

# THE KYIV TIMES

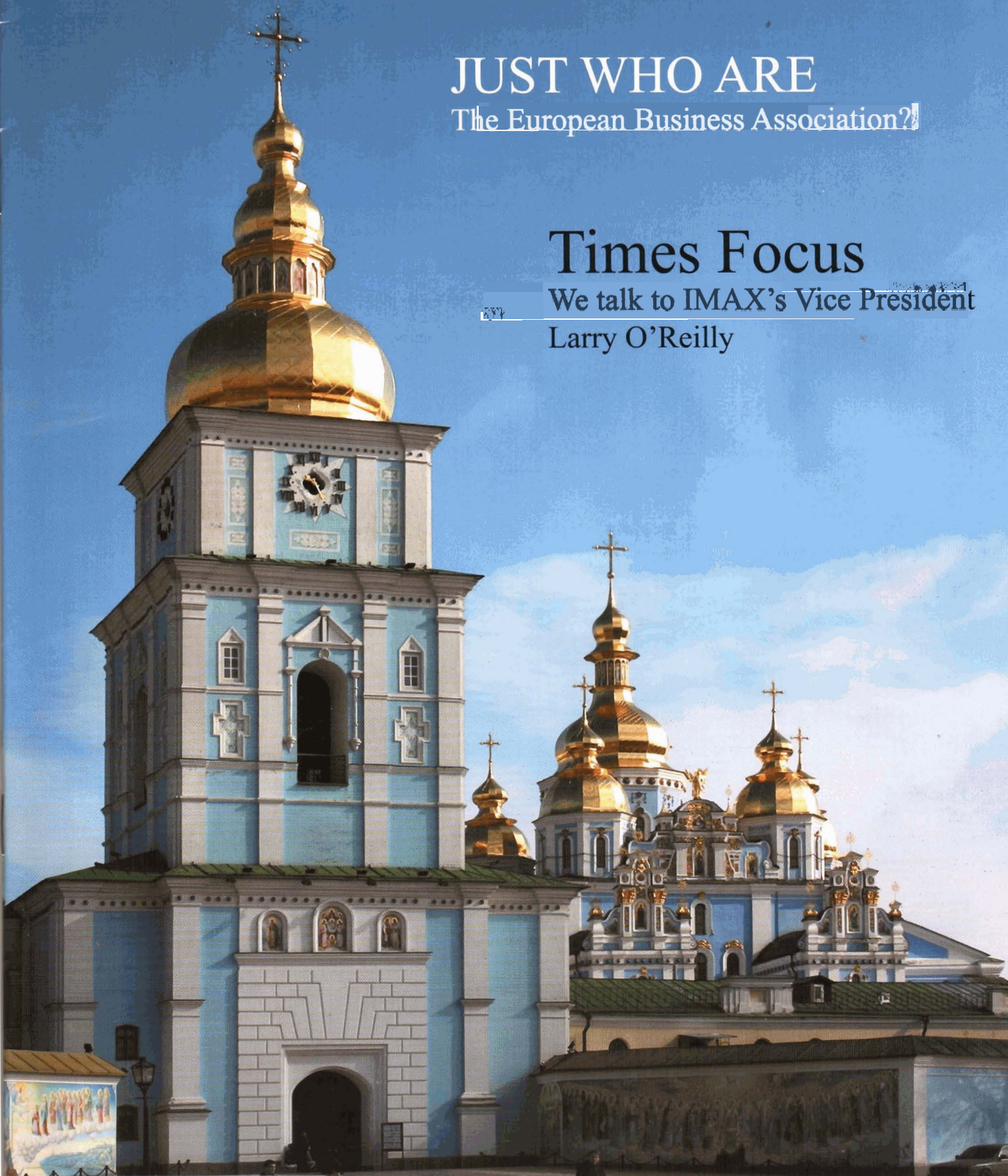
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Raising the Standard

JUST WHO ARE  
The European Business Association?

## Times Focus

We talk to IMAX's Vice President  
Larry O'Reilly



**STATUS**  
Business Language Club

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Raising the Standard

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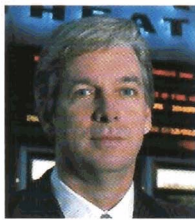
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### Cover picture



The stunning image of  
Mikhailovsky Cathedral built  
by the Kievan Prince Svyatopolk  
Iziaslavich in the early  
12th century. The Cathedral  
as we see it today is a recon-  
struction after the original  
was demolished in the 1930's  
by the Soviets during their  
anti-religious purges.

Photograph courtesy of Maxim Gorpenyuk

## Choosing a Procurement Strategy for your Fit-Out Project.

After negotiating the lease or purchase of a new office, often the last thing you want to face is the often tortuous challenges of the design and fit-out process. In Moscow especially, charting a course through the various options and choices of an architect, design engineer, fit-out contractor, furniture supplier, IT vendor and so on, can be a time-consuming process. It can also be a process pregnant with risk – risks from unknown vendors, specialist terminology, multiple promises or questionable reputations.

Defining a clear **procurement** strategy for the fit-out of your office is perhaps the most important thing you can do to ensure that your objectives are met. There are quite a few alternative procurement routes you may choose, and each potential vendor, and even sometimes landlords too, will try to steer you a direction that most suits their plans, but stand firm on this – a poor strategic choice now could define how much you finally pay, when work finishes and even the quality of the work done.

Let's look at the procurement route alternatives, assuming you are taking your new office space in shell-and-core state:

The landlord does the design and construction.

This often seems to be the simplest option. The landlord clearly knows the building better than anyone and he is clearly very likely to approve design plans he himself has produced. Also the cost of these services can be included in the lease agreement itself, removing the need for extra tenders and contracts.

However, the landlord is more likely than an independent contractor to push you into making design choices that suit him, that make the space more marketable after you vacate for instance. The chances of being able to choose exotic or unusual materials are less, and he is more likely to adopt a one-size-fits-all strategy for the fit-outs he is doing in his building.

Your landlord may do the work quickly, he may do it cheaply, but how interested is he in ensuring the design adheres to your

global design standards or your corporate branding guidelines? Is he likely to lose interest in the construction after practical completion, leaving a long punchlist of items still to be rectified? Its likely that your fit-out will not be the biggest project on his agenda – can he be trusted to attend to all final quality detail? These questions need to be asked.

You employ an architect and engineer to design the office and the landlord does the construction.

This strategy addresses some of the pitfalls of a simple landlord design and build, specified above. A design is completed properly, to your exact requirements but bearing in mind building limitations and restrictions and the landlord is given that design for approval and construction.

The design team may consist of an architect and a separate design engineer, with the architect taking overall design responsibility, or it may consist of an architect who employs the engineering design company itself, leaving you with just one extra contract to sign (very few architectural practices in the Russian market have the ability to do both aspects of design in-house).

While assessing and grading your project objectives you may want to seriously consider whether this is the direction for you. Certainly, you could not, in

this case, include the construction cost in the lease agreement, as the design, at that stage, will not have been completed. You will also want (and we would strongly advise) to compare the landlords price for the construction with other bidders. Having a separate design team working on the design enables you to do just that.

The comparison tender that this would involve may take 2-4 weeks for proper market pricing and analysis, but it is preferable to take this time rather than accepting one, unchecked bid. The alternative would be to employ a Project Manager to do a detailed cost analysis on the landlords bid, against Moscow average construction costs, which could be done quickly.

Please note: it is not unusual to find competing construction bids varying by a factor of over 40% in the Moscow fit-out market, for exactly the same specifications and materials.

**You employ a design-and-build company to do both.**

In the past the most common way to fit out a Moscow office space was to employ one of the few avowed design-and-build companies. These companies flourished during the 1990s, offering a one-stop shop for all office design and construction.



needs. Often they would also supply furniture, office equipment and everything else you would need to begin operations. As the market matured and niche players began to specialise and offer a focused service, this route became much less common.

It is, however, a route that should not be discounted. Having the same company both design and build your office can give you more confidence that the construction will proceed strictly in accordance with that approved design. Rather than having separate vendors, it also means you will not have to conclude multiple contracts, dealing only with one supply company and the landlord.

It's true as well though, that even in the design-and-build focused 1990s, there were very few of these companies that could do both of these jobs well. Most often they specialised in one of these disciplines and subcontracted the other out to a friendly or related company, undermining the advantage of employing one company to begin with. There are also problems with pricing these contracts.

For design-and-build contractors to bid on projects they need to be able not only to assess the scale of the design work but they also need to be able to assess the cost of construction work at a time when the design has still not been completed. Their risk in putting together these bids is obvious. The design choices you make may lead to a huge increase in construction cost – how can they be certain whether you will want a \$750/m<sup>2</sup> construction job or a \$5000/m<sup>2</sup> job before the design work has started?

They take a risk, assessing the nature of your company and perhaps requesting pictures of other offices to enable them to more accurately gauge likely final construction costs. That pricing though is likely, and understandably so, to be higher than it would be if that company simply priced a finished design – that risk needs to be hedged, and that higher price is paid by you.

**You employ separate designers (architect and engineer) and then employ a contractor to build the office.**

The procurement route with the highest degree of cost certainty involves employing a design team by competitive tender and then tendering, on the basis of the finished design, for a General Contractor.

This route also has been shown to lead in more cases to a higher quality of finished work.

The disadvantages though are that you will be faced with concluding at least two extra contracts, or maybe even three if architectural and engineering design are separated. The coordination of work also needs attention and management of that is best given to a dedicated Project Manager, either someone in-house or one of the professional PMs with local offices.

The various tenders involved in choosing this route add time to the overall project programme, it needs to be stressed, but the advantages in terms of cost and quality do, in our experience, more than make up for the time implications.



In any case, and in all cases, tenders for design and construction vendors should be preceded by a pre-qualification stage. While there are numerous vendors offering all of the mentioned services on the Russian market, those that can offer a service level you need, while provid-

ing both financial and quality guarantees are much rarer. A pre-qualification stage, where these "soft" criteria are examined and assessed, not only eliminates the weak or unstable candidates, it also pre-warns the bid teams of the respective vendors to expect an invitation to tender. Be aware that tenders that take place without advance notice or pre-qualification stages have a non-return rate of nearly 45% (that is, nearly half of all vendors invited to tender with advance notice in this busy market either fail to submit a timely bid, or else do not comply with basic tender conditions).

Similarly, no article on fit-out procurement strategy should fail to mention the importance during the design stage of identifying long-lead procurement items at the earliest opportunity. Waiting to employ a construction company in order to place an order for a piece of equipment with a 5-6 month leadtime (for instance, a model of generator) would be a recipe for disaster. Swift identification of these items and the direct ordering and, if necessary, free-issuing to a general contractor, is vital if the overall project program is to be maintained.

There is much else to bear in mind during the tender process, including the various types of contracts that are used in the market and the options you have when you define your required commercial terms of those agreements. This is by necessity a brief summary of the key choices faced when deciding upon your fit-out procurement strategy. ■

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