



DESIGN TO FIXED TARGET COST.

WHAT IF WE TIED THE TEAM'S PROFIT TO A FIXED COST BEFORE DESIGN BEGAN? THAT'S THE KEY TO INTEGRATED PROJECT DELIVERY.

Sutter Health faced a crisis in their business. The cost of delivering hospitals using CM, DB or LS approaches had risen to \$2 million per bed. Yet, the business case didn't make sense past \$1.5 million. They challenged their partners to find a better way to build. The challenge was accepted and integrated project delivery was born as a means to eliminate financial waste.

The idea was simple. It built on the pioneering work of Taiichi Ohno, the chief engineer of Toyota. Instead of asking for a price for a given design, what if we told the supplier our allowable cost and desired performance for the product being delivered? Then, what if we asked the supplier to propose a way to share the savings achieved by economies of scale?

What if we designed to a detailed estimate instead of doing an estimate based on a detailed design? Rather than trying to construct a detailed design, why not simply design what is truly constructible? Can you imagine the results from a change like that! The idea seemed simple and Sutter Health soon found that it worked. They now could deliver hospitals for \$1.5 million per bed!

Why not start the project by asking the team to tell you how much profit they need to make? No games. Just tell us. Then, let's put everyone's profit in a pot and put it at risk if the project costs more than the owner's allowable cost. In exchange, the owner agrees to pay the team's cost no matter what.

The key to success lies in the validation study stage of the project where the team works collaboratively together with each other and the owner to define the project and set target cost. Each member of the team ties their profit to the target cost using an integrated form of agreement. At this point, the owner has cost certainty, the team's profit is at risk and schematic design begins.

If the team delivers the project below target cost, a portion of the savings is returned to the owner and the balance is divided amongst the team pro-rata their contribution to the profit pot. If the project is delivered above target cost, the team funds the overage from the profit pot until it is exhausted, at which point the owner pays cost.

Results similar to those achieved by Sutter Health are common with this delivery model. In fact, there has never been a case where the profit pot has been exhausted on more than 80 projects delivered in this manner. Our direct experience tells us that a 10-15% reduction in cost relative a traditional delivery model are achievable with this approach.

