

All-of-Government Procurement..... Building Materials Solution (Discussion Document)

MBIE Submission on 8th November 2013



A United Industry Voice



LIGHT ALLOY MANUFACTURING
NEW ZEALAND



Metals New Zealand (Metals NZ) is an incorporated society serving the needs of New Zealand's metals related industry. Launched in 2011, it consists of Organization Members made up from metals related industry sub associations. Its Executive consists largely of leaders of New Zealand's major organizations operating in the metals based sectors.

The NZ metals-based industry is actively involved with and supports many other industries, such as food processing, energy generation, agriculture and building & construction. As such, industry-specific figures are difficult to pinpoint, but 2010 estimates are:

- Contributes over 7% to Annual NZ GDP
- Direct metals-based product manufacturing employs more than 26,000 people
- Over \$7.3 billion worth of metals-based product manufactured annually
- More than \$2.6 billion of product exported, representing 5.6% of total NZ exports

KEY INITIATIVES

Metals NZ is currently working on the following initiatives:

- Industry position on government policies such as :
 - Research & Development
 - Local industry participation
 - Government and public sector procurement
 - Government position on sector development
- Sustainability of metals based products
- Threats from imported fabricated metal products
- Industry involvement in projects of national significance e.g.
 - Christchurch Rebuild
 - Water view Project
 - Transmission Gully
 - Marine Energy Centre
 - Geothermal Industry Cluster

Further information can be gained by visiting the website <http://www.metals.org.nz>

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AoG Procurement Discussion Document Submission

METALS New Zealand

Please note item numbering is in line with the questions asked in the MBIE discussion document on All of Government (AOG) procurement.

Comments;

- **Very much about significant cost reduction objective for building materials by leveraging govt scale and altering the buying mechanisms**
- **This phase focus is on building materials for lighter application e.g. housing**
- **Infrastructure Products and Consultancy Services Out of Scope.**
- **Therefore are a number of commercially oriented questions best detailed by the membership**
- **Opportunity to promote the chance for MNZ to be seen to be proactive working as a coordinating industry group on improvements to product quality & delivery performance and procurement processes for AoG delivery**
- **They refer to concrete, steel and wood material groups. Important we get forwarded an exhaustive list of METALS products covering membership directly**
- **Do we concur with the material price index info on Page 6?....note frames and trusses and look at Metal Roof vs. other products.**
- **Standard Questions have been set in seeking responses and responses below.**

Coordinating METALS NZ response- Gary Hook +6421571619

- 1) Responding organization....METALS NZ
- 2) Professional Body
- 3) Location Auckland HQ; an association representing businesses throughout NZ
- 4) Metals New Zealand (Metals NZ) is an incorporated society serving the needs of New Zealand's metals related industry. Launched in 2011, it consists of Organisation Members made up from metals related industry sub associations. Its Executive consists largely of leaders of New Zealand's major organisations operating in the metals based sectors.

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The Secretariat for Metals NZ is provided through the NZ Heavy Engineering Research Association (HERA)

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- 5) Member organisations of METALS NZ would supply products and services to most, if not all, government agencies both directly and/or indirectly. Member organizations would be distributed throughout the spend categories listed with products available that are both in and out of the current projects scope. i.e. this discussion paper is targeting products typically purchased for housing and light commercial building sectors as opposed to heavy construction and infrastructure works but of course there is product/segment overlap given this broad segmentation. In reality many METALS products are used across other segments broader than building...e.g. construction & manufacturing.
- 6) Given the categories and sub-categories provided member organizations would supply products covered under Aluminum, Drainage Plumbing & piping (Spouting & downpipes), Exterior wall cladding, Fascia/Guttering, Roofing, Steel Products (all)
- 7) Additional sub categories suggested would include Light Weight Steel Framing, Insulated Walling & Roofing Panels, Steel Decking, Steel Fencing, Steel Piles, Facades, Doors, Sheds, Shelving but an exhaustive list would be generated via our membership submissions.

- 8) The METALS industry supports the exploration of efforts to deliver AoG cost effective procurement. Understanding the market and the supply factors by working closely with the industry members is a key requirement and we agree it is a critically important first step. Optimal delivery and servicing to any customer relies not only on individual companies to perform but how the various parts of the supply chain work in together as a set is important. Some of this required market information can be sourced from individual product suppliers but some will need to be provided from overarching associations representing groups of companies or supply chains offering up a broader perspective of supply chain performance for example...organisations such as Metals NZ. Often cost effective procurement is not about just individual product procurement but multi product 'system' procurement where appreciation for the economics of such solutions delivery is required. This understanding is often difficult to obtain without close and open industry communication and strong connections & relationships. There is a caution to be given about having too narrow understanding for cost, quality and performance.

For higher volume products, it is very likely that larger organizations will be involved and an RFP process is a logical approach to produce competitive pricing for the buyer. More competitive pricing will have to offset for suppliers in some way and that will most likely be volume, standardization and risk reduction. Some difficulty may be experienced if the RFP category e.g. Steel is too broad as not all steel product suppliers may not be able to supply all products included. The strategy and approach adopted for the high use/value set will likely provide the biggest benefit to the AoG procurement initiative so a good level of industry involvement, information gathering, analysis and understanding in an open fashion will facilitate a better outcome is expected. Potential issues for high volume product suppliers if AoG buying is involved is that it is likely a small number of suppliers would make the list and that they would have to meet some pricing benchmark set by 'the AOG' organization. Whereas, for lower volume items, selected supplier by product and by region model would likely be an efficient & effective methodology. This will involve the broader industry to more align with local requirements resulting in no doubt pre qualified supplier panels which will provide some level of transparency. Suppliers in this set will want to ensure there is margin in the trade. Our METALS industry have always supported the free market approach of govt and so limiting specifier choice by limiting in some way capable and innovative suppliers could be seen to be in conflict with this broader objective. A key factor to consider country wide in the AoG vendor selection will be distribution costs. Some products due to their bulk or weight are not economically shifted around the country and so some products may not fit into the broad suggested logic by manufacturer/supplier and volume/value.

It could be difficult to assess and compare non price product/service attributes across a wide number of panel suppliers and care should be taken to build into the procurement thinking and evaluate whole of life performance and warranty promises.

A level of transparency should be implemented in panel member selection and appointment by government agencies to ensure that competitive interest is maintained otherwise interest in supply government agencies could soften over time and that people are competing for business based on clear purchase decision criteria.

- 9) This is a question to be answered by individual material suppliers but in the view of the association, price lists alone are not enough to deliver on value for money procurement. Ensuring desired product attributes together with expected service levels are both fully scoped will allow for effective & mutually beneficial customer supplier relationships to be developed. Approved/preferred supplier listing would be beneficial to build in more assurance in terms of product or service quality and pricing reputation and make it difficult for new entrants to win new business on buy price alone thereby disturbing existing relationships built on broader scopes and criteria. It's probably fair to say that a mix of these models and arrangements are in effect today across the various govt agencies and a big benefit is likely in a move towards more product and process standardization. This will have positive flow on cost effects to the supply side over

time. This is obviously a very critical item of any workable solution in future. From a cross sector industry perspective we believe it is crucial that what-ever solution is created, it does not intervene with the free market principles and/or lead to industry collusion. I.e. it would not be considered acceptable if the principle chosen would pick winners or create losers. Another important point is related to potentially limiting specifiers choice as to the selection of fit for purpose products. It is also paramount that the mechanism proposed is able to guarantee whole life performance of the design and materials options chosen and does not create substandard outcomes as experienced under the lowest cost scenario underlying many of our current & public leaky home building failures.

- 10) The decision criteria for the decision regarding 'contract term' in our view may have a range of answers. The right decision will relate to time and effort put in by the buyer, the environment created w.r.t competitive tension and the ability to make improvements on the supply side. Short or long??....it depends. Some products are linked to local price driving factors and some to international. At various times these drivers can be aligned with the market and at other times not; so their needs to be an indexed pricing methodology to lower supply side risk factors. Contract terms of 3-5 years are reasonable but pricing contract terms detail is important if win-win relationships are to be developed. Perhaps indexing based on 3 month moving averages for key price drivers would provide comfort. A 3 year term max might be required to keep some competitive tension/alternatives alive but the benefit out of longer arrangements is that more improvement projects could be undertaken in a partnership type environment where for example more significant investment is made to step change a particular products whole of life cost profile....., this would be aimed at a mutually beneficial longer term outcome rather than just shorter term price fighting where there could be winners and losers. Perhaps then the high value/high volume material supply contracts would be of a longer duration 5yrs; compared to than the smaller ones; 1-3 years.
- 11) This question is better answered by member organizations, but the association believes it's important to create & maintain adequate profit margins for locally manufactured products. Pressure to switch to cheap imports without sufficient consideration of the whole of life and general GDP contributions of local manufactured products to too easy with simply a product buy price focus. The way to help manage this issue is for the buy side to fully scope its product specifications/performance and service requests as part of any RFP or panel selection process. Being quite specific covering a total cost & service set, and measuring and evaluating supplier performance over time is important for optimal decision making.

Government in its new Rules of Sourcing extensively refers to the 5 guiding principles of government procurement which includes the principle of whole-of life costing and encourages/requires most agencies to make balanced decisions by considering the social, environmental and economic effect of the deal. Our industry fully supports this approach and feels that any AoG solution needs to comply with this approach.

Therefore the aim to ensure the 'best price' in our view needs extension by mentioning the new government procurement guiding principles. By putting a system in place with the aim to ensure best price of product, misses to investigate in the procurement process of what is the best value for money in terms of cost and benefits to the procurer i.e. the NZ taxpayer over the lifetime of the products or services.

Our local industry is particularly concerned with the fact that the proposed AoG solution may favour and push lowest cost based import solutions, which if the above considerations including local GDP contribution are missed in the equation will cause a net financial loss to New Zealand. To explain in simple terms for tax-payer funded government procurement, if a local product in terms of price is slightly more expensive than an imported one and the economic contribution of the local product e.g. in terms of taxes alone is higher than the price difference between imported and local product, this then turns the balance in the economic impact valuation in New Zealand's favour. As New

Zealanders we owe it to ourselves to consider these procurement decisions as rationally as possible with the countries interest at heart.

- 12) This question is best answered by the member organisations.
- 13) For individual member organization comment but the associations view is that a satisfactory margin is required over and above net pricing to fund support activities and there has to be clarity in the product & service scope and scale(volume) to be able to efficiently & with certainty deliver these essential requirements.
- 14) In pursuit of the AoG procurement objectives including strong supply side relationships, there will need to be industry forums for open & transparent interaction. Any framework should have KPI based measures and mechanisms for sharing information. Risk & reward issues, both buying and supply side, would need to be tabled, discussed and fully appreciated. Opportunities would need to be made available to identify & manage change projects important to continuous/step improvement. METALS NZ believes it can play a bridging role between AoG procurement management and the METALS related industry members particularly where common interest issues require broad sector involvement. This would limit the number of intermediaries that government agencies would have to work with in search of continuous improvement, innovation discovery or process/problem resolution.
- 15) A key question, and one most likely to unlock one of the bigger opportunities for improvement in cost effective AoG procurement. Standardising on products specified and ordered will ultimately reduce production complexities for manufacturers that will lead in time to lower cost to manufacture outcomes. Standardisation in supply product portfolio's will also lower inventories in the supply chain and allow for more supplier flexibility to schedule delivery more timely. Understanding needs and wants on the buying side and cost drivers on the supply side will require two way interactions and sharing. Of course the challenge is to maximize supplier involvement and minimize the number of buyer interactions which may conflict with the industry-endorsed and govt led free market principle. But it mustn't. As well as standardisation in products, a more detailed customer scopes for the total life-costing of products and complete systems will lead to overall lower cost of procurement for govt agencies.

However, it needs to be understood that as a result of competing building systems, there is pressure on each system value chain to deliver on productivity gains and the metals- based industry, and in particularly its steel based construction sector, is very aware of this and driving on this. As a result of this potential the industry e.g. via its industry funded research association HERA is consistently putting a great effort into improved standardisation for productivity gains. We believe by government procurement playing the role of what is termed "lead user innovator", it could play a very significant role in accelerating this process by immersing itself in the process by partnering on particular initiatives. This could be e.g. by targeting product standardisation via supporting R&D efforts especially in high value cost components with good innovation potential.

- 16) We agree material and product certification is contributing to a slower than possible rate of product innovation . However, when we consider performance over the warranty period but more importantly under the whole-life performance requirements of the new Government Procurement Rules of Sourcing, product certification to recognised standards and, particularly taking the New Zealand specific performance requirements in account, is considered an important and unavoidable element of guaranteeing product performance.

Overcoming some of those innovation limitations in the context of government procurement, we wish to refer again to the mechanism of Government procurement becoming a lead-users innovator. For example the government encourages and accepts innovative products in its procurement which are not fully product certified and agrees to monitor

performance as part of the product certification process carrying on some of the risks of this process but understanding that it supports local industry development into more productive products. The requirement would be for some preparedness on behalf of both suppliers and customers to engage in longer term business development activities other than just procurement decisions.

METALS NZ and its construction related association members, HERA, MRM, NASH and SCNZ are heavily involved in this activity now as part of the specifying for the Christchurch rebuild. There is an element of research and development and product and system marketing that sits above the buying decision in the specifier space. By consolidating AoG procurement, this would provide for targeted research and development to underpin initiatives to target cost reduction in major spend items by material type and the improvement mechanisms being applied to the Chch result could easily be adopted and applied to housing/light construction sector of prime interest here.

A large consumer like govt agencies as a group has a lot to be gained from product innovation. Understanding the risk reward equation should be a mutually understood and beneficial arrangement for a supplier and customer. As to the mentioned high use product “steel” it is important to note that this product as a material of building & construction, it comes in many product variations and in which is governed by standards based specifications. Main issue from a cross industry perspective is solely proof of conformance and the government in the AoG approach has in our view to ensure that in whatever approach is taken product conformance to specification must be guaranteed.

- 17) An AoG building material supply panel or contract would only consist of suppliers that can meet the product and workmanship standards that are clearly specified (scoped). The onus would have to be placed on the industry or the company to pre-qualify itself. Some independent reliable certification required should provide additional comfort. Some products can be substituted for quite easily and difficult to visually detect deviations from requested or required specifications. In higher public risk applications, known and proven and certified suppliers and buyer discipline is an absolute requirement.

We agree product quality assurance plays a key role in meeting overarching lowest whole of life cost and performance objectives, and products are expected to perform when subjected to natural hazard conditions such as earthquakes or fire. Product application areas such as steel construction in seismic active regions heavily relies on product conformance as we have a very careful balanced standards based design framework which relies on the design being to the standards and equally important products conforming to rather tight specifications as e.g. to material strength range, ductility, fracture toughness, and size tolerances. As post Canterbury failure analyses has shown, there is no room for being outside the specification and catastrophic failure with loss of life will be the result and immediately leading to a discussion of who is liable.

METALS NZ and its construction related association members, HERA, MRM, NASH and SCNZ are heavily involved in assuring quality of its fabricated and installed products and this includes conformance of designs and of associated building products. A main issue we are facing as industry is reliable product conformance specifically from low cost imports e.g. out of Asian countries.

Therefore is of upmost importance that Government agencies as consumers ensure that via their procurement specifications all products are conforming to specification. And in our view this includes insisting on rigorous conformance assessment of imported products as our research has shown that overseas fabricated steel products are often lacking in conformance. The research also showed if conformance to our specification has been established via

reliable processes, the difference in cost between import and local product has only been minor. If the additional minimum whole-life cost and balanced decision making criteria economic, social and environmental impact are considered, lowest cost would be the wrong decision to take.

- 18) Product development is an important but costly and time/resource consuming business activity. In partnership, industry sectors can work together with government representatives on product, supply chain and support activities and drive hard on innovations to lower the total installed cost of procurement. There are existing organisations in place that could assist in bring the 'partners' together such as METALS NZ with its organisation members such SCNZ, HERA, MRM or NASH etc Government agencies could play a bigger role in reducing the number of specifiers for building products; striving for more of a direct understanding for product performance requirements.
- 19) The New Zealand construction industry is well known for its boom bust cycle nature. As a result of the large AoG share in the overall activity knowing the demand side of the single largest customer will be useful and provide somewhat of a natural buffer to all suppliers as they can plan accordingly. Based on a cross sector view, understanding time correlated demand profiles in different construction areas such as residential and commercial and relating to bigger projects such as hospitals, prisons or big infrastructure projects would be very useful. There are views held in construction today that some of our steel supply chains are running at capacity when in reality this is not the case.; if there are issues to be resolved it is not capacity but more supply chain planning which all begins with forecasting demand.

However we would also like to mention in this context that government via its ability to control demand via acceleration or delay of projects and in this way have a positive impact on demand driven cost elements. The work of the Construction Productivity Partnership needs to be mentioned in this context. Equally the influence of legislation e.g. to bring buildings up to earthquake requirements are government tools to influence demand and therefore cost.
- 20) From a cross sector industry association point of view, it is important in whatever procurement model is chosen that the principles of firstly, not interfering in the free market forces to competing and secondly, to be absolutely transparent and fair to all players involved in any opportunity are tightly held.
- 21) METALS NZ would be in favour of efforts to ensure that regional suppliers were given the opportunity to participate. Particular products can be best sourced locally if they are bulky items such a long run steel roofing.
- 22) We believe the AoG procurement project should and will be looking at best practice Supply Scopes and that various member organizations will likely be suggesting other specific provision ideas for warranties, retentions etc
- 23) NO
- 24) METALS NZ is prepared to assist as and when required, but more proactively, in coordinating the suppliers under the METALS industry umbrella to work with the AoG procurement project either in a business process improvement space or a product and systems knowledge space. This is a key platform as to the reason for our METALS NZ organisation to exist and ensure we have a capable, innovative and sustainable set of industry organisations for the building & construction market to choose from in future. We are interested to discuss how this might be possible.
- 25) There is nothing commercially sensitive contained within this submission. These comments are not specific to any business in particular but on behalf of member organizations of METALS NZ