KEY CONSIDERATIONS FOR EVERY LARGE CAPITAL PROJECT

HOW TO AVOID TODAY'S RISKY FIXED-PRICE CONTRACTS WITH EPCM

If you are planning a large capital project, to be successful, you must choose the capital project management strategy that matches today's turbulent times. In the fall of 2021, investors keep facing unpredictable materials costs, and short supply of quality contractors. Many partners are demanding to renegotiate the fixed contracts.

This volatility is causing many companies to re-think their strategy for managing capital projects. After all, when capital projects come in over budget and late, the entity most negatively impacted is you. If your factory or plant costs more than you budgeted, and if it gets commissioned months (or years) later than you planned, you are out of pocket in both increased capital costs and lost profit potential.

For these key reasons, many organizations are moving away from design & build (general contracting) and EPC and towards EPCM as a project strategy.

EPCM offers flexibility with timelines because it lets you implement your project in stages. This lets you implement design changes at any stage, or even refine the strategy during project execution. EPCM also helps you attract the best engineers and other subcontractors for each stage of the project (architectural, civil, mechanical, electrical).

EPCM mitigates risk by eliminating fixed-bid contracts and the uncertainties that come with them. Companies that adopt the EPCM project strategy are never at the mercy of general contractors who threaten to walk off the job, cancel the contract, or demand exorbitant increases in budget. This means that, before you sign any contracts for construction work, you face limited financial risks in case of project cancelation.

EPCM also mitigates risk before a single shovel has been put into the ground. An EPCM firm gets involved at your engineering stage, before hiring a single contractor. The firm helps you improve the quality of your tender package, define your project scope precisely, negotiate the best prices, and more. This improves the quality of the general contractors and subcontractors who work on your project.

EPCM prevents you from making all of these decisions with a single contractor (the way you do with an EPC firm), a firm that is doing all of the construction.

EPCM gives you more options in finding suitable general contractors. Some companies prefer to hire one of the top general contracting firms because doing so helps them obtain bank financing, and they prefer to go with a large company. But when the economy is booming, this option is not available.

During hot markets, many companies prefer to adopt the EPCM project strategy because it gives them more options for tendering and execution. They have a broader pool of contractors to choose from, but only one company to deal with (the EPCM firm) for everything from concept to commissioning.

IS EPCM RIGHT FOR YOUR PROJECT?

Some industries believe EPC is the only strategy to use on capital projects. Companies in the chemical, petrochemical, pharmaceutical and automotive sectors, for example, have traditionally favored EPC because they think fixed-price contracts and dealing with one responsible party are more effective. They have also tended to go with large EPC firms because construction is not their core business.

However, the current economic climate is forcing organizations to rethink their project management approach. Growing numbers of companies in all industries are choosing EPCM over EPC because they prefer flexibility and control around quality, price and timelines. They also recognize fixed-price projects present numerous additional risks and are rarely actually fixed-price.

If you are still undecided about whether EPCM is appropriate for your project, let's talk.

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Moving Away From Fixed-Price Contracts

If you are planning a large capital project, to be successful, you must choose the capital project management strategy that matches today's turbulent times. And for many projects, that means avoiding project management strategies that involve fixed-price contracts. Here's why.

Looking for Stability During Unstable Times

We are writing this in the fall of 2021, a time of unprecedented instability. You might even describe the current environment as a crisis. **Here are the top three drivers of today's uncertainty.**

1 Rising & Unpredictable Material Costs

For one thing, the cost of building materials is dramatically increasing, with the price of iron core alone doubling in the last six months. Unpredictable prices mean contractors and organizations alike cannot set realistic budgets.

2 Fixed-Price Contracts that Aren't Really Fixed

The sudden and rapid rise in building material prices has had an immediate cooling effect on contractors. Contractors who signed fixed-price contracts before prices skyrocketed are now demanding that their clients renegotiate those contracts. Many contractors are threatening to halt work or to walk away unless their clients increase their budgets to cover the increases in raw materials, increases that will bankrupt contractors if they are forced to absorb the increases themselves.

3 Short Supply of Quality Contractors

The third contributor to the current crisis in capital construction is a shortage of contractors who are willing to sign contracts under the present conditions. Despite the high cost of building materials, the marketplace is red hot right now. Contractors have no shortage of projects they can bid on. Many of them are now only bidding on the projects that suit them. They are rejecting requests for bids if the scope of work does not interest them.

EPCM as a Solution to Today's Uncertainty

Before we consider the advantages of EPCM, let's understand the other two main options.

Option 1	PMC	Project Management Consultancy	With this strategy, a project management consultancy firm **acts as your representative during all phases of the project**, including managing engineering, procurement and construction companies, engaged by the investor directly.
Option 2	EPC	Engineering, Procurement & Construction	With this strategy, an engineering, procurement and construction **firm takes full responsibility for engineering, procurement and construction**. Contractors often inflate their bids to cover multiple contingencies, such as unpredictable increases in raw materials.
Option 3	EPCM	Engineering, Procurement & Construction Management	With this strategy, an engineering, procurement and construction management firm **takes responsibility for engineering, procurement and construction management, but does not do the construction** on site. The firm only manages the construction itself.

Of these three project strategies, EPCM offers the most flexibility in terms of controlling timelines and budgets. It also lowers risk by dividing it among multiple parties.