Creating Win-Win Partnerships Between Procurement & Your Internal Customers

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NOTICE

All Data is as of <u>November 30, 2023</u>

The Supply Chain is Changing <u>RAPIDLY</u>

The Data Should be Updated <u>REGULARLY</u>

WARNING

Do Not Get "Down"

I am VERY Optimistic for the Future

(but we may have to go through a rough patch first)

Many Headwinds in Today's Supply Chain

- Cost Escalation & Volatility
- Materials Shortages & Supply Chain Challenges
- Economic Activity (workload)
- Workforce

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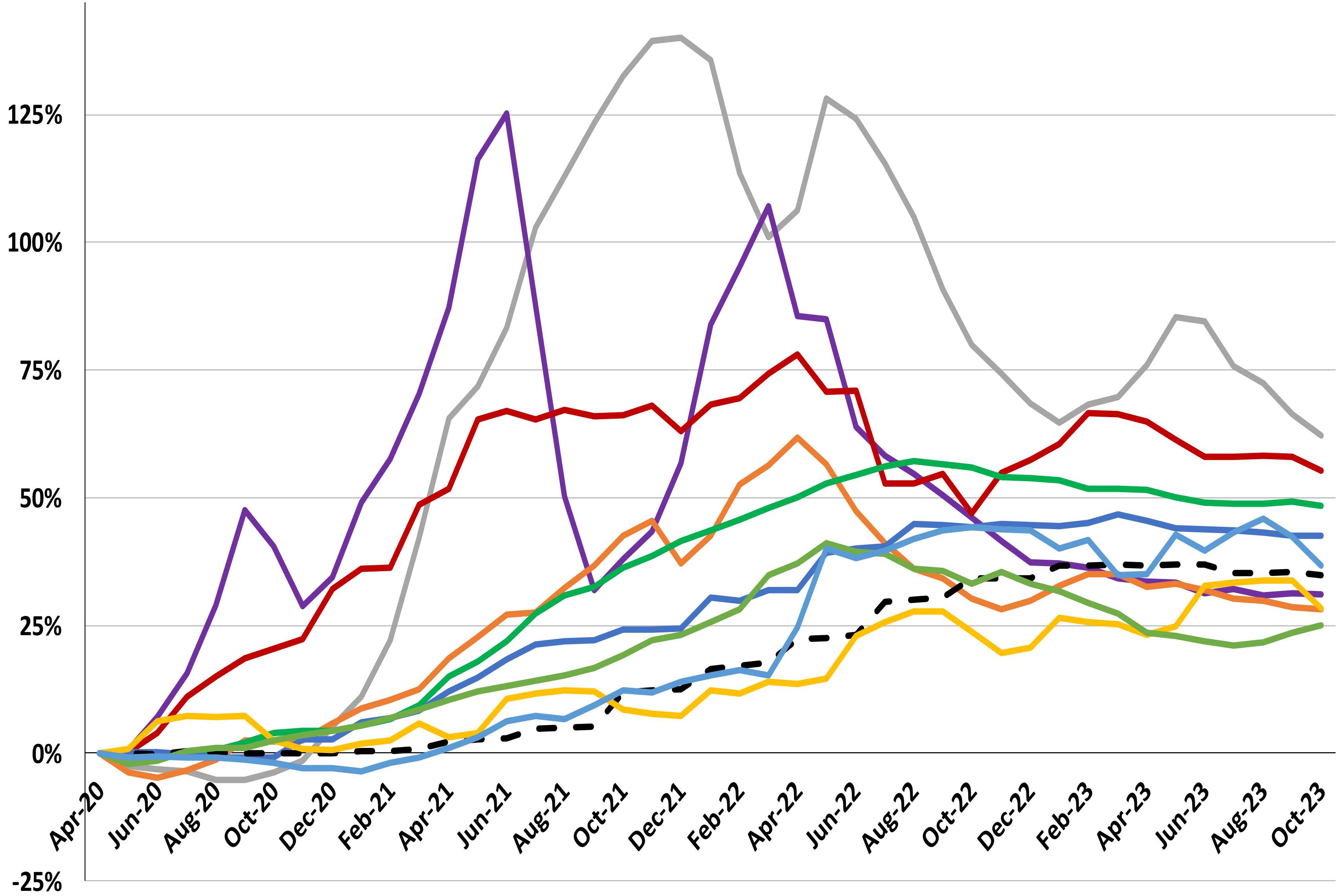
Escalation & Volatility

PPIs for Selected Inputs

Source:
Bureau of Labor Statistics
PPI Percent Change Tables
www.bls.gov/ppi/tables/



	% change from Apr 2020 to Oct 2023:
Steel Mill Products	62%
Copper & Brass Mill Shapes	55%
Plastic Construction Products	48%
Gypsum products	43%
Water Transport. of Freight	37%
Bid Price - - - - - - - - - - -	35%
Lumber and Plywood	31%
Aluminum Mill Shapes	28%
Electric Power	28%
Truck transport. of freight	25%

Average of all above commodities: 39%

Escalation & Volatility

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Source:
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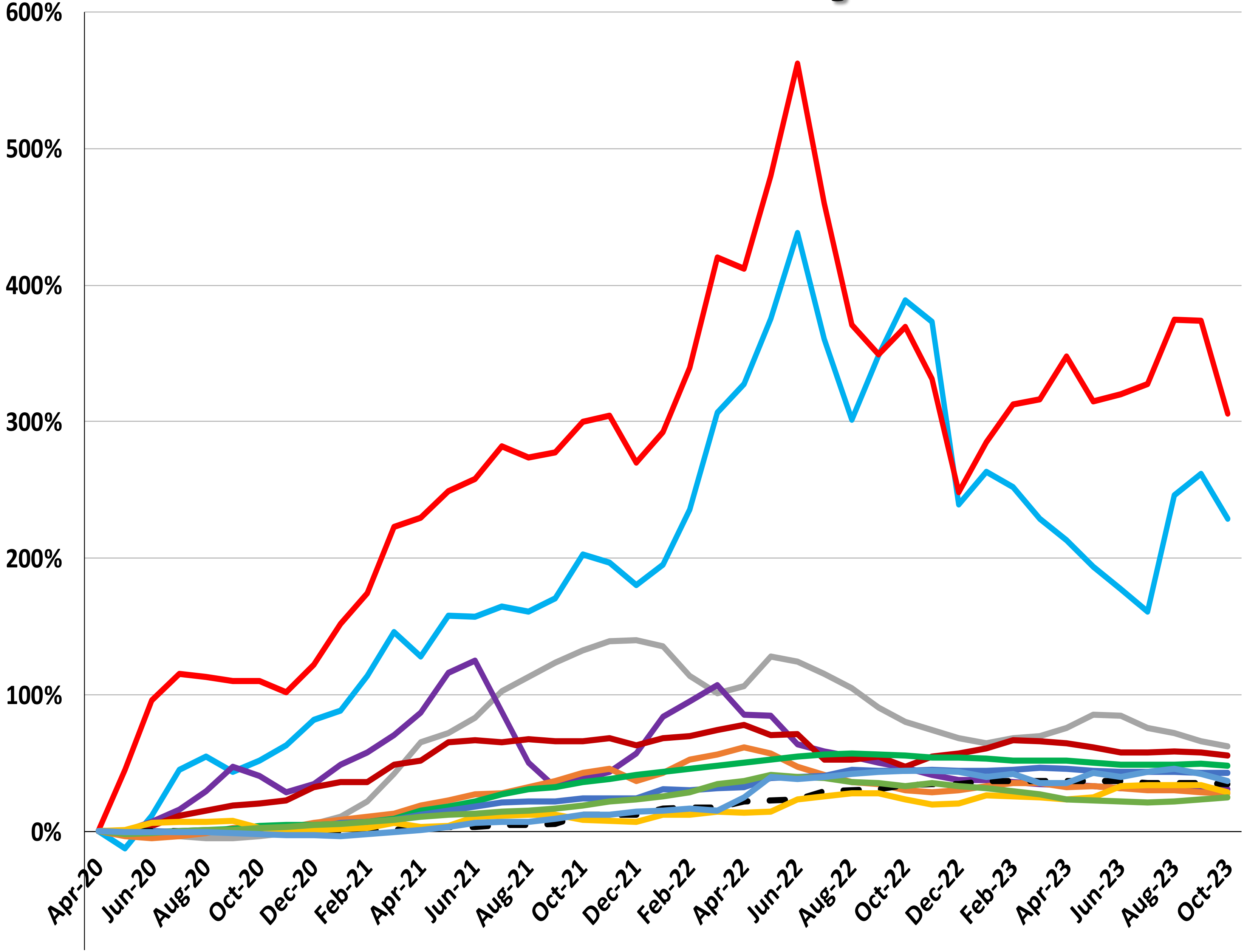
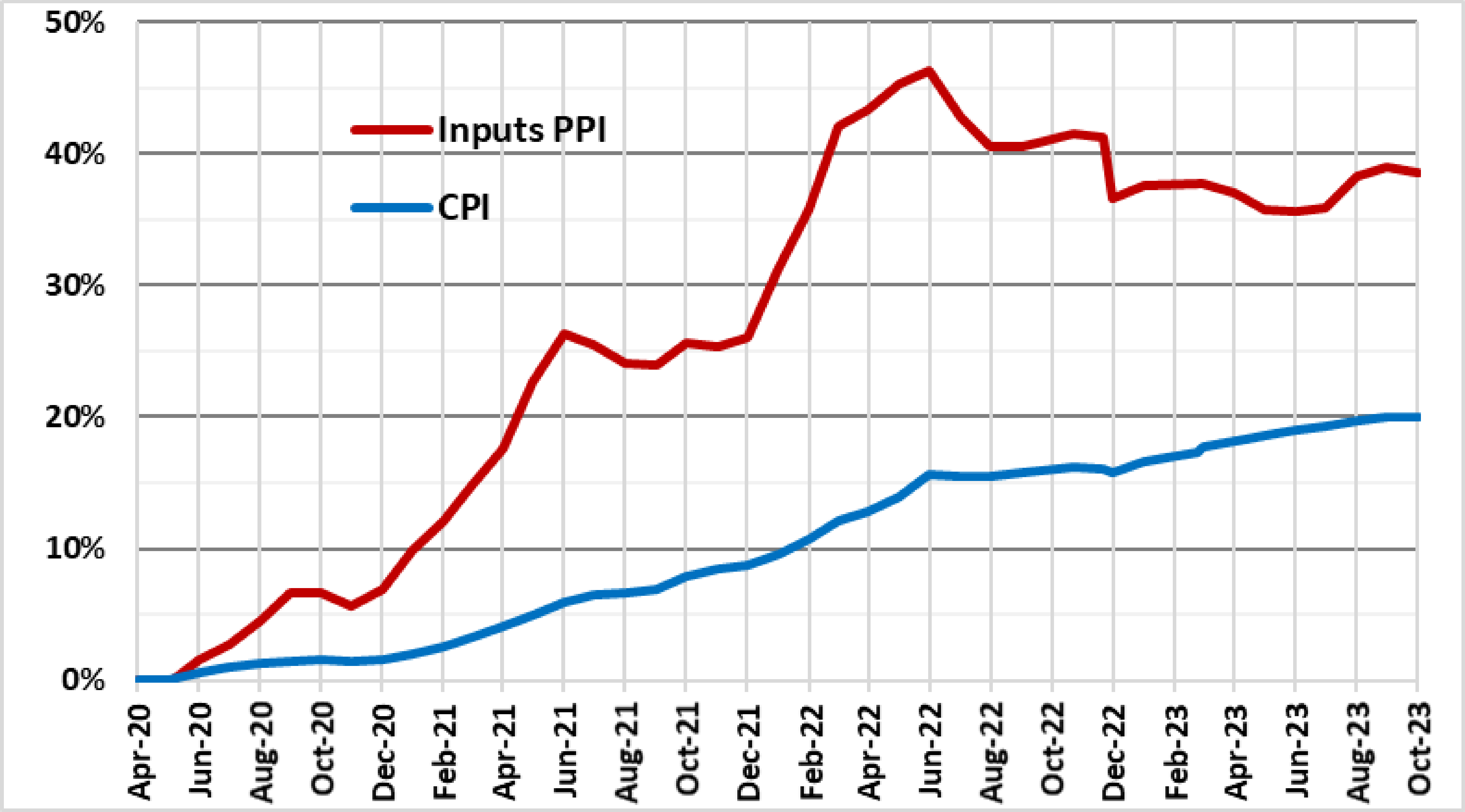


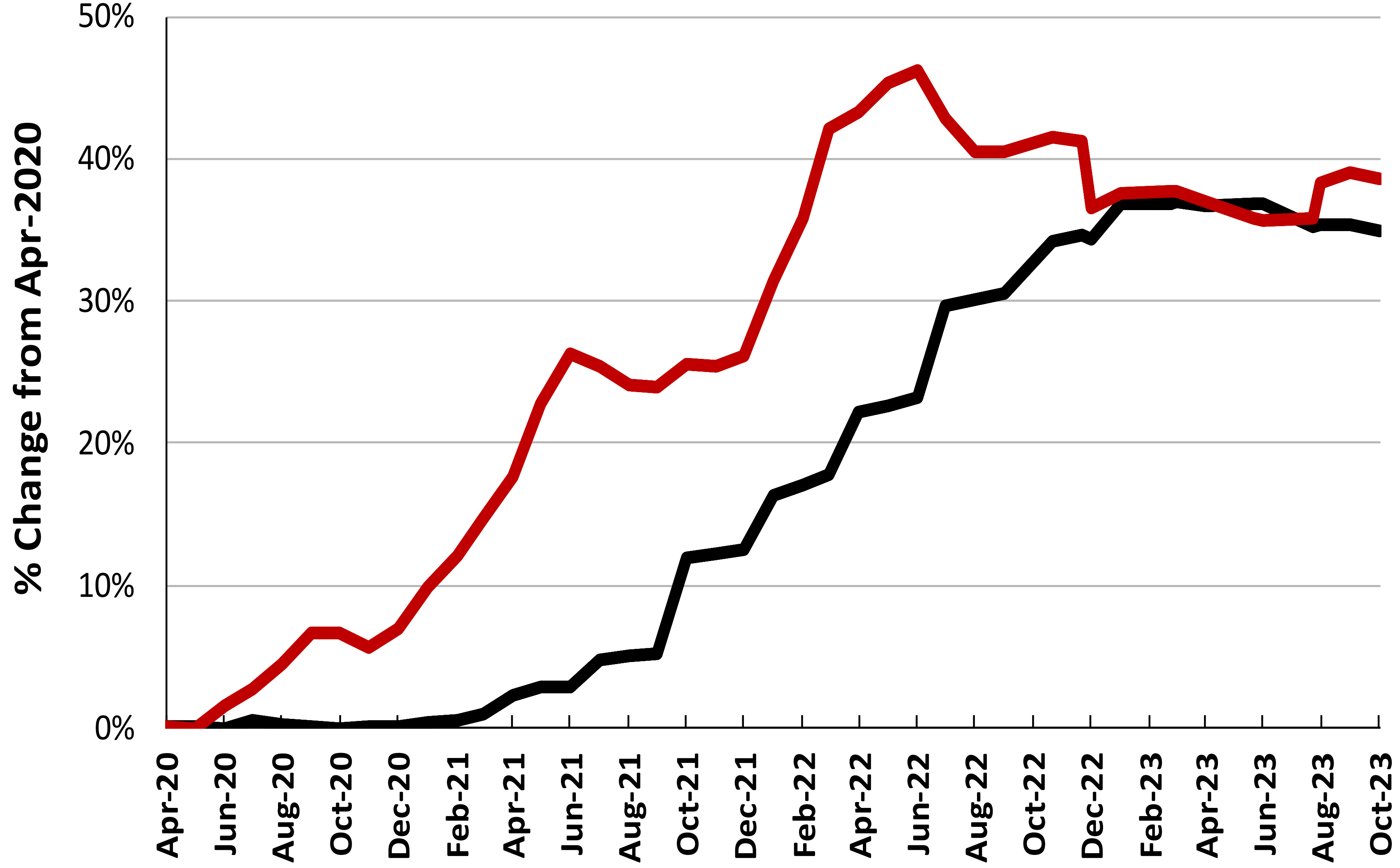
	% change from Apr 2020 to Oct 2023:
Gasoline	306%
Diesel Fuel	229%
Steel Mill Products	62%
Copper & Brass Mill Shapes	55%
Plastic Construction Products	48%
Gypsum products	43%
Water Transport. of Freight	37%
Bid Price - - - - - - - - - - -	35%
Electric Power	28%
Lumber and Plywood	31%
Aluminum Mill Shapes	28%
Truck transport. of freight	25%

CPI vs. Inputs PPI: Benchmarked to April 2020



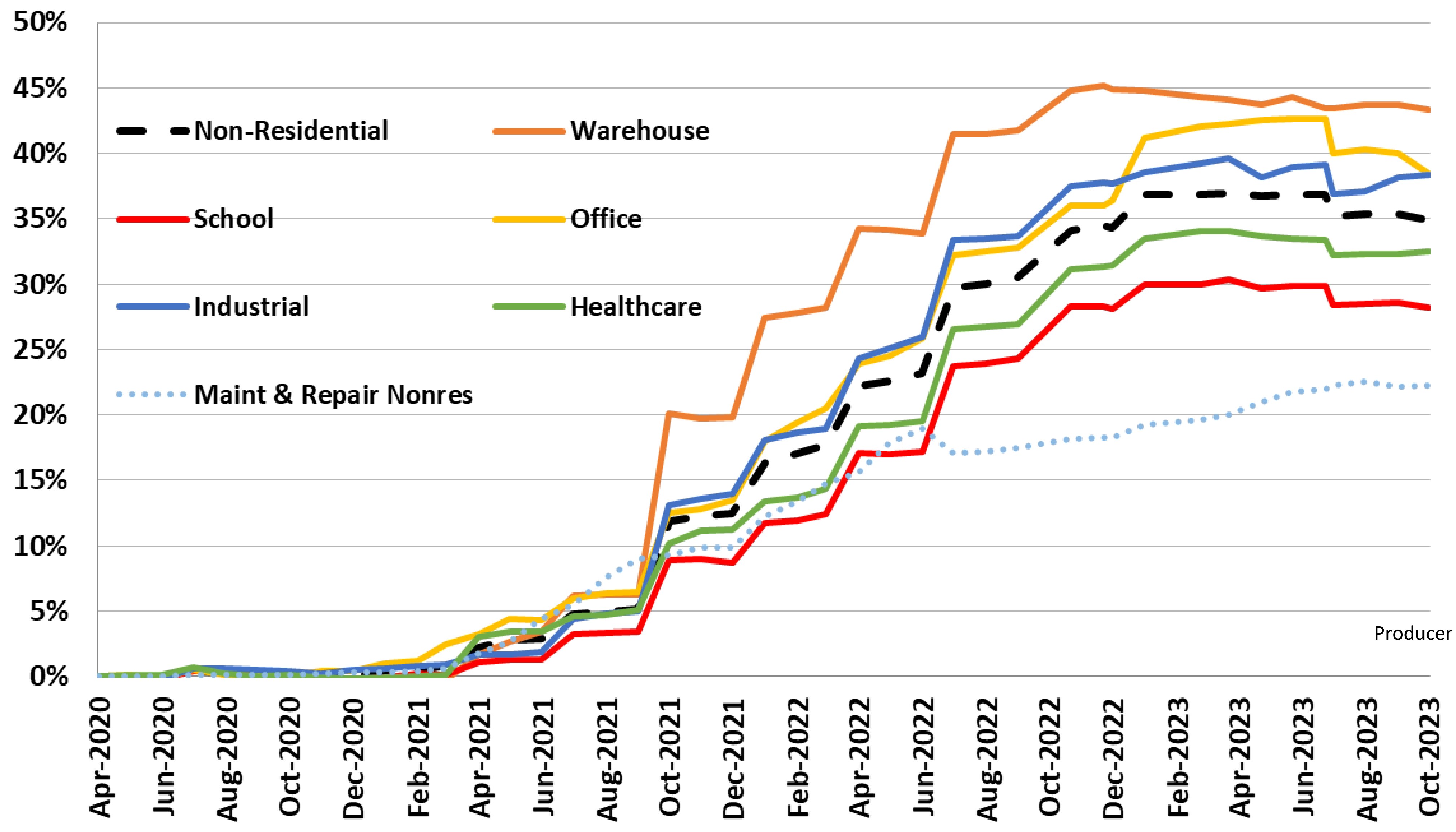
Input Prices vs. Bid Prices for New Nonresidential Construction

Source:
Bureau of Labor Statistics
Producer Price Index (PPI) Percent Change Tables
www.bls.gov/ppi/tables/



	% change from Apr 2020 to Oct 2023:
Inputs PPI	39.0%
Bid Prices	35.4%

Input Prices vs. Bid Prices for New Nonresidential Construction



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Supply Chain Issues

- 90% of projects have had supply chain impacts
- 84% of projects have had higher cost
- 72% of projects have taken longer

- Actions People are Taking:
  - Accelerated purchasing after contract award (cash flow)
  - Alternative suppliers
  - Alternative materials/products (change the spec)
  - Stocking inventory
  - Increasing Bids/Budgets
  - Longer Completion Times
  - Some Primes advising Owners to push Risk to Subs

Supply Chain Disruptions can strain Client/Vendor Relations

More vendors are publishing their economic outlooks to “Educate” their clients on current market realities

Vendor Dashboards

- Mortenson – Nov/Dec 2022

Mortenson

CURRENT MATERIAL AND EQUIPMENT LEAD TIMES

ARCHITECTURAL MATERIALS

- Structural steel **40+** weeks
- Hollow metal frames **10+** weeks
- Roof insulation **24+** weeks
- Wood doors **20+** weeks

MECHANICAL & ELECTRICAL EQUIPMENT

- Custom air handling units **50+** weeks
- Heat exchangers **34+** weeks
- Generators (over 125kW) **52+** weeks
- Networking equipment **57+** weeks

Construction Material Supply Chain Projections

"Supply chain is a commodity-by-commodity discussion," says Clark. "A lot of materials have stabilized in terms of pricing, but we anticipate seeing continued upward pressure on some material prices because demand is still strong. However, as kinks in the supply chain begin working themselves out, it will help tap some of those prices down a bit. **As prices stabilize, we expect year-to-year inflation to settle closer to historical norms of 3-5% per year—in 2023 we should plan for around 6%.**

The past few years of the supply chain in the construction industry have shown us that nothing is guaranteed. A single event can further disrupt an already volatile construction material supply chain. However, we as an industry can make predictions based on patterns and trends over the past year related to construction material costs, availability, and lead times.

Mortenson

2023 CONSTRUCTION MATERIAL SUPPLY CHAIN PROJECTIONS

6
PERCENT
Anticipated 2023 inflation rate

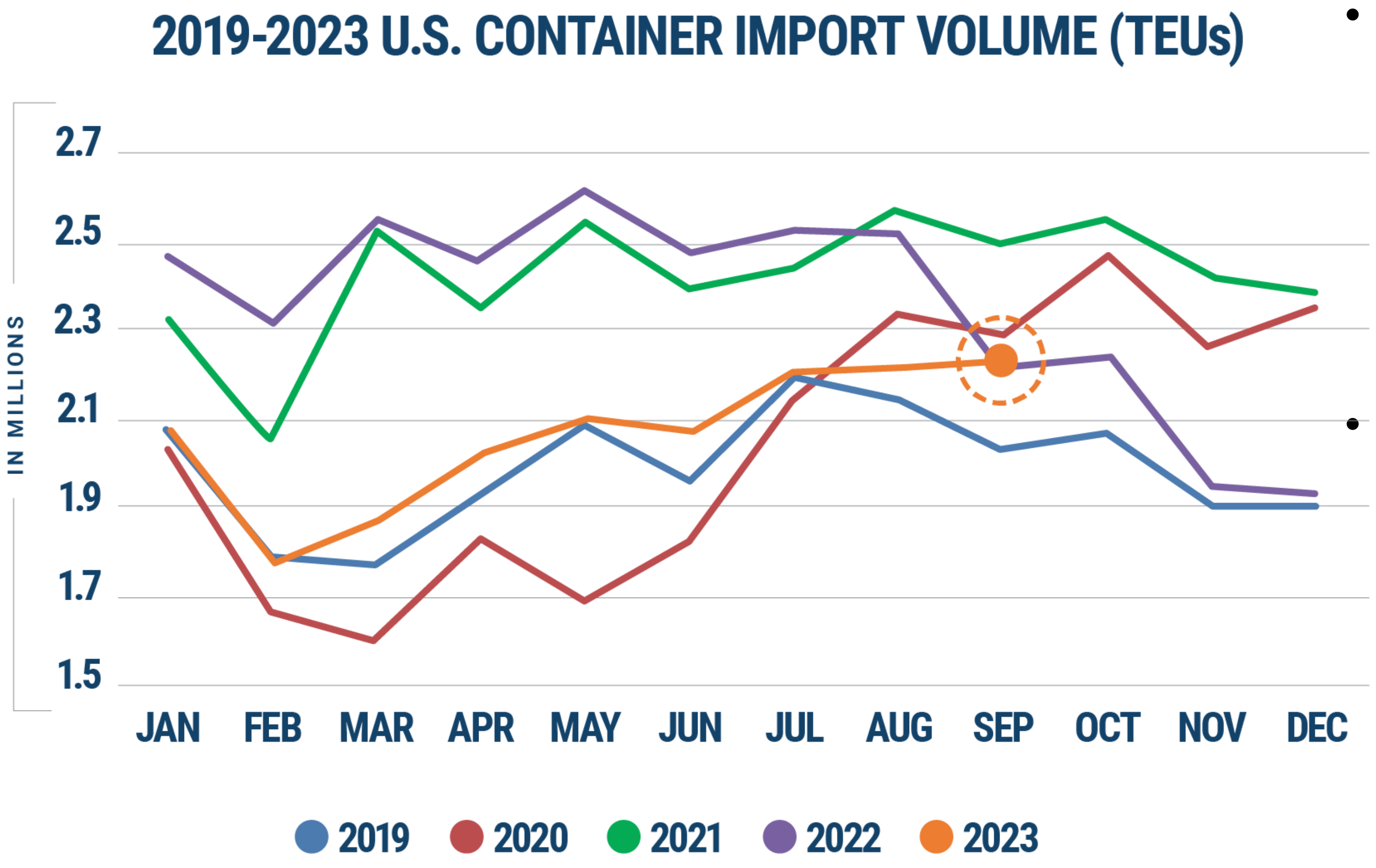
80
WEEKS
Lead time for 2MW generators

–
SHORTAGE
- Copper
- Mechanical Products
- Electrical Products

+
STABILIZE
- Aluminum
- Semiconductors
- Lumber
- Roofing Materials

Supply Chain: shipping

Sept 2023



US Container Imports:

- **Shifting from West to East to West**
  - By June 2022: Ships waiting off all ports climbed 36% to 125 in June
  - Shipping had shifted from West to East Coast Ports in Q2/Q3 of 2022
- **Sept 2023: import volumes increasing**
  - Now, transit times are low in the West Coast, extended times in the East Coast.
  - Panama drought does not appear to be impacting U.S. container import volume.

Supply Chain: shipping

DESCARTES

Sept 2023

Monthly % Changes

Volume

Port	TEU Change	% Change
Los Angeles, CA	(21,693)	-5.3%
New York/New Jersey	(17,036)	-4.8%
Long Beach, CA	37,363	11.2%
Savannah, GA	1,446	0.7%
Houston, TX	3,327	2.2%
Norfolk, VA	(5,803)	-4.5%
Charleston, SC	(1,924)	-1.9%
Oakland, CA	3,104	4.4%
Tacoma, WA	19,493	31.6%
Baltimore, MD	(4,712)	-10.0%
Total Top 10 Ports	13,565	0.7%

Transit Delays (days)

Port	July	August	September
Los Angeles, CA	4.7	5.5	4.3
Long Beach, CA	5.9	5.1	4.9
Oakland, CA	6.6	5.4	5.6
Tacoma, WA	7.6	7.4	7.0
Seattle, WA	6.1	5.9	5.4
New York/New Jersey	6.3	6.3	6.9
Savannah, GA	6.1	5.4	7.6
Charleston, SC	6.3	5.9	7.0
Norfolk, VA	5.7	5.1	6.1
Houston, TX	5.4	5.7	7.6

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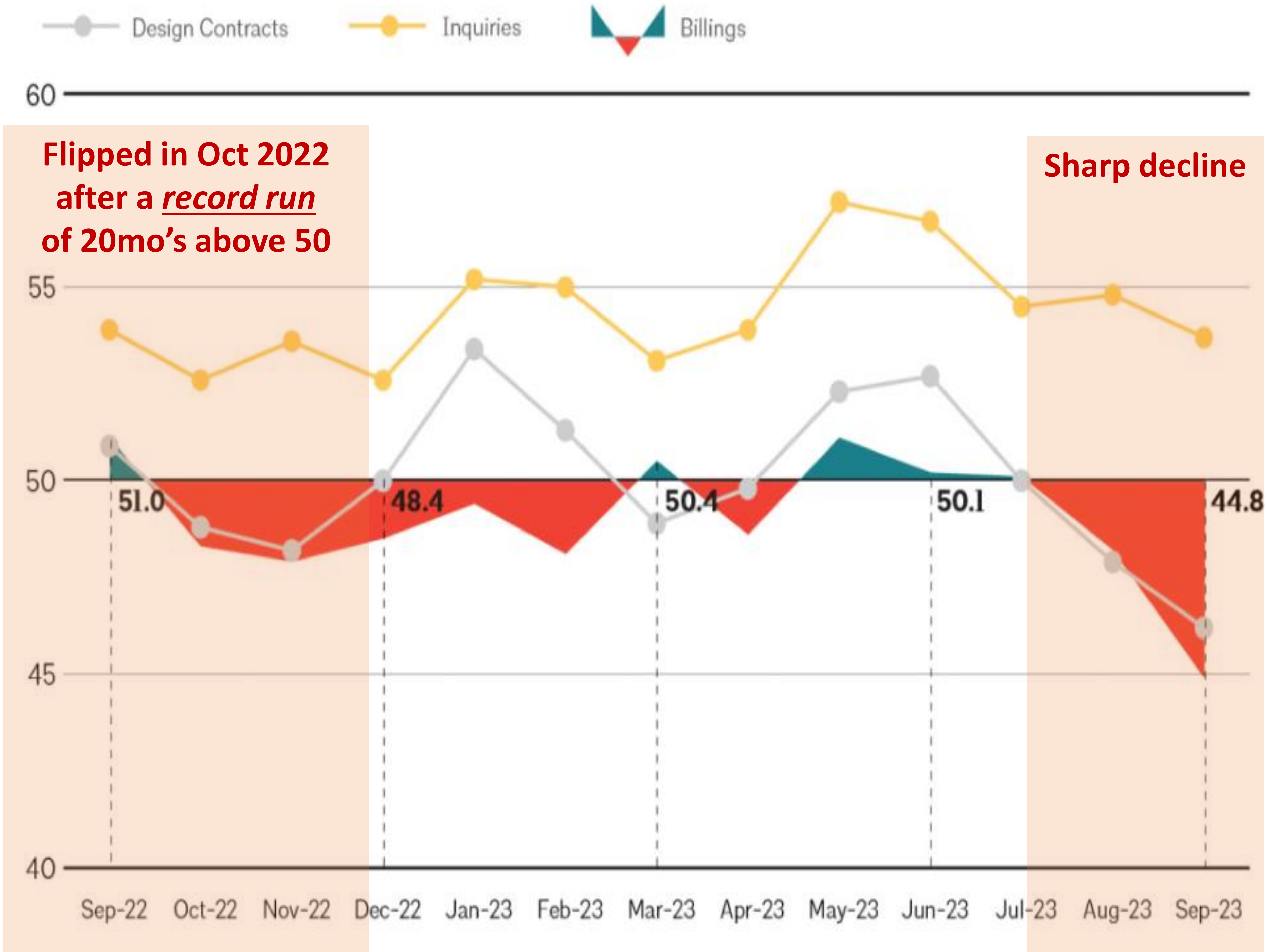
Oct 2023 release



"The Architecture Billings Index (ABI) serves as a leading economic indicator that leads nonresidential construction activity by approximately 9-12 months."

- ***The ABI is derived from the share of responding architecture firms that report a gain in billings over the previous month less the share reporting a decline in billings, presented on a 0-to-100 scale.***
- ***Any score above 50 means that firms with increased billings outnumbered firms with decreased billings.***

Source: aia.org

Economic – AIA-ABI Oct 2023 release

More Work Coming?

Arch industry has lost jobs in 2023

"Good through the end of the year and the first quarter of next year with current backlog. We are expecting a slowdown in the first or second quarter of 2024."

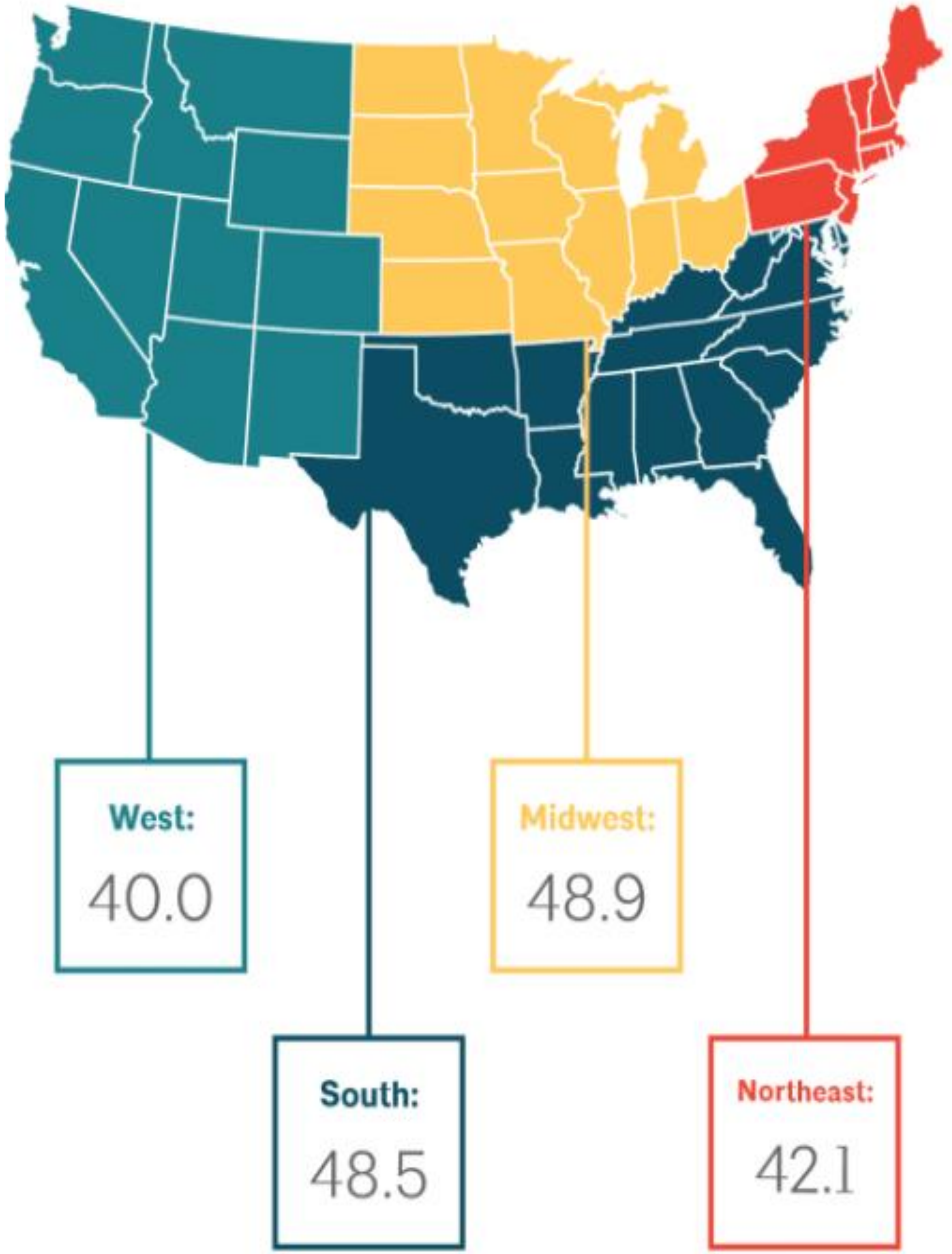
—30-person firm in the West, institutional specialization

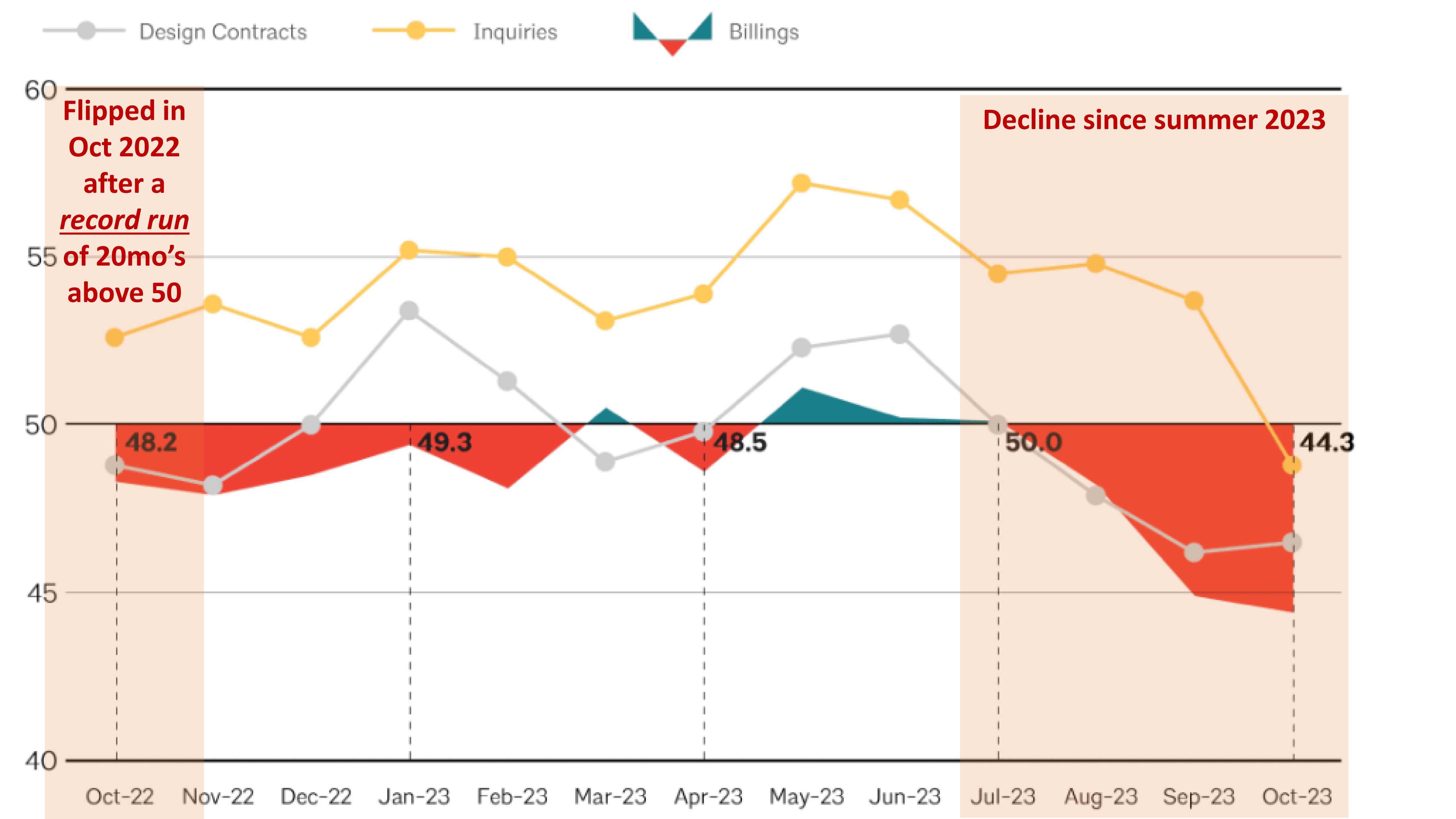
"Things seem to have slowed down since the summer, and we are working on backlog projects. Fewer project leads and calls coming in, and new projects seem to be fewer and smaller. Hoping this is a year-end slowdown, but we are preparing for a slower 2024."

- 8-person firm in the South, commercial/industrial specialty

Sept release: Ave. Backlog is 6.5 months

March 2022 was peak (7.2 months)





Design Contracts
Inquiries
Billings
60
55
50
45
40
Flipped in Oct 2022 after a *record run* of 20mo's above 50
Decline since summer 2023
48.2
49.3
48.5
50.0
44.3
Oct-22
Nov-22
Dec-22
Jan-23
Feb-23
Mar-23
Apr-23
May-23
Jun-23
Jul-23
Aug-23
Sep-23
Oct-23

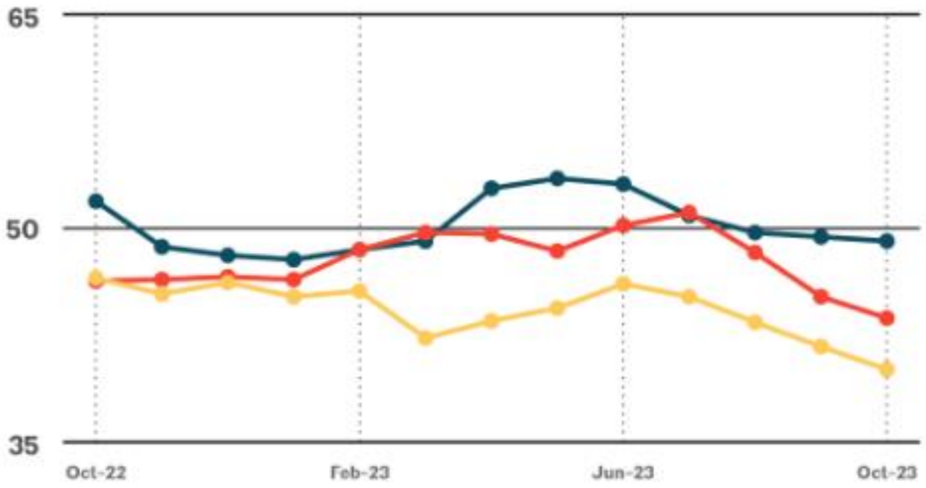
Economic – AIA-ABI Oct 2023 release

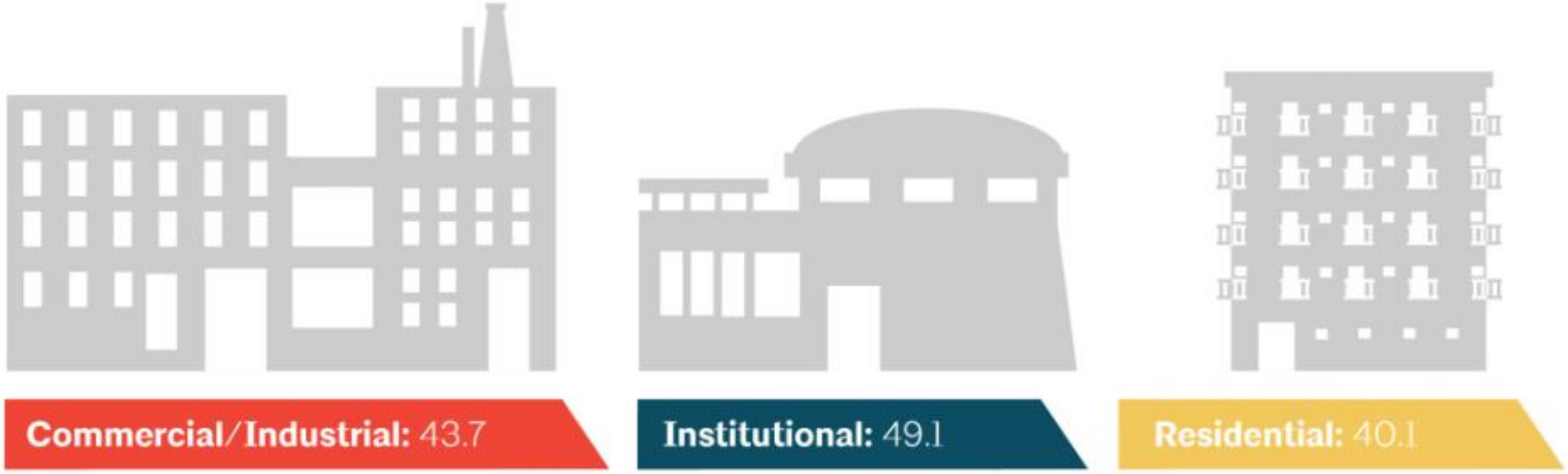
More Work Coming?

Sector

Firms of all specializations report further declines in billings

Graphs represent data from October 2022–October 2023 across the three sectors. 50 represents the diffusion center. A score of 50 equals no change from the previous month. Above 50 shows increase; Below 50 shows decrease. 3-month moving average.





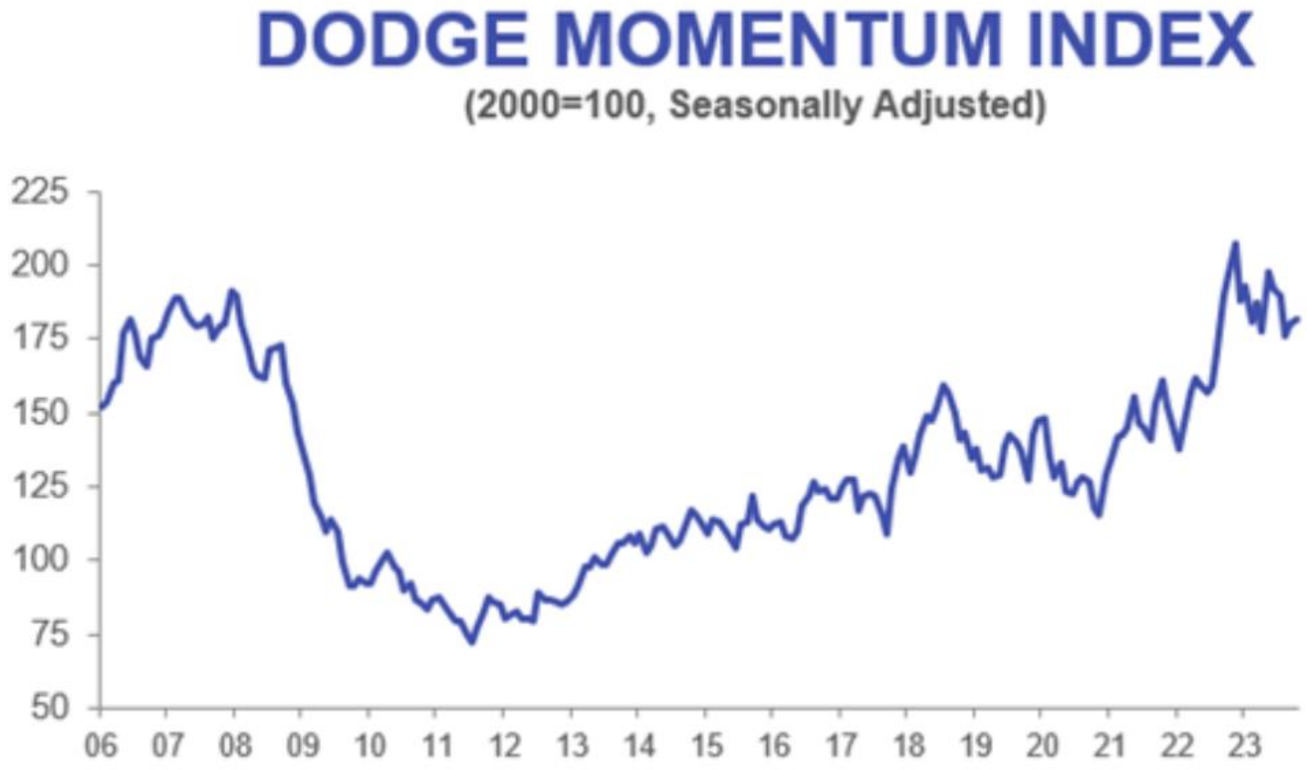
Source: aia.org

Activity – More Work Coming?

Dodge Momentum Index (Oct 2023 update)

Source: https://www.construction.com/news/

- Monthly measure of nonresidential projects in planning, leading indicator of construction by 1-year
- Dropped 6.5% in latest numbers



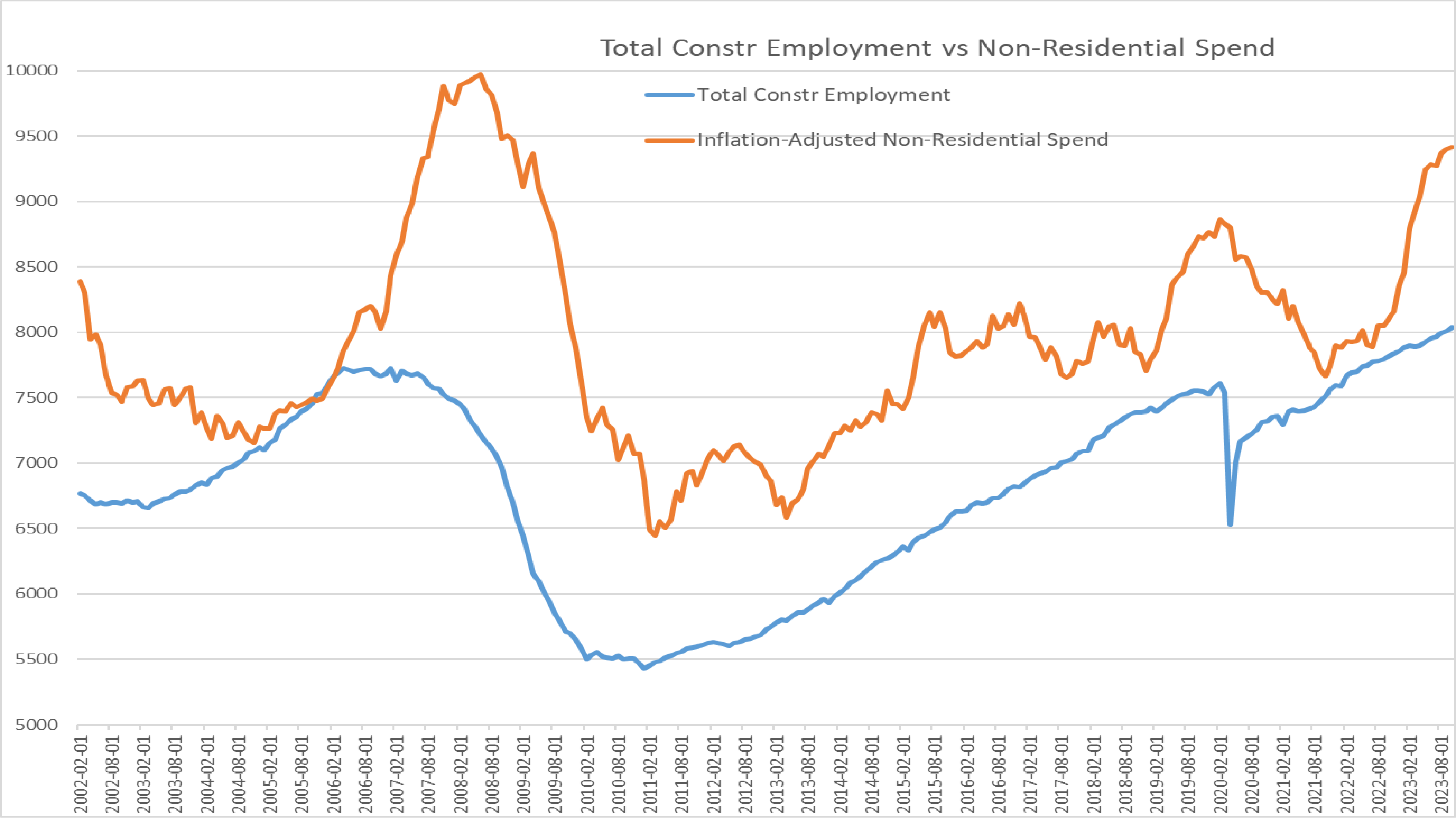
Ranks thru Oct 2023

Historic

1. Transportation ($150B/yr)
2. Education ($112B/yr)
3. Power ($97B/yr)
4. Commercial ($88B/yr)
5. Office ($70B/yr)
6. Manufacturing ($63B/yr)
7. Healthcare ($51B/yr)
8. Water + Waste Water ($48B/yr)

Current (last 2 years)

1. Transportation ($157B/yr)
2. Power ($106B/yr)
3. Manufacturing ($101B/yr)
4. Commercial ($99B/yr)
5. Education ($97B/yr)
6. Office ($85B/yr)
7. Water + Waste Water ($49B/yr)
8. Healthcare ($49B/yr)


Total Constr Employment vs Non-Residential Spend
Total Constr Employment
Inflation-Adjusted Non-Residential Spend
10000
9500
9000
8500
8000
7500
7000
6500
6000
5500
5000
2002-02-01
2002-08-01
2003-02-01
2003-08-01
2004-02-01
2004-08-01
2005-02-01
2005-08-01
2006-02-01
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2021-08-01
2022-02-01
2022-08-01
2023-02-01
2023-08-01

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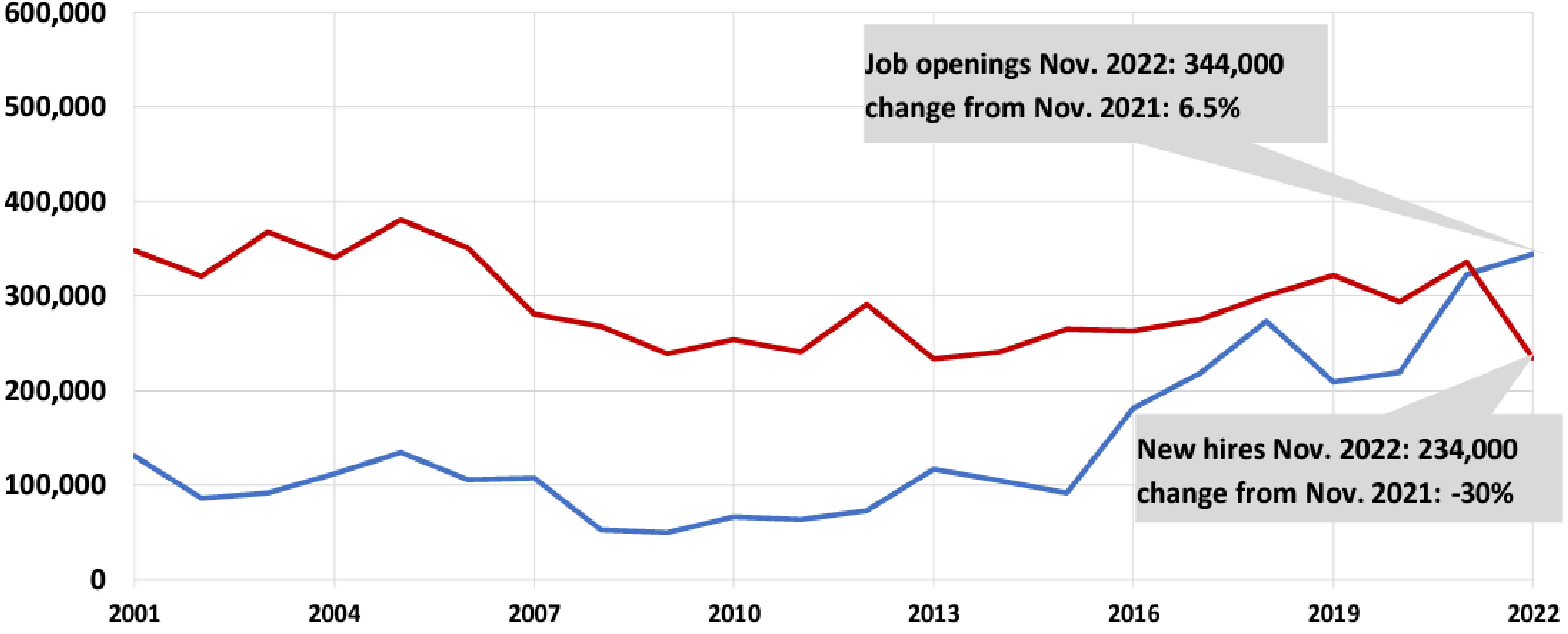
- **Workforce**

Construction job openings & new hires

Job openings and hires, Nov. 2001-Nov. 2022, not seasonally adjusted



 Source: Source: Bureau of Labor Statistics, www.bls.gov/jlt, Job Openings & Labor Turnover Survey (JOLTS)

Job Openings in Construction

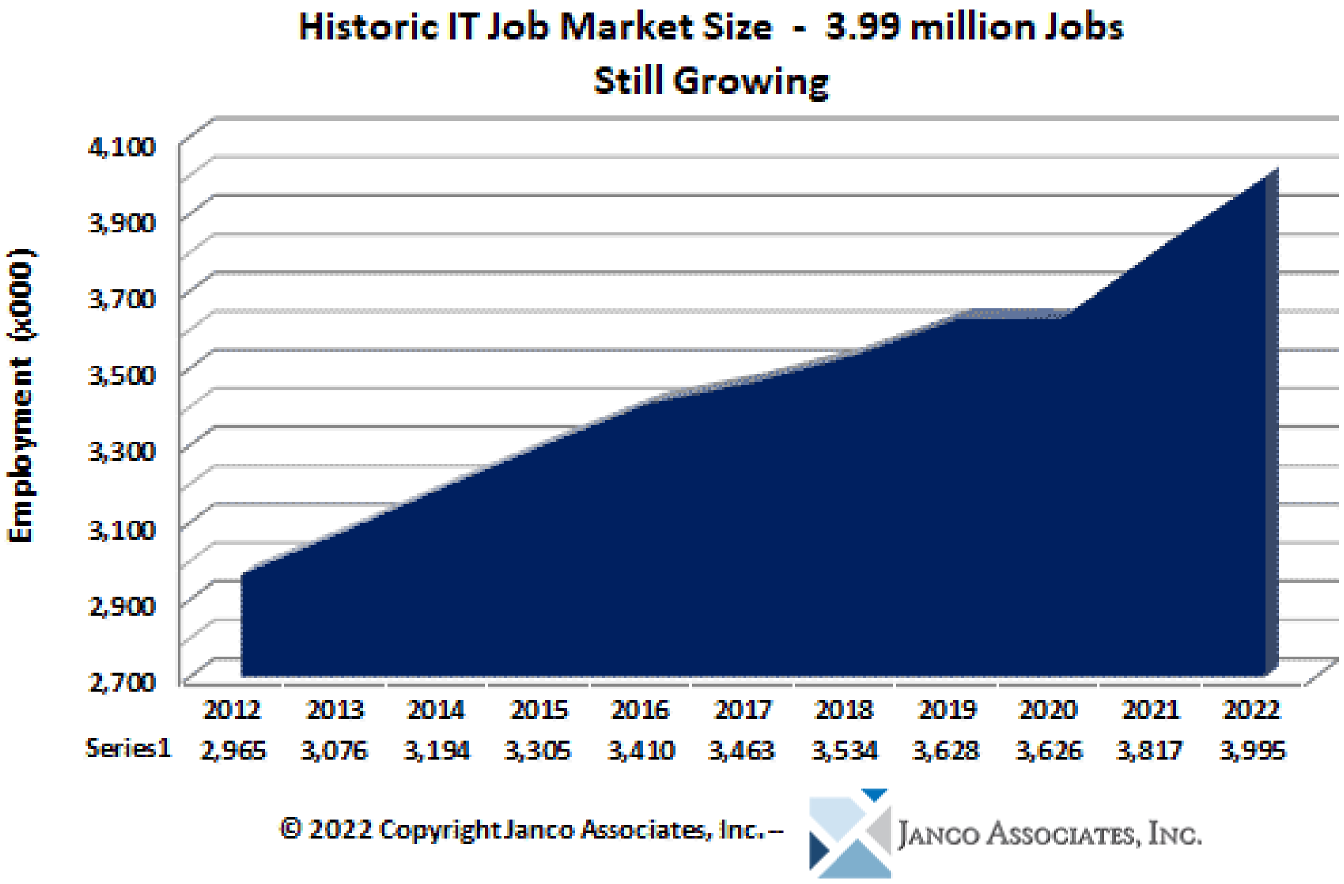
- **There is strong evidence that the construction industry would have added many more workers *if workers had been available*.**

- **Job openings in construction at the end of May totaled 466,000 (not seasonally adjusted), a jump of 130,000 or 39% from a year earlier and by far the largest May total in the 22-year history of the data, as shown in Figure 3.**

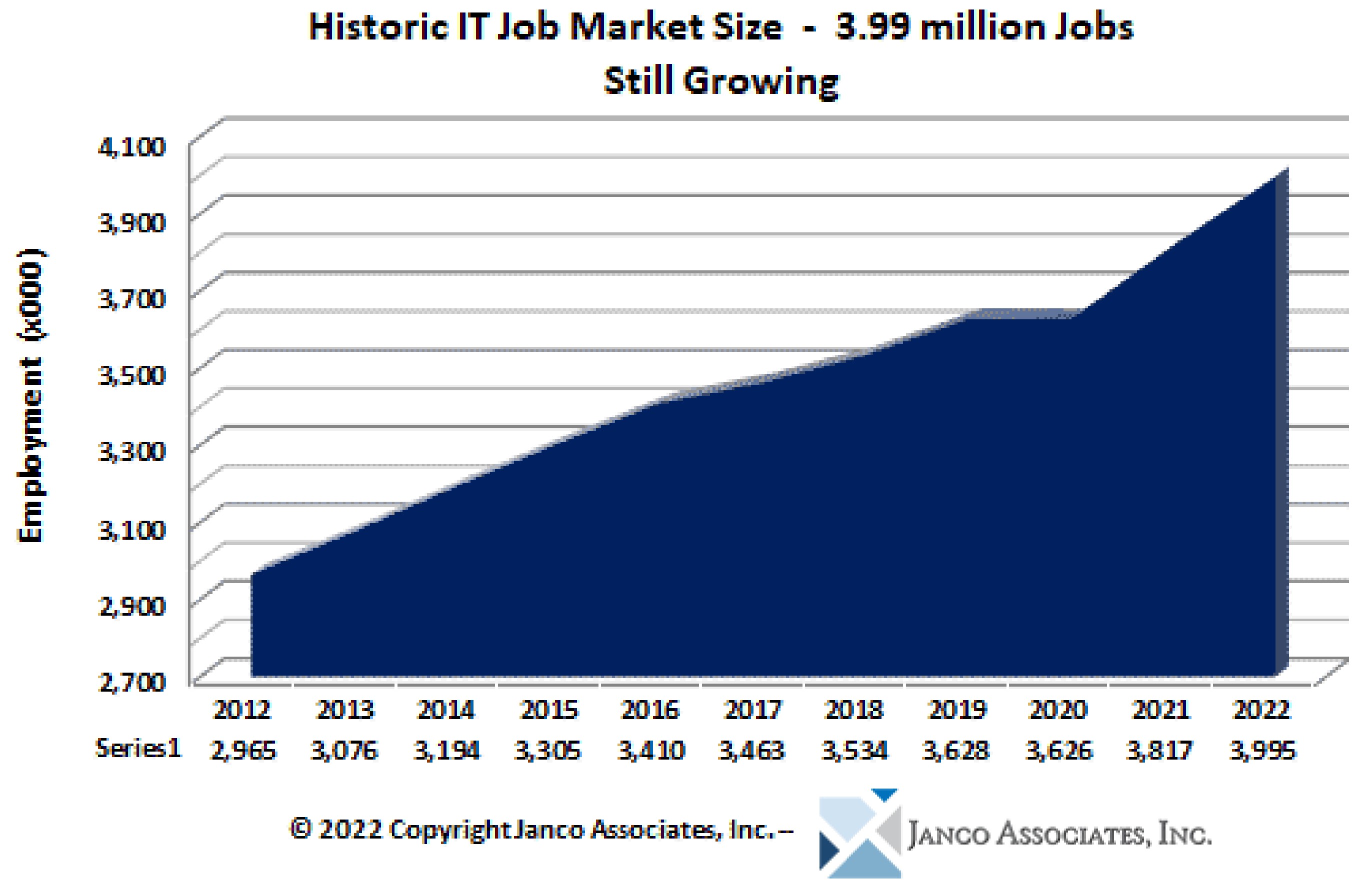
- **Job openings exceeded the 437,000 workers hired in May, implying that construction firms would have hired twice as many workers that month as they were able to, if there had been enough qualified applicants.**

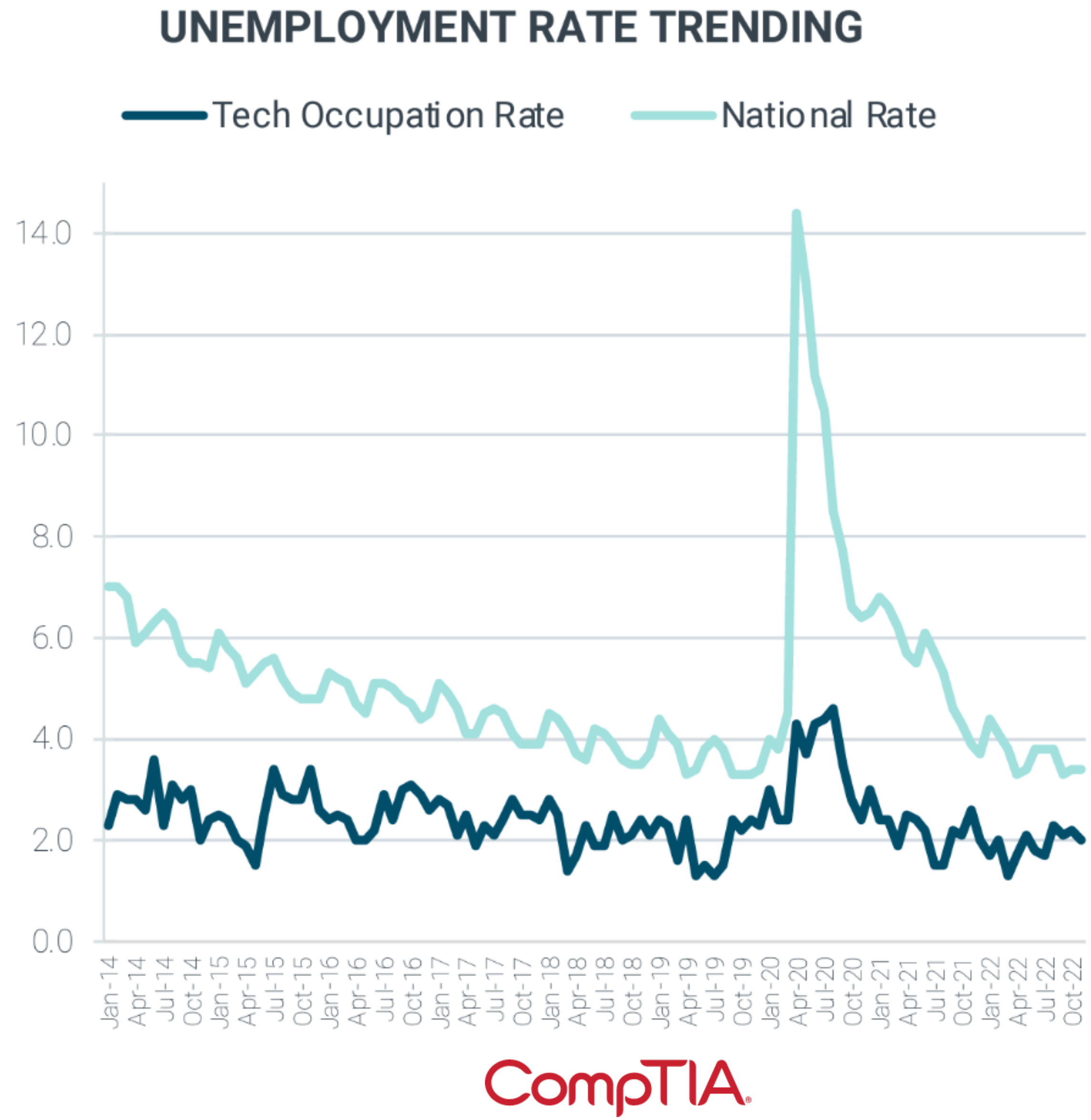
- **It is likely that contractors will pay more overtime to make up for the workers they don't have**

Workforce Growth in IT



Workforce Growth in IT





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Workforce

- Since the year 2000, the US Population has gotten:
  - Older or Younger?

Workforce

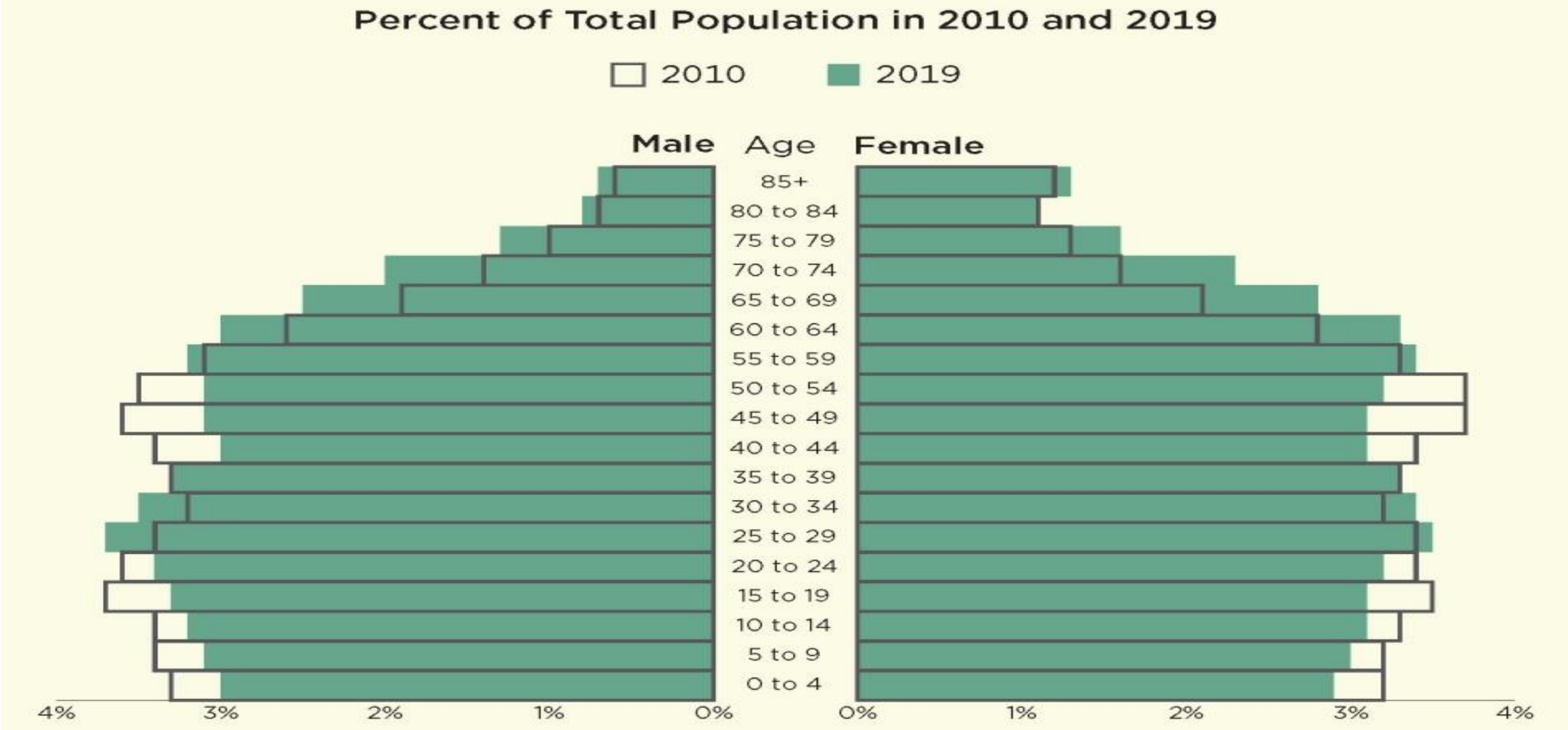
- Since the year 2000, the US Population has gotten:
  - Older by 3.4 years

Workforce

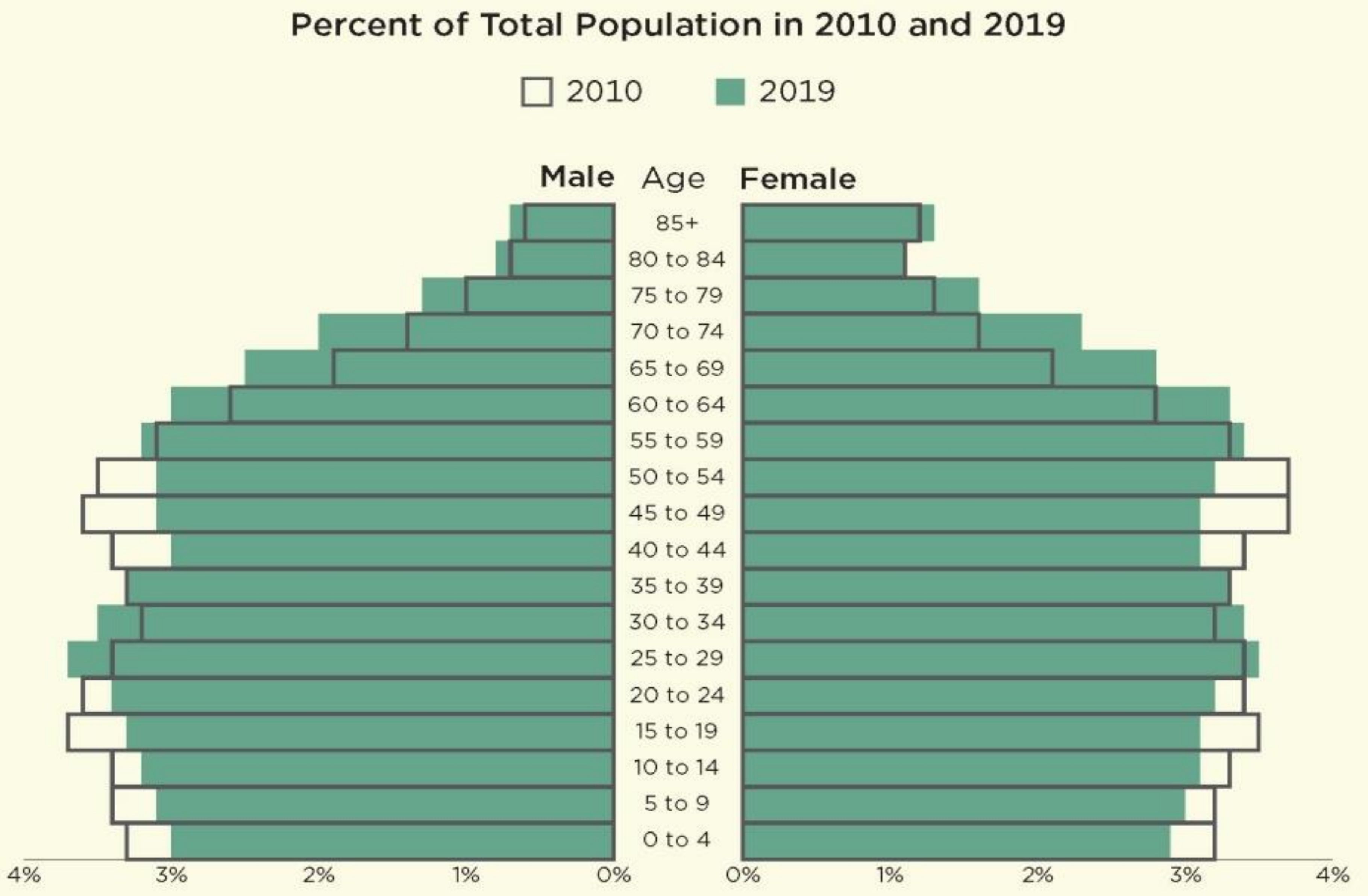
- Since the year 2000, the US Population has gotten:
  - Older by 3.4 years
- This trend is:
  - Accelerating or Decelerating?

Workforce

- Since the year 2000, the US Population has gotten:
  - Older by 3.4 years
- This trend is:
  - Accelerating (2021 was most rapid increase across the 21yr range)



Source: Vintage 2019 Population Estimates
www.census.gov/programs-surveys/popest.html



Source: Vintage 2019 Population Estimates
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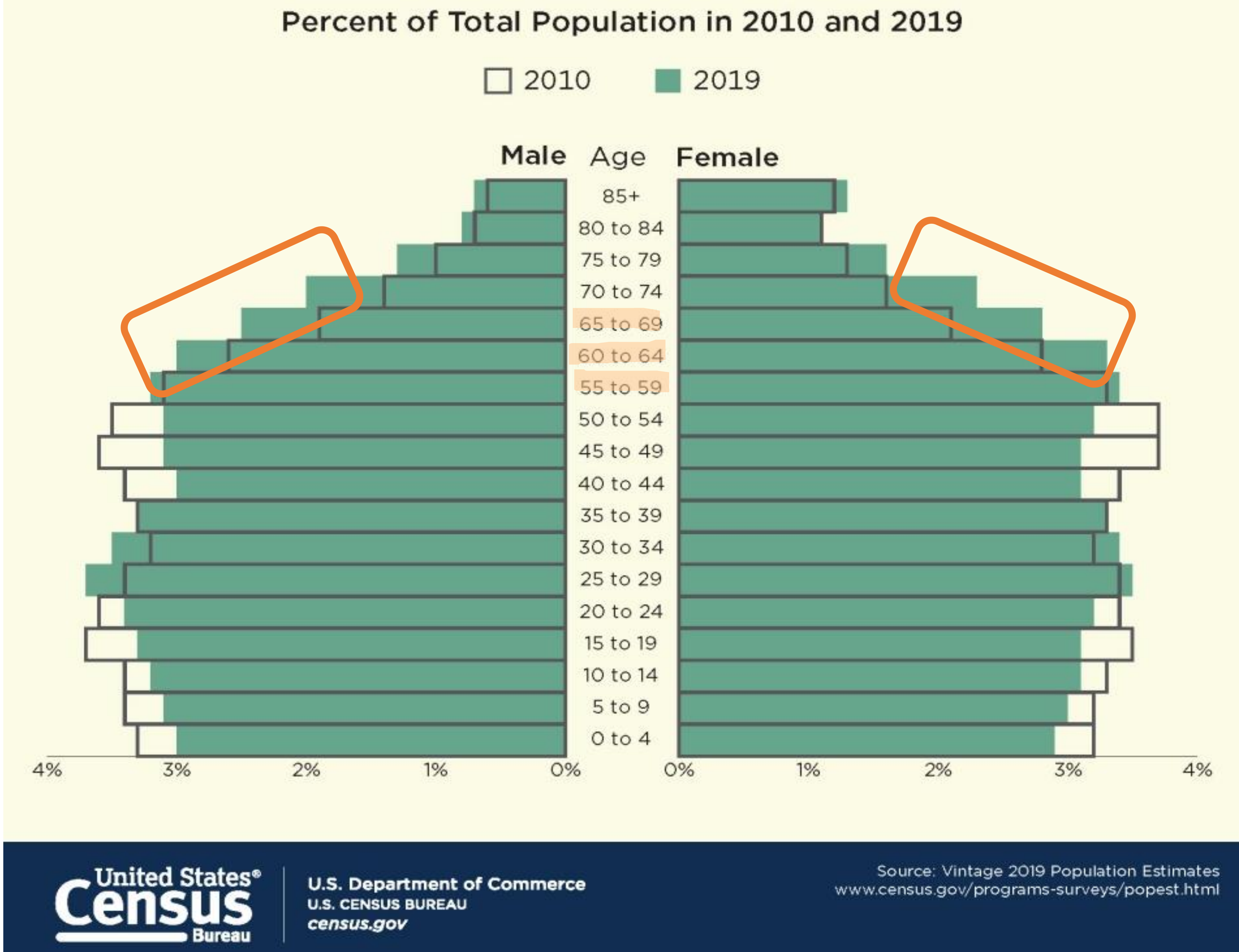
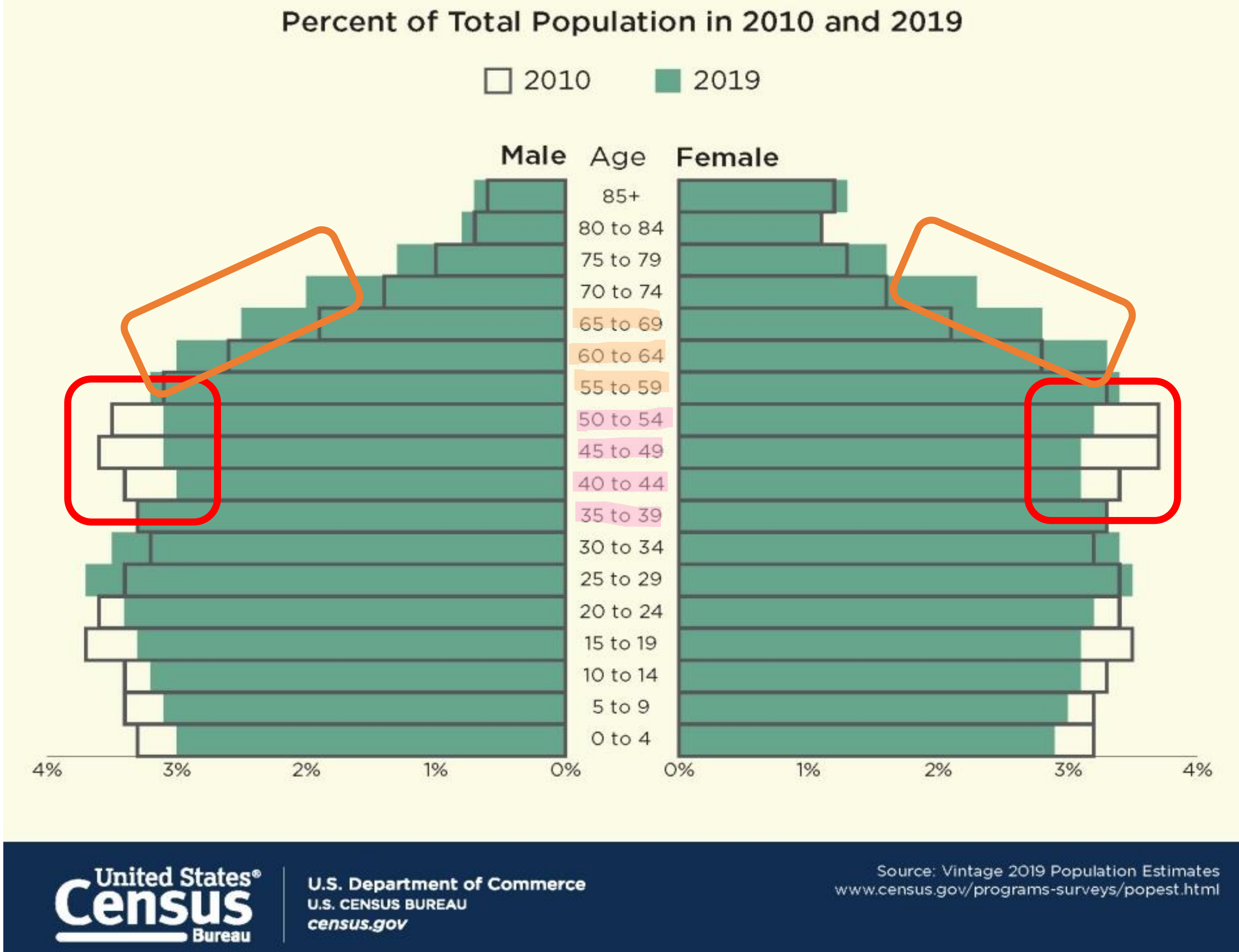
- **Senior Leaders**
  leaving the workforce



- **Senior Leaders**
  leaving the workforce

- **Next Leaders**
  large gap coming



- **Senior Leaders**
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- **Next Leaders**
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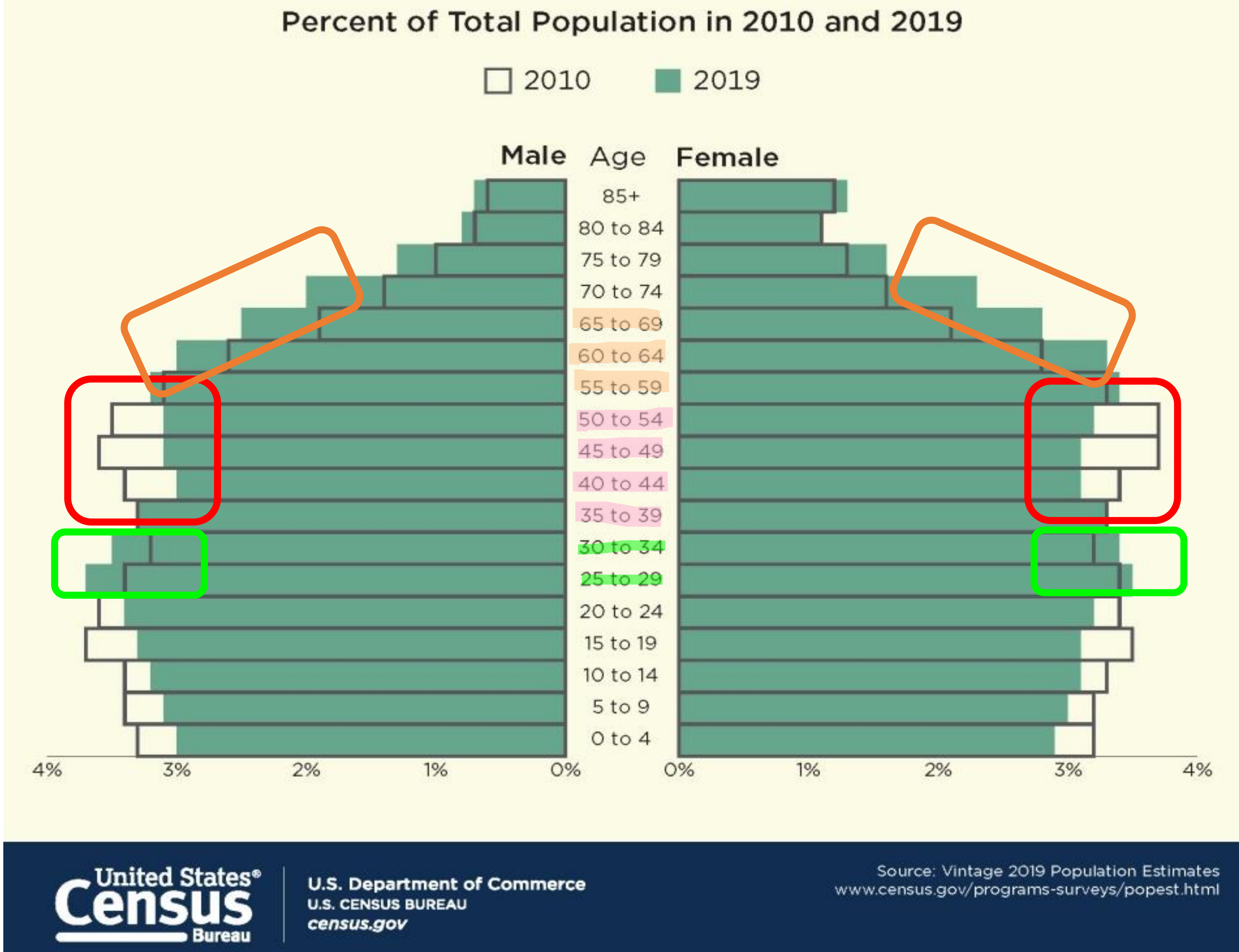
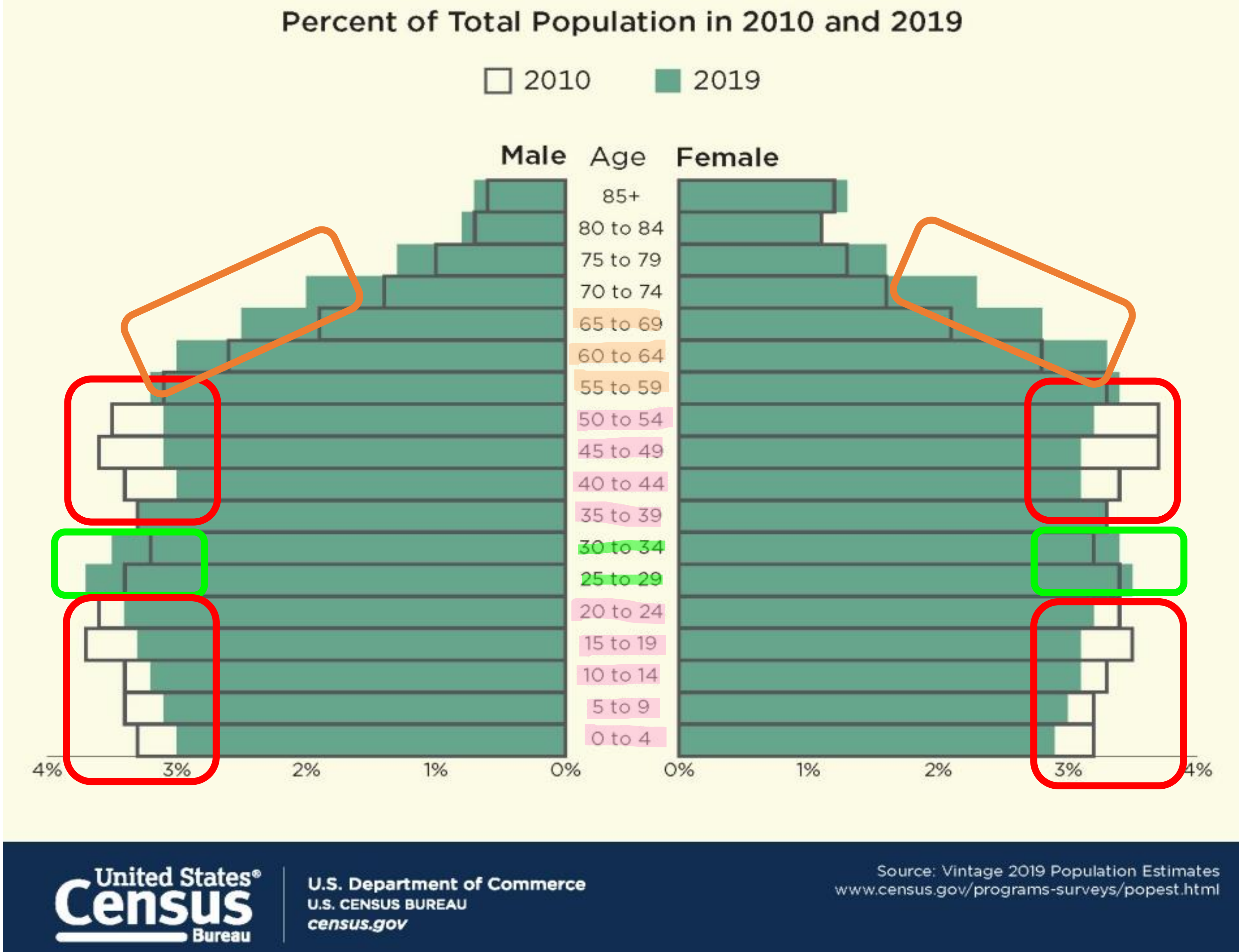
- **Millennial "Bump"**
  (brief) return to normal



- **Senior Leaders**
  leaving the workforce
- **Next Leaders**
  large gap coming
- **Millennial "Bump"**
  (brief) return to normal
- **Future Workforce**
  shrinking reinforcements



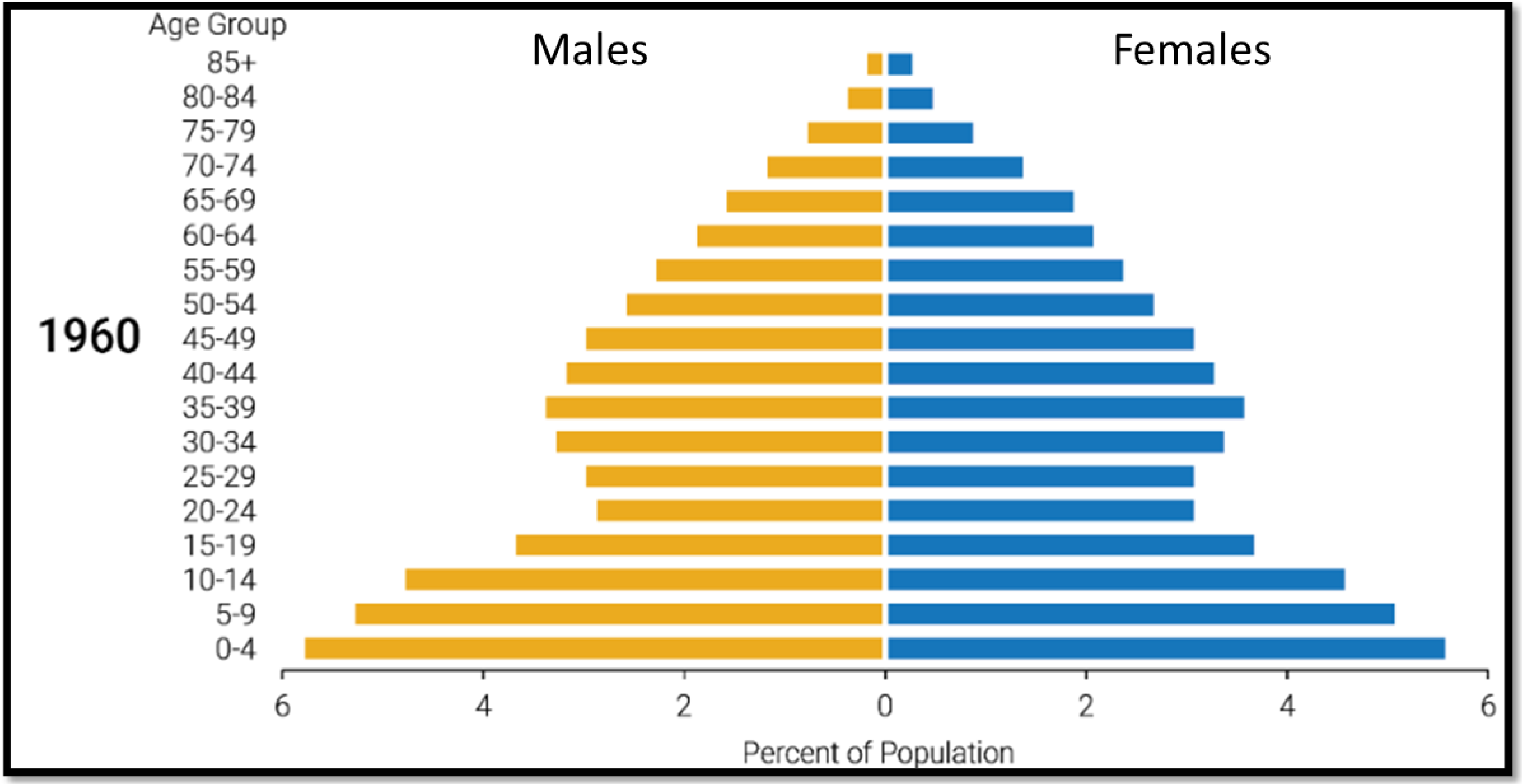
Workforce

- *Pre-Pandemic* **Forecast of 2020 to 2029** (www.dol.gov)
  - Prime Age (25-54) Male Workforce Participation Rates to decrease by another 1.9%
  - Prime Age (25-54) Female Workforce Participation Rates to increase by 3.8%
  - *but these are % of a decreasing total population in prime age demos*

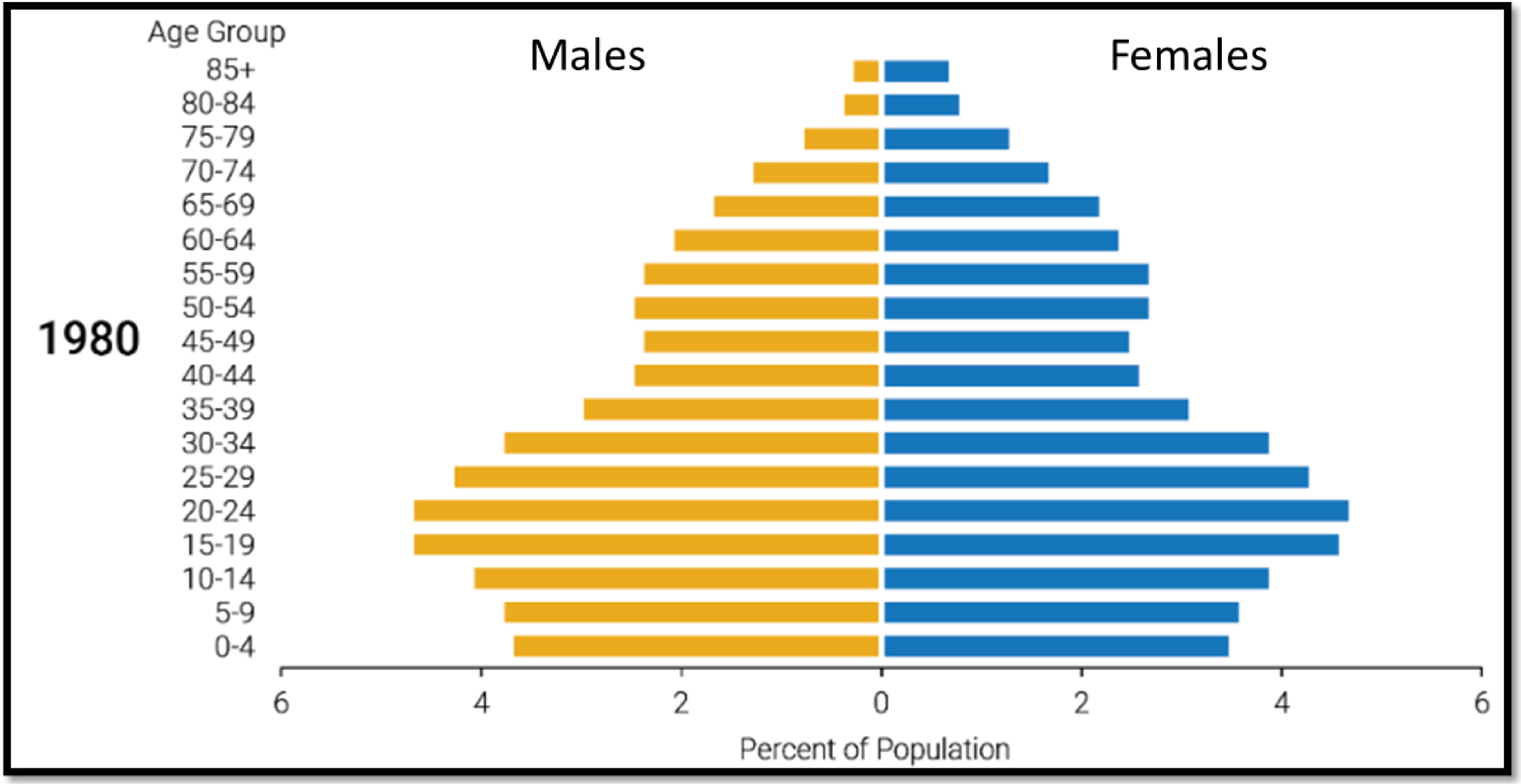
- **2.4M Women left workforce since Feb 2020**

- **Baby Boomers created incredible wealth**
  - Millennials expected to inherit ~$70 Trillion by 2030 from their parents

US Population Histogram



US Population Histogram



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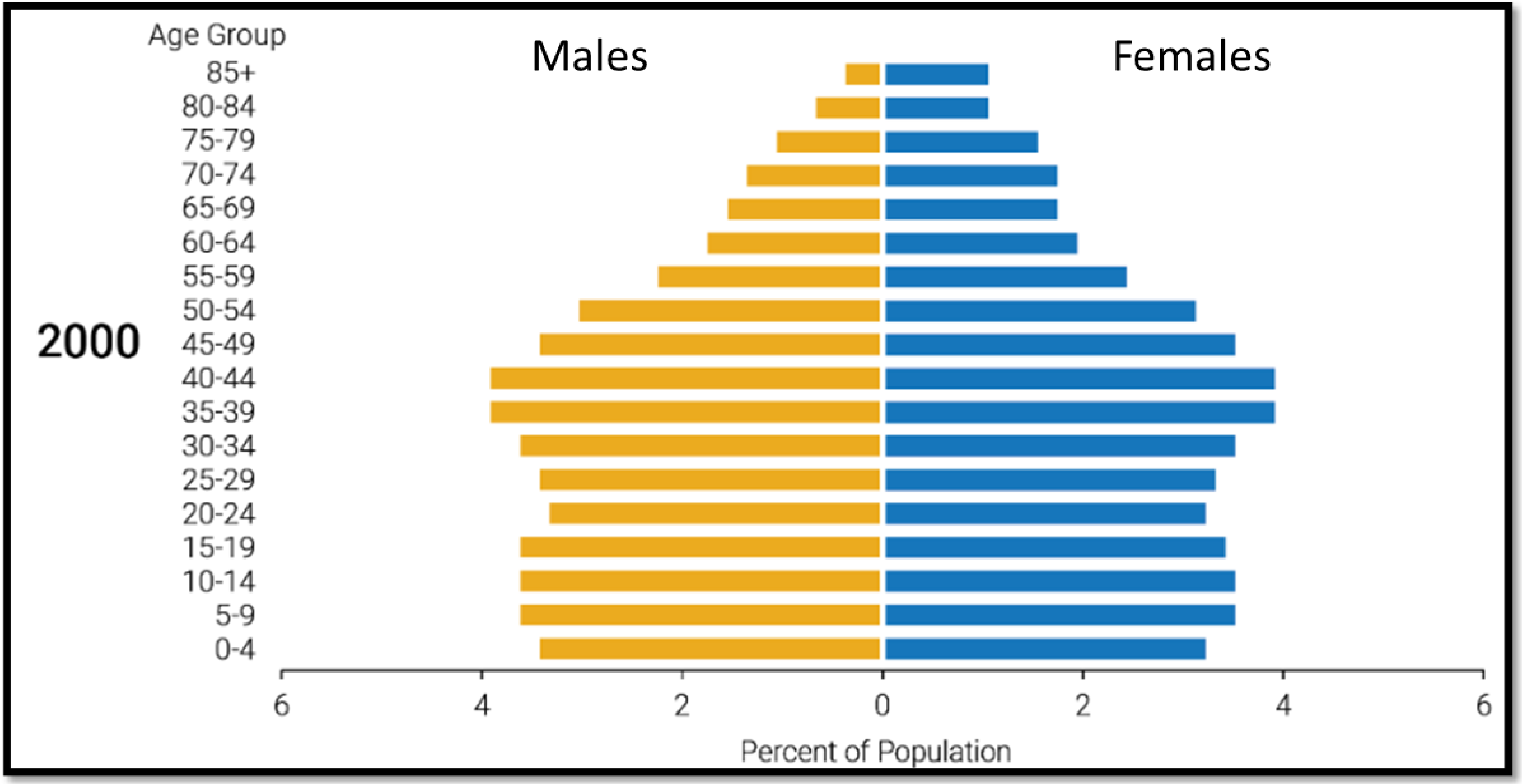

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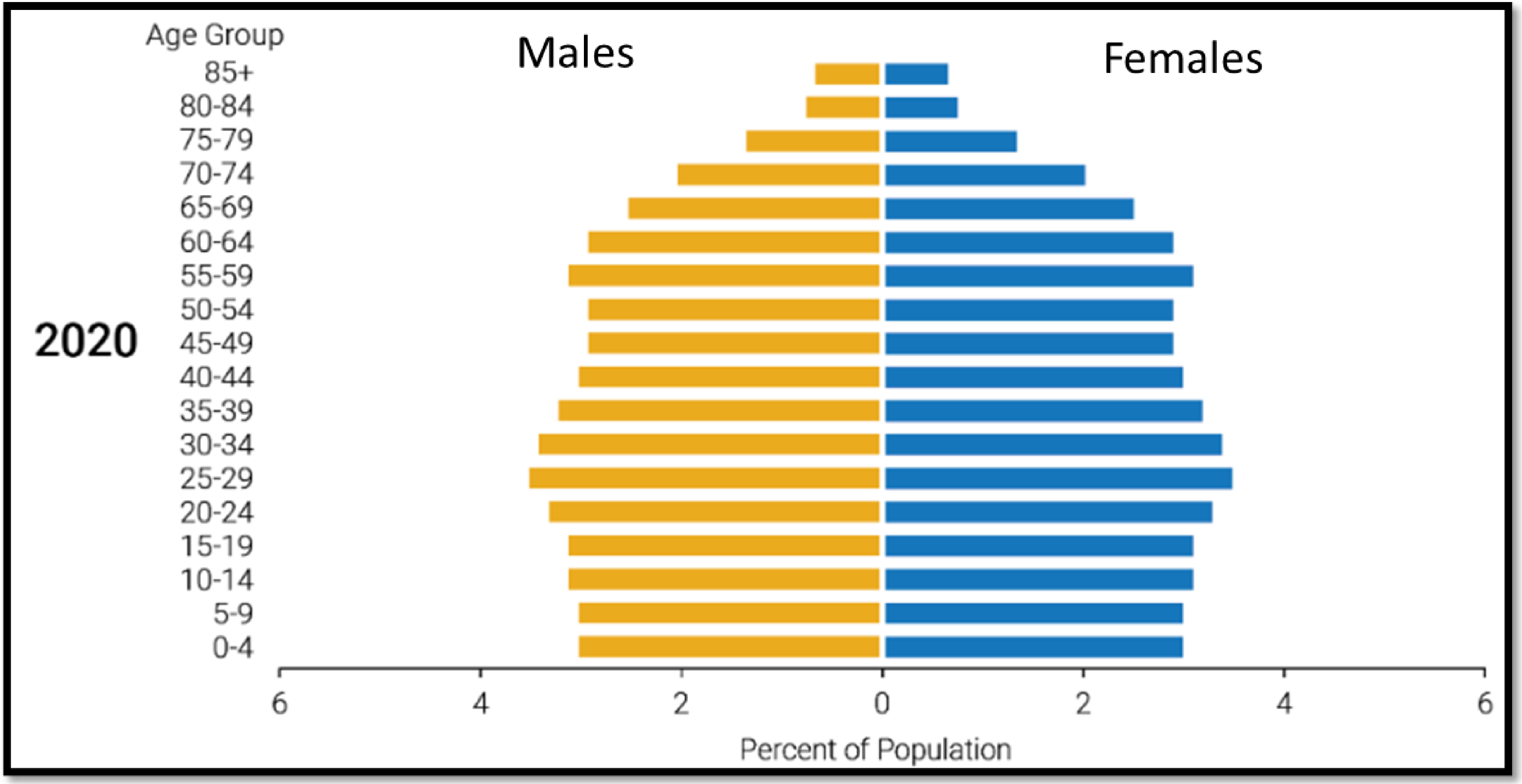

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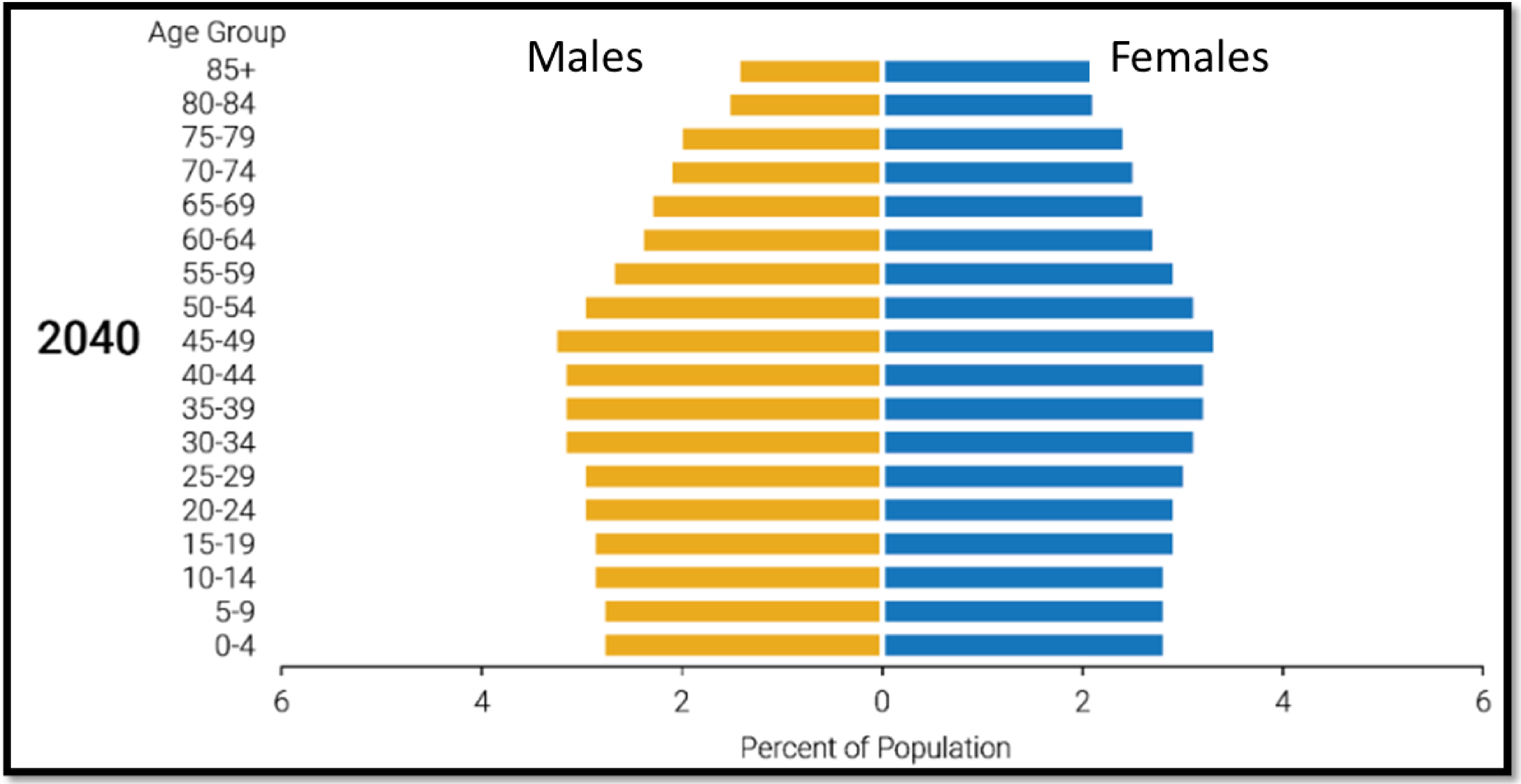

Mid- and Long-Term Outlook

this is the

BEST

it will ever be

(for the remainder of our careers)


When You See a Another Employer
Talking To Your Top Performer

Working with Internal User Groups

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Terminology

- Internal Team
- User Groups
- Business Units
- End Users
- Internal Clients
- Client Personnel
- And so on…

The ***NON-PROCUREMENT***
Members of the
Client / Buyer
Organization's
Project Team

Impacts of Client Personnel

1. Client has never been involved in a procurement
2. Client has limited experience with this type of project/service
3. Client isn't sure what exactly they want
4. Client wants to sole-source
5. Client wants to pick a supplier that they know
6. Client wants to pick a supplier that has worked for organization in the past

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Can Be Addressed Through Education & Toolkits

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Resistive Behaviors That Will Require Greater Attention

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Resistive Behaviors

- Most people are <u>not</u> intentionally trying to be difficult

- Many are resistive due to fear of change or fear that the outcome of the project/service will impact their work personally.

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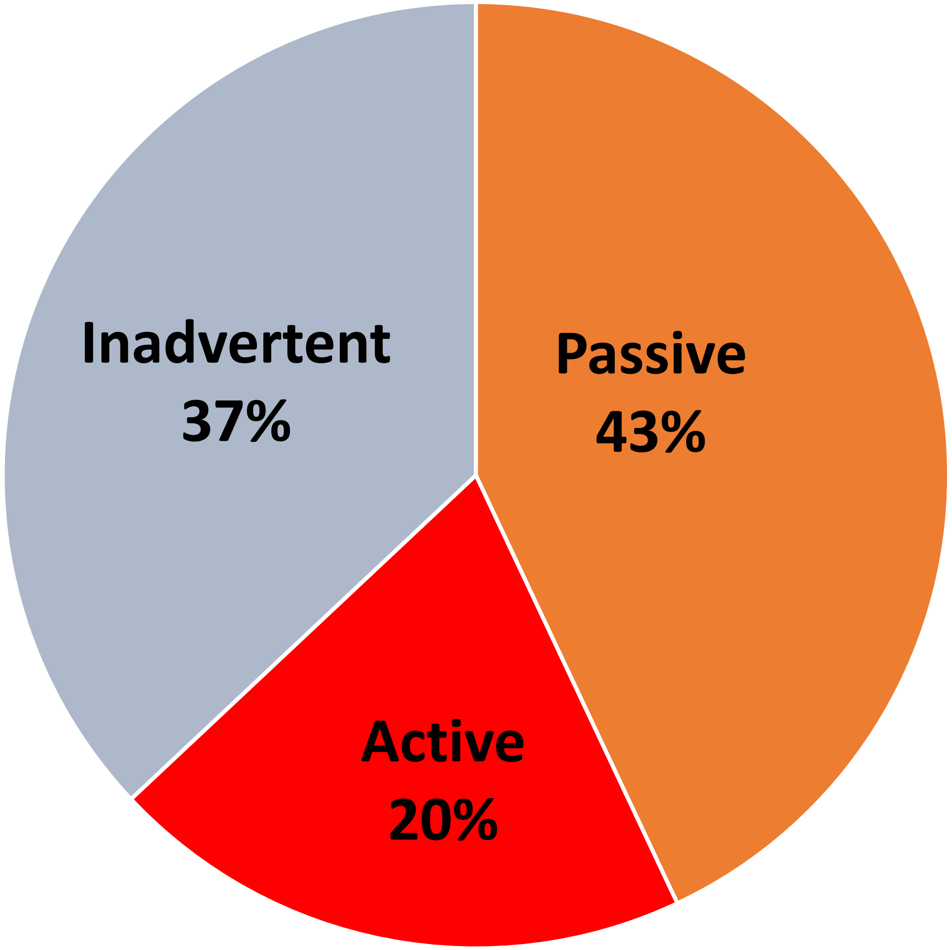
Simplar’s Organizational Change Database

Top 5 Resistance Behaviors

1. Reversion
2. Reluctant Compliance
3. Arguing
4. Lack of Transparency
5. Delaying



Ask Yourself…

…Is the Client looking to sole source or pick a supplier just because they want to <u>increase the risk of a protest</u>?

4. Client wants to sole-source
5. Client wants to pick a supplier that they know
6. Client wants to pick a supplier that has worked for organization in the past

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Ask Yourself…

…Is the Client looking to sole source or pick a supplier just because they want to <u>make your life more difficult</u>?

4. **Client wants to sole-source**
5. **Client wants to pick a supplier that they know**
6. **Client wants to pick a supplier that has worked for organization in the past**

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Why Is The Client Asking For This?

Could it be because the Client <u>doesn't think they have time</u> to run a full RFP?

4. Client wants to sole-source
5. Client wants to pick a supplier that they know
6. Client wants to pick a supplier that has worked for organization in the past

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Why Is The Client Asking For This?

Could it be because the Client personally had a bad experience with Suppliers in the past, and doesn't want to get stuck with a low performing Supplier again

4. **Client wants to sole-source**
5. **Client wants to pick a supplier that they know**
6. **Client wants to pick a supplier that has worked for organization in the past**

CPE
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Why Is The Client Asking For This?

Could it be because the Client has personally invested a lot of time gathering information about products/suppliers and believes that they know what the best product/supplier is?

4. **Client wants to sole-source**
5. **Client wants to pick a supplier that they know**
6. **Client wants to pick a supplier that has worked for organization in the past**

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Why Is The Client Asking For This?

There are many "valid" reasons why the Client believes that they know best…

4. **Client wants to sole-source**
5. **Client wants to pick a supplier that they know**
6. **Client wants to pick a supplier that has worked for organization in the past**

Why Is The Client Asking For This?

*There are many "valid" reasons why the Client believes that they know best… **but that is why the Purchasing Agent is so important to the Organization!***

4. Client wants to sole-source
5. Client wants to pick a supplier that they know
6. Client wants to pick a supplier that has worked for organization in the past

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How Can Procurement Help?

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Four Wisdoms

1. Understand potential perceptions
2. Listen to what your customers are saying
3. Emphasize the importance of the project outcome
4. Act as a facilitator

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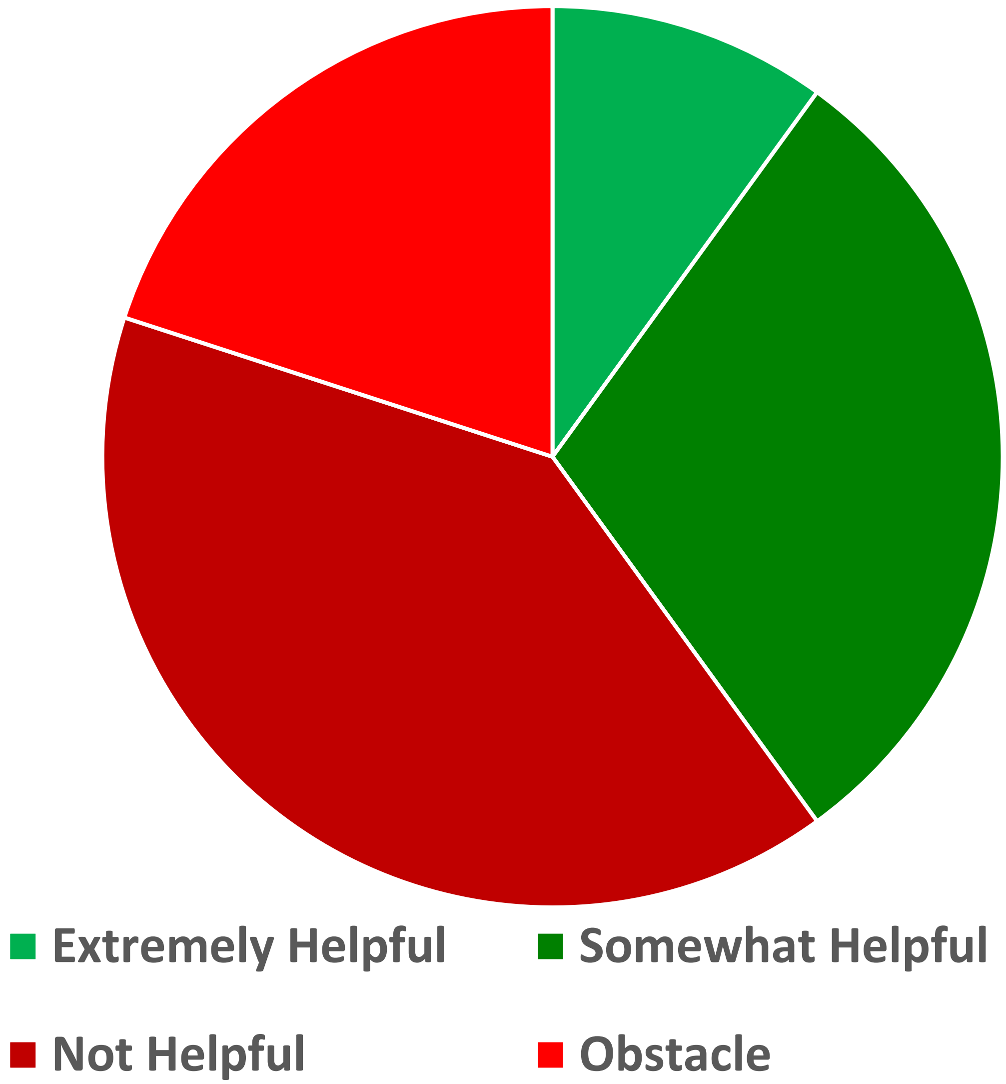
Wisdom 1) Understand Potential Perceptions

Research has shown:

- **40%** view procurement as "helpful"
- **60%** view procurement as "not helpful" or "obstacle"



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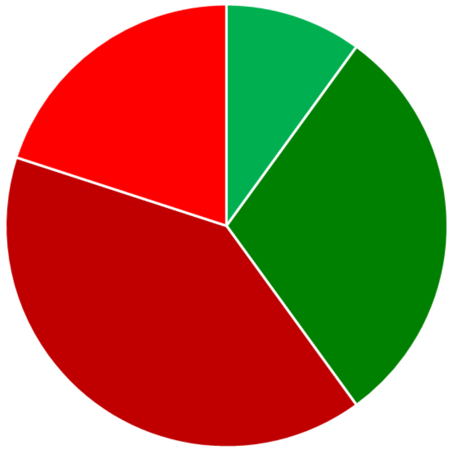
Why Do Some View “Procurement” As An Obstacle?



- Some think that procurement “slows things down”

- Some have had bad procurement experiences in the past.

- Most may not understand the true value that procurement can bring/add to directly improve their project results.

- Some view procurement as bureaucracy or a checkpoint they have to “get through” before they can “get back to the project”

Wisdom 2) Listen To What They Are Saying

- **Let the client share their thoughts, concerns, and current project information.**

- **Don't feel forced to answer a question that you are not 100% confident about.**
  - **It is OK to say:**
  - **"*Good question! Let me check with my team and get back to you soon*"**

3) Emphasize the importance of the Project Outcome

- Market Research
- Statement of Work
- Expert Vendor (Team)
- Opportunity for Innovation
- Price Competition
- Apples-to-Apples Comparisons
- Avoid Change Orders
- Etc.

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Wisdom 4) Act as a Facilitator

Procurement & Supply Chain

Business Partner / User

Guide & Assist their Business Partners!

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Wisdom 4) Act as a Facilitator

- Remember, for your Business Partners, the procurement process can be:
  - New
  - Unfamiliar
  - More complex than expected
  - Overwhelming
  - Disorienting
  - Etc.

A simple 30-60 minute "step-by-step walk-through" can help them understand that you have a plan to address their major concerns

Wisdom 4) Act as a Facilitator

- **Help them lay out their strategic plan & tactical schedule**

- **Don't just tell them "no" or "we can't do that"….**

  … Even if they are asking for something that can't be done!

  - **Suggest alternatives that can meet their objectives (*and meet procurement policies*)**
  - **Remember, you are a problem solver!**

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Free Webinar Series

3rd Thursdays every month @ 12pm Central

15-min Teaching Moment
(learn a new tip, trick, or tool)

30-min Virtual Peer Group
(network with professionals)

Office Hours
(open Q&A until the questions run out!)

ASK the RFP Doctor

Previous Recordings Available Online!

How Do You Ask For (& Evaluate) Cost Proposals In Software RFPs?
April 15, 2021

Simplar's Evaluation Criteria to Minimize Budget Risk
May 20, 2021

Current State of Practice In Software RFPs
June 17, 2021

How to do Market Research More Effectively
July 15, 2021

"Don't Worry, the Contract Will Save Us"
August 19, 2021

The Value of Debriefings
September 16, 2021

Handling Large IT Hardware Buys With Different Scope Packages
October 21, 2021

Vendor of Record Programs
November 18, 2021

7 Most Deadly Marketing Phrases
December 16, 2021

It's a New Year - Ready for the Next Level?
January 20, 2022

Best Practices for Evaluator Training
February 17, 2022

Got RFP Soft Skills?
March 17, 2022

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21
December

← Later this month!

18
January

15
February

Add to Calendar

BAFO – what's in a name?

The term Best-And-Final-Offer (BAFO) means something different at nearly every buyer organization. Let's dissect the term, discuss the most common procedures, and share tips for success. And, most importantly, let's consider how our vendors feel about the BAFO process!

Add to Calendar

Can We Craft Better RFP Questions to Ask Our Vendors?

Has your procurement group ever asked this question? Usually the intent is to better differentiate vendors during the proposal stage. Despite the good intent, we will discuss why this is the *wrong* question to ask (no offense!!!) and how to change the way we think

Add to Calendar

Setting Realistic Procurement Schedules

Do your evaluation teams insist on rapid procurement timelines… only to delay things as the process unfolds? This session will discuss the foundations of a solid procurement timeline and share facilitation skills to help your evaluation teams be more realistic. Fewer delays = fewer headaches!

Upcoming Topics!

Register at: center4procurement.org/rfp-doctor

ASK the RFP Doctor

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FREE Online Course!

Better RFPs = Better Projects

- Session #1 = Organizing a High-Performing RFP
- Session #2 = Effective Statements of Work (SOWs)
- Session #3 = Evaluation Best Practices & RFP Admin
- Session #4 = RFP Ethics & Vendor Debriefings

Register via NASPO's Procurement U

- Log on to the Procurement U Learning Management System (LMS) to register, access the course and materials.
  - www.naspo.org/procurement-u/
- Open to all (even non-members of NASPO)
- Limited to first 100 participants.

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NASPO™ National Association of State Procurement Officials

Procurement U®

Volunteers Requested!

- CPE is conducting a research project on the use of Diversity, Equity, & Inclusion (DEI) as part of the procurement process

- Looking to understand:
  - Best practices & recommendations
  - Innovative ideas
  - RFP structure and integration

- We need volunteers for a brief interview!
  - Experience in this area
  - Policy insights
  - Firsthand knowledge

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Key Learning Points

- The future success of procurement depends on our ability to become a "CLIENT OF CHOICE"
- There are not enough people – so we need to enhance our existing workforce (and hire expert contractors)
- See procurement as "guardians of the public value"

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