

# Leader

## Place your bets



### Paul Morrell asks: do QSs carry out cost planning or price predicting?

I sometimes worry, in the small watches of the night, that QSs may be inflationary. Not in and of themselves, of course, but rather in their processes – and most particularly in cost planning.

Here's how it goes: you sit down with some early drawings, measure some approximate quantities, and then price them. Then, if you're really good, you add just the right amount for all those things not yet drawn; if you're no good, you add nothing; and if you're good, but not that good (which is most of us), fear makes you add too much. Then your boss spots a few things that are missing or underpriced (and nothing that is superfluous or overpriced) and adds a bit more; and then the client's in-house representative, recognising the career-limiting potential of being put in charge of a construction project, adds ... well, you get the idea.

What this reveals, of course, is that cost planning is not really about cost, and it's not really about planning. Instead, it is about price predicting – a forecast of how work will be priced in the marketplace, and that is not the same thing at all. Certainly, QSs who have their data in order will know far more about price than anybody else in the construction firmament, because they are getting in prices all the time – but it's not as if those prices are based on 'real' costs.

#### Feeling lucky?

The reality is that each tender is basically a spreadsheet exercise, with the tenderer adding together the prices submitted by suppliers and sub-contractors, plus his own costs and margin. There is no real analysis of the prices: just a risk-based judgement as to where to pitch the tender. Every tender is therefore a bet. The contractor is betting that, overall, he can go out and buy the work for less than his bid.

So far, not so good. It is not, however, necessary to look far to find a better way: to get back to planning, and to get back to cost.

Planning means looking at how something could be, rather than just how it is. For the QS this means working out how to get the client what he wants: the right job, at an affordable price. As a blinding glimpse of the obvious, though, that price is just the sum total of all of the resources that are expected to be required to get the job done – and because databases are, by their very nature, retrospective, they will reflect the way that the job has always been done. In the absence of a highly competitive market, where the incumbents are threatened by new

entrants with better ideas (and that is largely our position, as construction remains an essentially domestic market), there is little drive for contractors to work with their supply chains to eliminate cost.

#### Inefficiencies and waste

But when supply chains are analysed, it is frequently found that there are intermediaries in the process who add no value; and even more detailed analysis of the costs of just the productive players in the chain will almost always find inefficiencies and waste, and opportunities for reducing cost through process or product innovation.

To quote an example, one American contractor has found that the incidence of variations occurring on his engineering services sub-contractor's accounts, measured in cash, has reduced from 18.5% for a project run on 2D drawings, to 11% on a project run on 'lonely 3D' (meaning that most of the parties were working digitally, but not on a collaborative basis), and finally to about 5% on fully collaborative Building Information Modelling. Clearly, you need a plan to get rid of this kind of waste; but equally clearly you need to know it's there in the first place. This is where cost planning needs to get to if it is to continue to be a value-adding service in a digital age: deep in the supply chain, eliminating cost.

This is not to decry our recent history. We've come a long way since standardising the method of measuring brick flues for the reconstruction after the Great Fire of London; but it is to say that the role could be so much more valuable. To know how things might be priced is good. To know how much they should cost is better.

Cost planning is not really about cost, and it's not really about planning. Instead, it is about price predicting

Do you have a view on this? If so, please email Les Pickford via [lpickford@rics.org](mailto:lpickford@rics.org)



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For an interview with Paul Morrell see *Cut and Thrust*, page 38, *Modus*, Nov/Dec 2010, [www.rics.org/modus](http://www.rics.org/modus)