

November 7, 2017

To the Standing Senate Committee on Energy, the Environment and Natural Resources, Senator Dennis Patterson and Senator Michael MacDonald

From the Royal Architectural Institute of Canada (RAIC)

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### **Responses to follow-up questions about Qualifications-Based Selection (QBS)**

**Senator Patterson:** *Could you explain to me, in simple language, what is flawed with the management of procurement and delivery? How would QBS be better and give better value for dollars?*

**RAIC:** The current low bid Request for Proposal (RFP) process is fine for purchasing commodities that require no customization, are not complex, and have many market alternatives.

For custom, complex, and costly professional services (such as architecture and engineering that drive the construction expenditures) the low bid Request for Proposal process has three basic flaws.

1. It rewards low initial cost but does not reward high long-term value.

The current process awards contracts to those that provide the lowest fees for design (such as engineering or architecture which make up four-to-10 percent of a total design/construction project cost).

When you reduce design fees on a construction project you invariably increase construction costs, and long-term building operation and maintenance costs because the design team's time is limited by the fees.

So, for example, to save a few thousand dollars at the design stage, the Request for Proposal has caused tens or hundreds of thousands of dollars of additional costs to incur during construction and over the life of the building operation.

2. It rewards interpreting an RFP in a way that reduces the consultant's scope and therefore billable hours in order to win a project. It limits innovation and transparency.

The procurement department gets an apparent “win” because they saved some money by using a low-bid RFP process, but the end user pays a premium.

It is inevitable, that when selection of professional services consultants is based in part on lowest fees, consultants are forced to analyze the RFP documents for opportunities to reduce their scope of work and limit the consulting hours needed to execute the project. This is what architects and engineers need to do needs to win a fee-based competition.

The project management and construction departments are now faced with significant challenges because they have to work with the lowest bidder that is compliant with the RFP but also the one most likely to have reduced their scope to get to the lowest price. It creates a very confrontational relationship between vendor and client.

Vendors are discouraged from proposing innovative new construction solutions because these typically require increased initial design, may increase construction costs but save significantly more money over the long-term operation of the building.

Simply put, higher initial costs due to innovation or better design cannot win an RFP based on fees even if those costs would create significantly greater long-term savings, quality use, safety, and environmental protection.

3. It generates a lot of administrative waste that is not obvious but is real and substantial.

Cal Harrison, a Certified Management Consultant in Winnipeg and founder of QBS Canada, has researched professional services opportunities available on MERX. He found that 17 percent of the time, more money will be spent by management consulting vendors on proposal writing when responding to an RFP than will be won in fees. For information technology and telecommunications, it is 33 percent. For architecture and engineering, it is 67 percent.

QBS is not new. In 1972, the federal government in the United States passed the Brooks Act. The Brooks Act stipulates that the hiring of architects and engineers for public sector projects must be done based on the qualifications of the firm, not the proposal with the lowest fee. Forty-six of the 50 states have also passed legislation consistent with the intent of the Brooks Act. Three of the remaining states have implemented policies reflective of the Brooks Act, and only one state does not use a Qualifications Based Selection system (South Dakota).

The passing of the Brooks Act was a recognition that the value of architectural and engineering services lies not in the commodification of design services and how cheaply they could be procured, but in the leverage that could be applied to drastically increase the benefits to a capital project and optimize outcomes, with a minimal expenditure in design services. As an example, in the 35-year design, construction and operating life cycle of a building, design services amount to far less than one percent but can have a thousand-fold impact on long-term saving in energy costs, maintenance, and staffing.

As an explicit example, an architect working on a \$700 million new hospital project was able to demonstrate that by spending an additional amount less than \$500,000 in corridor realignment, a savings of \$40 million in staffing costs would be realized over the 35-year concession of the public-private partnership.

A study by the Georgia Institute of Technology and University of Colorado (2009) reviewed more than 200 projects across the United States. It found:

- 93 percent of clients expressed high or very high satisfaction with consultants selected using QBS;
- QBS reduced construction cost growth by 70 percent;
- QBS reduced schedule slippage by 20 percent;
- QBS provided better ability to address societal issues or stakeholder concerns.

**Senator Patterson:** Could you send us some information on how QBS is different?

**RAIC:** Three documents are attached.

*Buying Professional Services: Replacing the Price-Based Request for Proposal with Qualifications Based Selection*

*An Analysis of Issues Pertaining to Qualifications Based Selection*

*The Best Practice: Selecting a Professional Consultant*

**Senator MacDonald:** You said (low-bid procurement) wastes \$5 billion a year. I'm just curious how you determine that figure. There is no problem that can't be solved if we have enough money to throw at it, but, of course, there's never enough money to solve all the problems. I'm just curious about that \$5 billion figure. That's a substantial amount of money. How do you determine that?

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**RAIC:** This is a benchmark number calculated by Cal Harrison. He explains the high volume of waste in a 3.5-minute video (link below).

<http://beyondreferrals.com/cal-harrison-professional-services-marketing-speaker/>

Mr. Harrison has estimated that in Canada alone almost \$5 billion is wasted each year by architects, engineers, management consultants, lawyers and other professional services forced to write proposals in response to price-based RFPs.

The calculation is based on a real case with typical numbers. A federal government department issued an RFP to select an architecture firm for a \$500,000 construction project. The fees to the architecture firm, based on a typical 10 percent of the construction cost would be \$50,000. In total, 38 consultants responded to the RFP, each spending about \$20,000 on their proposal. This means that the architecture sector incurred a cost of \$760,000. Multiplied by 6,579 annual RFPs, you have \$5 billion worth of waste.

In fact, the level of waste is likely significantly higher than \$5 billion, he says.

The waste is incurred by the firms writing the proposals. However, all that is ultimately charged back to their clients as part of their cost of doing business. In the end, the clients (including government) cover the entire cost of these inefficiencies.