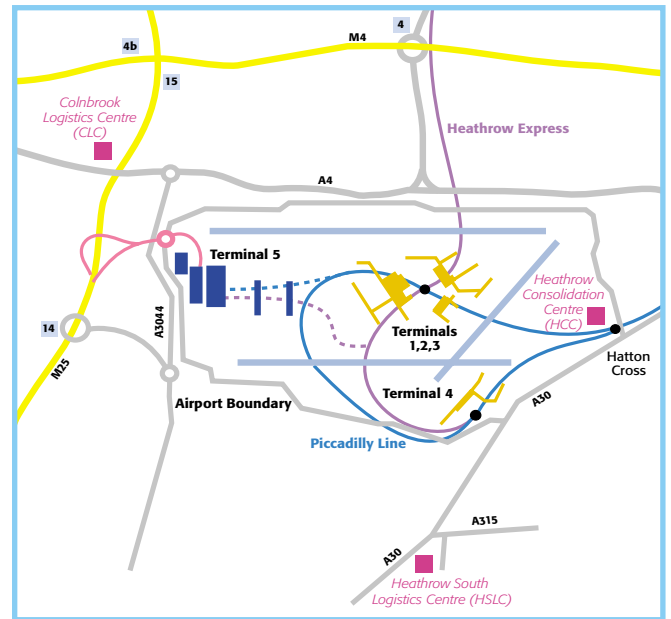


Figure 2: Location of T5

- **Responsibility is not the same as liability** – *Responsibility* on T5 is the duty to achieve an objective or undertake an action. *Accountability* is the extent to which an individual is answerable for their responsibilities as an employee on the project. *Liability* is the legal obligation of a company to meet its responsibilities and to rectify or reimburse the cost of defects or non-performance.
- **The risk** of achieving a successful T5 rests almost entirely with BAA.

### Teams

T5 has organised delivery activities not with conventionally formed teams (by disciplines or companies) but with teams assembled around customer products. Example customer products include the steps along a passenger's journey (car parking, check-in, lounge, shopping, embarking) or services for BA (offices, baggage systems, logistics centres). Their solution creates teams at different levels to rationalise the skills from consultants, contractors and suppliers. The difference here goes beyond willingness to participate in a multidisciplinary team. Individuals are 'rebadged' as members of a virtual company, T5, for the duration of their assignment.

For the sake of economy and to reduce the notion of blame, BAA has negotiated project-wide insurance that covers all suppliers for construction all risks, public liability, professional indemnity and marine cargo.

## Ambitious new standards

BAA is looking for at least a step up from normal performance. Having procured the best companies and people in each field, the lowest acceptable level of performance expected of everyone is “best practice” which BAA determines by benchmarking from what the market offers. This is the basic legal obligation. Figure 4 shows how BAA determines the best practice available by using the collective market intelligence of its 1st tier suppliers.

But building “the world’s most successful airport” demands what BAA calls ‘exceptional performance’. The T5 Agreement says: “Exceptional performance is world class when it is better than anyone else has achieved so far.” Anyone contemplating ‘business as usual’ need not apply (see Figure 5).

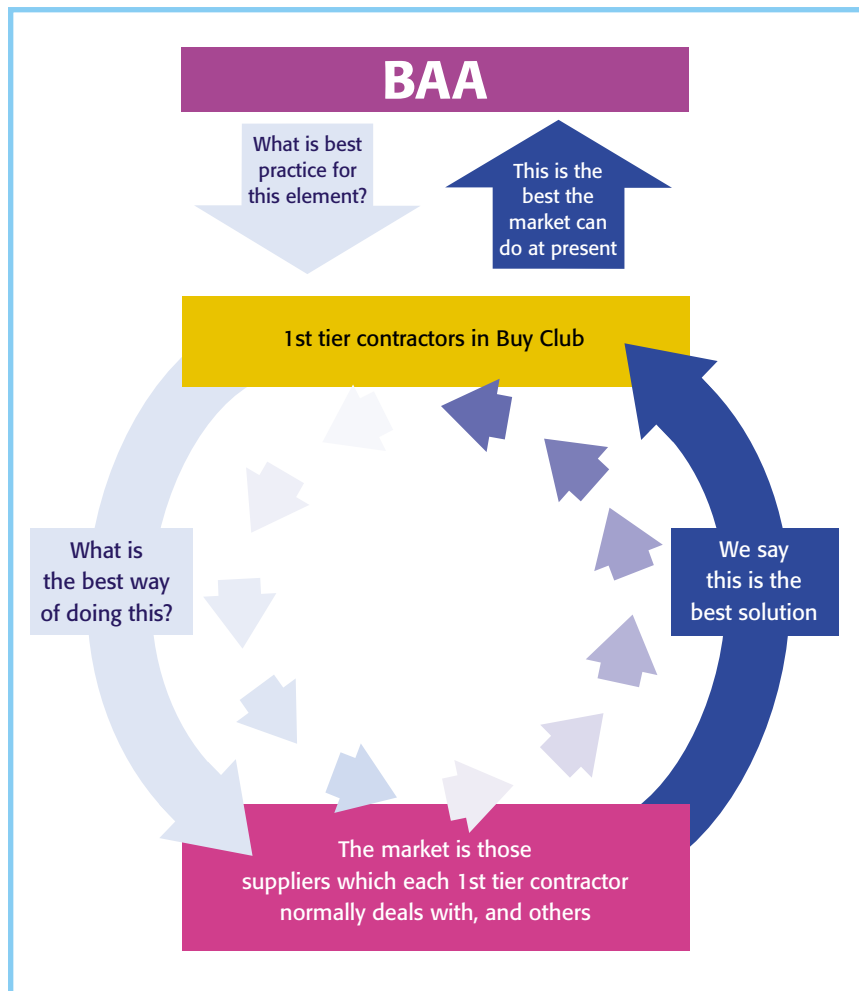


Figure 4: How BAA benchmarks best practice

## Best value solutions

The T5 Agreement empowers the team to make rational decisions about cost and value, taking account of planned and reactive maintenance, the cost to business of faults and the life cycles. BAA says: “Our experience all too often shows that, in keeping with customer demands, too many components and systems are removed before the end of their design life.” Team members analyse, recommend and decide on the basis of whole life cost.

**It is on this landscape that BAA set up the M&E Buy Club.**

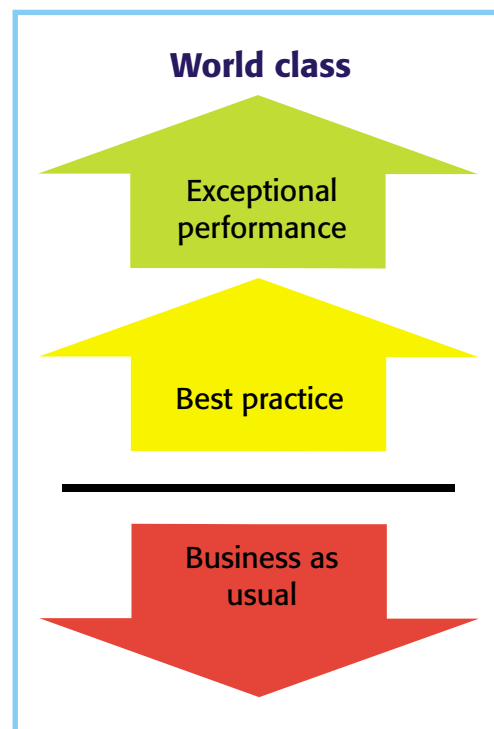


Figure 5: Setting new standards

# The T5 M&E Buy Club

A Buy Club is a team of 1st tier suppliers which agrees common supply chain strategy, sourcing and logistics requirements for purchasing equipment, materials and services from 2nd tier suppliers. The M&E Buy Club is the first of its kind in T5 and is probably unique in the UK construction industry.

The Buy Club supports the whole T5 programme in delivering T5 at the lowest possible price by delivering the *best value* and *driving out waste*. Its role is to:

- create the best commercial environment to make this happen
- agree the last possible dates for change
- improve planning so that it is better than best practice.

### Core Team (10 members)

- Team Leader
- T5 Building Services Integration Leader

### Five 1st tier M&E contractors:

- AMEC M&E
- Balfour Kilpatrick
- Crown House Engineering
- Hotchkiss Ductwork
- Novar Projects (Trend and Gent)

### TECHT team of cost consultants:

- E C Harris
- Mott Green Wall
- Turner and Townsend

During the start-up there was a Facilitator to assist the Team Leader in planning the collaborative structure, defining meeting agendas and identifying difficulties and ways around them.

Members were selected for their knowledge of the market and supply chain expertise. The Core Team's role is to:

- formulate strategy
- endorse acquisition plans
- endorse tender enquiries
- endorse evaluations.

### Shared values

- be honest and open
- come to meetings
- no hidden agendas
- contribute
- resolve issues/make decisions
- work together, support each other
- complete actions on time
- collaboration
- respect for people



**Maya Jani**  
Team Leader  
T5 M&E Buy Club  
BAA Supply Chain

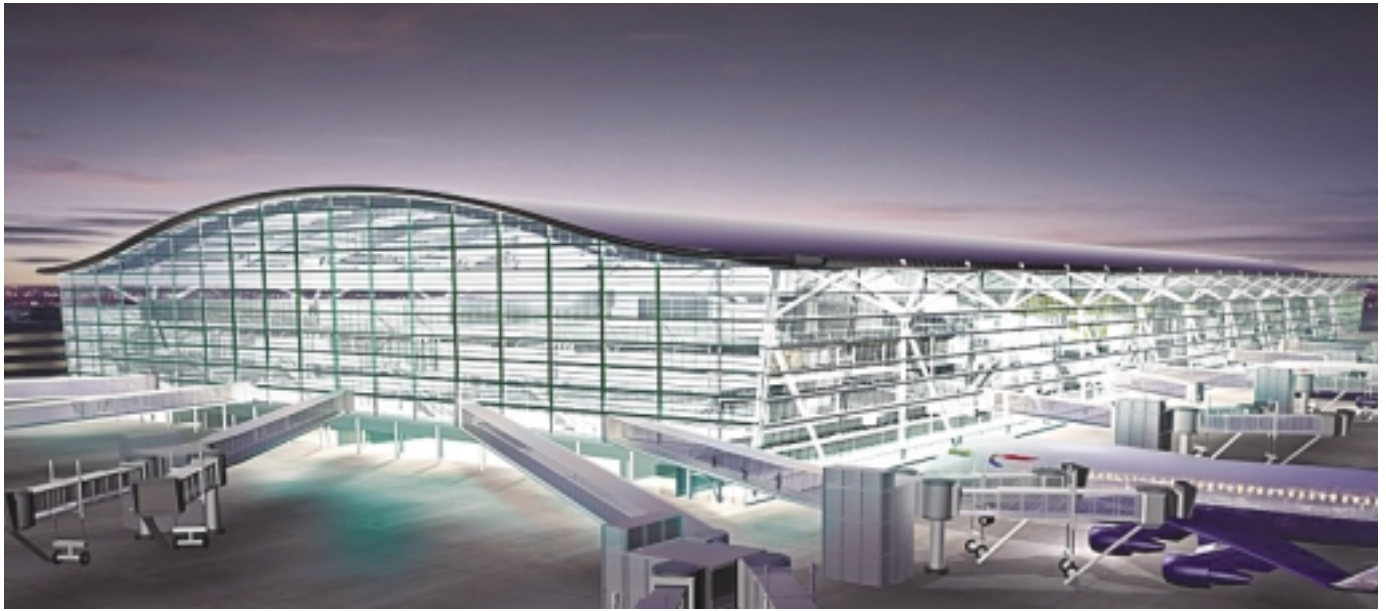
### Why was the Buy Club initiated?

We have five first tier M&E suppliers working in different T5 projects, but essentially buying the same products and services. It seemed natural that we could better manage the purchasing for £600m of work by combining our suppliers' buying arrangements. We could also achieve better commercial terms. This unified approach prevents us from sending conflicting signals to the market and helps avoid competition between the 1st tier suppliers and the 2nd tiers. Standardising suppliers encourages commonality of products between the T5 projects and will bring maintenance benefits once T5 is up and running.

### How does it work?

We pulled together a single procurement plan to understand our top buys and priorities. This led to Mini Buy Clubs for specialist items – cables, pumps, lighting and so on. The club culture reflects the T5 philosophy of achieving success together by doing things differently and focusing on our desired outcomes and not the problem of getting there.





The Core Team's monthly meeting is the link back to the main companies. These meetings typically cover:

- specialist teams' progress
- Buy Club process review
- ongoing procurement issues
- decisions.

### Mini clubs

There are 13 current specialist buying teams known as Mini Buy Clubs:

- Cables
- Cable containment
- LV switchgear
- Pipework, valves and pumps
- Control systems
- Communication systems
- Air handling and fan control units
- Lighting and lighting control
- Ductwork and accessories
- Fans
- Modules
- Emergency lighting
- Bulk purchase

There is another specialist team handling freight management and more Mini Buy Clubs will emerge as the programme progresses. Each mini club has a Team Leader, a Champion in the Core Team and several members drawn from the cost consultants and 1st tier contractors. The Mini Clubs meet fortnightly and follow the process shown in Figure 6.

- 1 Obtain technical information
- 2 Pre-qualify suppliers
- 3 Acquisition plan
- 4 Prepare tender enquiry
- 5 Issue tender (common briefing)
- 6 Mid-bid interviews
- 7 Evaluate bids
- 8 Suppliers' presentations
- 9 Recommendation
- 10 Place orders
- 11 Feedback
- 12 Operations

Figure 6: 12-stage process used by mini buy clubs

# Procurement process

A team of procurement specialists from BAA, Mace and TECHT (the cost consultants) designed this process. It is a deliberate move away from the traditional contractor's approach which squeezes the supply chain on cost and which usually involves only one or two preferred suppliers. Adapting to this openness and 'democracy' is the toughest challenge for seasoned purchasers.

Much of this is already best practice for securing 1st tier suppliers. BAA's innovation is to apply the same rigour at the 2nd tier.

Although the T5 Agreement is between BAA and 1st tier contractors, it imposes a duty on 1st tier suppliers that terms with 2nd tier suppliers will be no more onerous than the T5 Agreement. Indeed this duty is passed along the supply chain and BAA reserves the right to audit compliance with the spirit of the T5 Agreement at any level.

## ***The 12 steps***

### **1. Obtain technical information**

This first stage draws together a conceptual specification and scope for the equipment and services needed for the design as it stands. The team draws on the range offered by vendors which comply with BAA standards or offer sound alternatives. The objective is to produce 'benchmark' designs for as much equipment as possible.

### **2. Pre-qualify suppliers**

To qualify for an invitation to tender, suppliers must show they are able to produce sound products and (by consensus) be commercially reputable. This step includes technical and commercial dialogue and visits to design and production facilities. Collaboration between the country's leading contractors produces a robust list of proposed bidders based on best available market intelligence.

### **3. Acquisition plan**

The specialist team creates a document for ratification by the core team and client sign-off. The acquisition plan defines:

- what is being purchased and estimated cost
- the procurement method
- form of contract and basis for payment
- potential leverage into other disciplines
- list of bidders and selection criteria
- programme and milestones
- who is involved.

A thorough acquisition plan raises confidence and smooths the whole procurement process.

## ***What's different***

1st tier contractors work with common designs and information formats.

Traditionally, information would be obtained from a single preferred source, but the Buy Club casts a wider net.

Compliance with BAA specification is important but BAA does not exclude suppliers offering sound alternatives.

1st tier contractors may be reliant on the advice of others in the Buy Club. Existing supply chain agreements may be at risk.

Packages worth more than £250k have a unique acquisition plan. Packages of less value may be procured under bulk purchases.

## The 12 steps

### 4. Prepare tender enquiry

- |                          |                                     |
|--------------------------|-------------------------------------|
| 1. Introduction          | 12. Outline method statement        |
| 2. Form of tender        | 13. Health, safety and welfare plan |
| 3. Tender summary        | 14. Environmental policy            |
| 4. Scope of works        | 15. Industrial relations policy     |
| 5. Drawing list          | 16. Outline quality plan            |
| 6. Pricing schedule      | 17. Logistics                       |
| 7. Compliance statements | 18. Appendices                      |
| 8. Company profile       | – Conditions of contract            |
| 9. Project management    | – Schedule                          |
| 10. Design               | – BAA standards                     |
| 11. Outline programme    | – Project particulars               |
|                          | – Drawings.                         |

### 5. Issue tender (common briefing)

All bidders are invited to a common briefing. BAA's message is that only the companies it is serious about are invited. Managing Directors and top-flight marketing, sales and technical people usually represent bidders. The presentation covers:

- an overview of the T5 project
- BAA's aspirations for a world-class outcome
- a summary of the scope of work being tendered
- a summary of the tender documents
- an explanation of key technical issues
- a question and answer session.

### 6. Mid-bid interviews

These are conducted separately with each bidder. Questions and answers are logged and issued to all bidders unless commercially sensitive.

### 7. Evaluate bids

Bids are received in two parts – capability and commercial – and analysed independently, which is unusual for 2nd tier supplier tenders. The evaluation follows a prescribed marking system agreed by the Buy Club.

When most queries have been resolved and the evaluation is about 90% complete, bidders are invited to give a presentation.

## What's different

This is a well-trodden path for selecting 1st tier contractors but new for 2nd tier suppliers.

Company profile information is requested here for confirmation and comparison purposes.

Separate terms and conditions apply to purchasing orders for each 1st tier contractor. These are unified to the extent that can be negotiated with each company.

The thorough process reduces the need for addenda.

Bids are lump sum for benchmark designs. Open-book costing will apply when design development occurs.

Although contractual details follow more traditional lines, the scope of their obligations is in line with the T5 Agreement. In particular, the time allowed to pay invoices and conditions of employment at the site are consistent. 2nd tier suppliers are actively encouraged to get involved as 'integrated team' members.

The industrial relations, logistics and environment strategies are unique to T5.

The common briefing is an example of the T5 culture of openness. There is no secrecy about who is bidding. Everyone hears the same questions and answers.

The tender enquiry documents follow the same format in all the Mini Buy Clubs. This helps to have a thorough and consistent approach. It also saves time to have one format for all specialisations.

The 1st tier contractors are involved in the evaluations but their technical and commercial personnel are not permitted to communicate their findings to each other, to ensure an unbiased view.

## The 12 steps

## What's different

### 8. Suppliers' presentations

Each bidder 'sells' its proposal in a formal presentation to the evaluation team. The agenda covers manufacturing resources, technical aspects, the proposed team, management systems and similar projects. Commercial matters are specifically excluded.

This is unusual for 2nd tier suppliers.  
The client is present.

### 9. Recommendation

The Tender Evaluation Report is in 10 parts:

1. Recommended supplier(s)
2. Evaluation team
3. Context of the package being tendered
4. Package scope
5. Programme
6. Budget
7. Procurement strategy
8. Evaluation - capability and commercial - and selection criteria
9. Conclusion
10. Appendices.

The appendices include the detailed analysis, ranked evaluation matrix, SWOT analysis and summary of risks and opportunities of single sourcing. The SWOT analysis is a plain English 'executive summary' of each bid.

The tender evaluation reports follow the same format in all the Mini Buy Clubs.

The report is ratified by the core team and passed for approval at T5 Board level (depending on value).

### 10. Place orders

The successful bidder and the M&E Buy Club sign a Memorandum of Understanding. This 'written handshake' enables the parties to work together until orders are placed under the terms and conditions of members' purchase orders. Orders are placed on a call-off basis. The Mini Buy Club would handle any subsequent design development and negotiations.

The supplier has separate contracts with each 1st tier contractor, with consistent rates.

### 11. Feedback

Unsuccessful bidders are offered a debrief where they may ask the M&E Buy Club team questions related to their submission, thus providing valuable learning on both sides.

In these open, informal sessions, the only rule is confidentiality about competitors' commercial information.

### 12. Operations

The M&E Buy Club's remit does not cease on completion of the procurement. The core team appoints a package champion to follow the package through its delivery.

The package champion's role is to ensure the commitments agreed during procurement are observed throughout the life of the agreement and to facilitate solutions to any issues that arise.

## What suppliers say

**Eaton Electrical was the successful bidder for the low voltage switchgear package.**



**Chris Jouppi**  
Vice President & General Manager  
Eaton Electrical Europe

### *What do you like about the Buy Club?*

The Buy Club concept focuses on the total long-term ownership costs, where traditional methods focus on short-term costs and delivery.

### *Any dislikes?*

No dislikes really, but it has certainly given our sales people food for thought. It is not a simple catalogue number, features and benefits selling process.

### *So your sales people need to behave differently?*

Yes, because strategic selling calls for a different type of sales person; one who is capable of understanding long-term customer issues. They are really selling to a number of contractors. So sales people must be capable of making multiple contacts and develop relationships with all members of the Buy Club.

### *What do you mean by short-term thinking?*

Trade contractors are traditionally short-term focused because most procurement systems are only concerned with the initial construction cost. I know we suppliers have been equally guilty.

### *How does the Buy Club get around this?*

First of all you need the right client policies to move long-term issues up the agenda. Then working up front with the Buy Club allows long-term advantages to be discussed and evaluated, such as reduced maintenance and other costs of owning electrical assets over the long term.

### *Does this approach change how you see risk?*

It's a bigger tender, so there's a risk that you'll end up with nothing. From the client's point of view, the Buy Club forces consistency. Once the specification and design are agreed, our duty to deliver is the same as in any other contract. The difference here is that the risk of the client ending up with unsuitable equipment is reduced because everyone on the team (and that includes us) is focused on the overall success of the project.

### *How will the delivery phase be different?*

No doubt we will still have our disagreements, but we need to share the real issues. Traditionally we've only told customers the good news, but we'll need to operate more openly with the Buy Club.

Schneider Electric was unsuccessful in its bid for the low voltage switchgear package, but did win a medium voltage package and is supplying to other package contractors.



**John Pittwood**  
Segment Marketing Manager – Airports  
Schneider Electric

#### ***What do you like about the Buy Club?***

Pre-qualification for one package (of say LV switchgear) means we avoid going over this with each contractor. This really does save us time and money. I also liked the single set of documents and briefings.

#### ***Any dislikes?***

I know others will say this too, but it can mean 'all or nothing'. Although Schneider Electric was not successful in the LV switchgear bid, we're fortunate in having a diverse product range and we've secured other business in T5.

#### ***What are the threats to the Buy Club's success?***

It demands a real change in attitudes. It will not succeed where people persist with adversarial relationships. Being open to solving problems is a must. The ultimate threat will be if people slip back into the bad habit of awarding on lowest price.

#### ***What should the M&E Buy Club do differently?***

I suggest that suppliers could be pre-qualified (on a corporate basis) once only for the whole M&E. Then only package-specific information need be sought separately. That would eliminate another needless cost of bidding. I would also like to see a more unified form of contract across all packages. This would simplify suppliers' project management and accounting.

## How the idea transfers

**The M&E Buy Club has proved such a success that the process is being rolled out to the Fit Out and Systems teams in T5.**

### Fit Out Buy Club

The fit out packages are being procured via an integrated procurement team working to maximise commonality and value, and taking the lessons learnt and protocols developed by the M&E Buy Club. The Fit Out Buy Club comprises Balfour Beatty (rail station and tracked transit system), Laing O'Rourke (car park), Warings (air traffic control tower), Mace and Llewellyn Rok (main terminal team – T5A) and Mansell (satellite team – T5B). BAA is also procuring a number of packages directly.

The packages being procured by this Buy Club include:

- hard floor finishes
- doors and hardware
- raised floors
- ceilings and bulkheads
- internal walls
- internal roofs
- joinery and wall panelling
- applied wall finishes
- architectural and general metalwork.

Mace's procurement leader in the integrated team, John Williams, echoes the conclusions of the M&E Buy Club. He says: "We're getting far more diverse opinions and experiences, and pulling together expertise from the different supply chains. This means we are in a far better position to achieve the exceptional performance that being a part of T5 demands."

### Systems Buy Club

The companies delivering system and communication works for T5 are ntl, Alcatel, Ultra and Novar. The Systems Buy Club is still in its infancy but it has identified the following packages as potential 'Buy Club' activities:

- cabling
- CCTVs
- radio systems
- network equipment.

Each package has a Mini Buy Club exploring the opportunities.



**Michael Puckett**  
T5 Building Services  
Integration Leader  
BAA (MACE)

### Can the Buy Club idea work outside very large projects like T5?

Yes. Think of it as a pooled procurement process. It can work on large projects as well as repetitive smaller projects too. It has potential anywhere there is more than one contractor doing similar work.

### What would this achieve?

This has many advantages. Pooled purchasing reduces prices by buying in greater volumes and also by gaining direct access to manufacturers to cut out wholesale mark-up. Then there's the market intelligence you gain by going through the procurement process with others. There are also administrative, logistical, environmental, commonality and quality advantages.

### Does it also help in gaining suppliers' inputs into projects?

Yes, there is a lot of expertise there but naturally it is directed at the larger customers. Membership of a Buy Club raises your profile. Engage manufacturers and suppliers in your project team. It's about getting it right early rather than waiting until an issue arises and you urgently need their help. The benefits will be less reworking of designs and production programmes.

### What's your number one wish for change in construction?

If we want a more buoyant, prosperous and predictable industry we need to be more organised about how we work with the complete supply chain, and it needs to be more open and collaborative. Our Buy Club is a practical way of achieving this.

Looking beyond T5, the Buy Club model can be either *adopted* entirely or *adapted* to suit circumstances. The only essential prerequisite is having more than one specialist contractor doing similar work. To adopt or adapt the model successfully it is necessary to:

- focus on integrated team working
- take a consistent approach to procurement across whole projects or multiple projects
- use only best-value solutions based on specifications which address the quality and life cycle actually required
- have open-book accounting
- apply the best practices, normally used in selecting 1st tier contractors, to selecting materials and equipment suppliers.

### Adopted T5 model – any major project subdivided into sub-projects

Examples: air and sea ports, large railway projects, urban redevelopments, large stadiums.

The T5 model refers to the 'client' and '1st tier' contractor roles. In this model there is no 'main contractor' with a co-ordinating role. The client does this via its integrated team structure. The roles (adopted from the T5 model) are:

	Authority	Core Team	Mini Buy Clubs
Client	Initiate Buy Club and approve contracts	Participate	
1st tier contractors		Participate	Participate

If there is a main contractor with the co-ordinating role, the client might instigate the Buy Club but would probably delegate executive responsibility to the main contractor, possibly retaining authority to approve contracts. The roles would be:

	Authority	Core Team	Mini Buy Clubs
Client	Approve contracts (or delegate)		
Main or management contractor	Initiate Buy Club	Participate	
Specialist contractors		Participate	Participate

### Adapted T5 model – multiple projects for single client

Examples: retail stores, schools and hospitals.

Adapt the model so that agreements apply to more than one project. The client will probably have strategic framework agreements with more than one 1st tier contractor. This model assumes the client is actively involved and the roles would be:

	Authority	Core Team	Mini Buy Clubs
Client	Initiate Buy Club and approve contracts	Participate	
1st tier contractors		Participate	Participate

If the client delegates responsibility to a main or managing contractor, the roles would be:

	Authority	Core Team	Mini Buy Clubs
Client	Approve contracts (or delegate)		
Main or management contractor	Initiate Buy Club	Participate	
Specialist contractors		Participate	Participate

Some major clients have in the past set up and maintained purchasing agreements at preferential rates. They have then either purchased direct and supplied free of charge to contractors, or introduced the vendor to the contractor who then purchases at the client's preferred rate.



A major drawback of the above process is that contractors are not involved in the design and product selection and sometimes not adequately consulted when orders are placed. It is unlikely that the client's in-house procurement department will have the contractors' expertise, especially when making provision for the many 'nuances' associated with the installation and maintenance of construction products. Many large clients have recognised this limitation and decided that possessing this expertise is not a 'core business'. The Buy Club idea solves these problems by involving the contractors as a team to negotiate and procure construction products.

### Adapted T5 model – multiple projects for multiple clients

*Examples: any projects that have a reasonable degree of commonality, such as offices, hotels, accommodation blocks, retail stores, schools, housing.*

Adapt the model so that agreements apply to more than one project, for more than one client. This application would be useful where a major contractor is developing a team of 2nd tier suppliers to deliver 'building products' for particular markets.

	Authority	Core Team	Mini Buy Clubs
Main contractor	Initiate Buy Club and approve contracts	Participate	
Specialist contractors		Participate	Participate

### Adapted T5 model – SMEs pooling their purchasing for many projects and clients

*Examples: Commodities and manufactured products that are frequently used in common sizes, grades and configurations.*

Processes may need to be less rigorous to gain competitors' and suppliers' interest. This is probably harder to implement than the above examples because the requirements of many clients will differ and it requires active collaboration with competitors. Nevertheless, for those willing to make the effort, there are distinct benefits of enhanced buying power and better understanding of the supply chain. Benefits are limited to a smaller percentage of spend than the above examples. The roles would be:

	Authority	Core Team	Mini Buy Clubs
Trade contractor	Initiate Buy Club and invite competitors	Participate	
Competitors		Participate	Participate

# Buy Club – the pros and cons

## Strengths

- A common approach to the market promotes a better rapport with suppliers.
- Drawing together the diverse expertise of several 1st tier contractors makes it easier to meet and exceed best practice standards.
- Having only one process reduces 2nd tier suppliers' cost of tendering.
- Economies of scale and administration mean that initial purchase savings in the range of 10-30% can be expected.
- A single procurement process leads to more uniform design and equipment, thus simplifying operation and maintenance.
- The open-book approach to quality focuses everyone's mind on problem solving.

## Weaknesses

- The number of people involved can be considerable.
- Dependence on other 1st tier suppliers means you can only proceed as quickly as the slowest member of the team.

## Opportunities

- Combined purchasing presents further opportunities for logistics specialists to streamline the distribution between factory and workplace.
- 1st tier contractors will naturally be focused on their own deliverables. Working together in the Buy Club reveals opportunities to exploit commonality.
- Procurement can move off the critical path for all but the first project, thus relieving downstream pressure on the programme.
- Enforced planning reduces the number of 'rush jobs', thus reducing the risk of accidents.

## Threats to its success

- Inadequate support from top management of 1st tier contractors will discourage team members.
- Players who are not open and honest in transactions will undermine the process.

## Threats to existing players in the supply chain

- Existing 'preferred' or 'partner' status suppliers to individual 1st tier contractors may be locked out by consensus decisions.
- Wholesalers will be by-passed unless they adapt their practices and show that they add value instead of cost.

## Recommendations

- A Buy Club is ideally suited to large projects where several contractors responsible for sub-projects purchase similar equipment and supplies.
- The concept is also applicable to purchasing products that are used by many trades, such as cables, conduits, fixings and supports.
- Contractors seeking to increase their buying power and gain a better understanding of the supply chain could form a Buy Club with competitors.
- The benefits await those willing to make the effort. But the process requires co-ordinated input from the client and 1st tier contractors, so be sure you have everyone's commitment.
- Consensus must be achieved at every step in the process. In complex situations this is more likely to be achieved with professional facilitation.
- Imposing discipline on the chaotic state of logistics is the next big opportunity for contractors. A Buy Club provides an ideal environment to address logistics with other contractors.

# Resources

## Procurement

### People with M&E Buy Club experience

#### BAA

– Maya Jani, T 020 8757 1809, E maya\_jani@baa.com

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## Logistics

### People with experience at the Heathrow Consolidation Centre (T1-T4)

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### People with experience at Heathrow T5

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#### Others

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