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PROCUREMENT TRENDS SURVEY

# GETTING CLOSER TO YOUR SUPPLY CHAIN

JULY 2019



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# INTRODUCTION

Rider Levett Bucknall's (RLB) *Getting Closer to your Supply Chain* procurement trends survey provides a snapshot of market sentiment on procurement issues. A successful procurement strategy is an engagement with the market that addresses clients' objectives yet understands what the supply chain finds viable. This report looks at macro market conditions with regional pressure points, trade capacity both nationally and regionally, routes to markets and the tender stage process, and touches on whether value based procurement and digital transformation have really been adopted in the sector.

As an organisation that sits within this procurement ecosystem offering clients cost, surveying, programme and project consultancy, we look to give these insights context and expert opinion and summarise what these findings mean to our market as well as offering considerations for those within the industry.

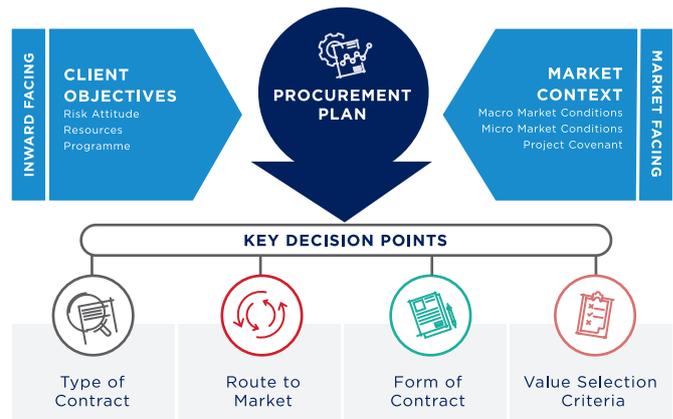
Our *Getting Closer to your Supply Chain* procurement trends report was compiled following interviews with key figures across the supply chain (ranging in sectors, size of projects and type of contractors) to gain their insight. The survey was intended to gain a broad range of views from all parts of the industry and therefore focused on a range of themes around procurement trends.

It is important to understand, against all contextual matters, how good a "fit" any chosen procurement route is.

Addressing weaknesses may not alter the selected route but can result in better outcomes by providing more nuanced solutions. We identify a "heat map" of the micro-market conditions as result of our survey.

## Conceptual model - procurement planning

Key factors to be addressed in procurement planning include both clients' objectives and external market factors. This is demonstrated visually below. The survey focused on the market context.



# SURVEY FINDINGS

## MACRO MARKET CONDITIONS

With input costs rising quicker than tender price inflation<sup>1</sup> and with an (in places) stretched supply chain, a common complaint is of two-stage tenders stalling or taking longer to get under contract.

Clients are looking to design out these stalled market engagements and contractors are weighing up the benefits of a two-stage process versus tying up pre-contract teams who could have looked at a number of single stage opportunities in the same time period.

Aside from proactive and positive management of the two-stage process, clients are bringing forward tier two supply chain engagement, even pre-selecting prior to main contractor award. Equally, it emerged that two staging lower in the supply chain and unbundling MEP packages are increasingly common trends.

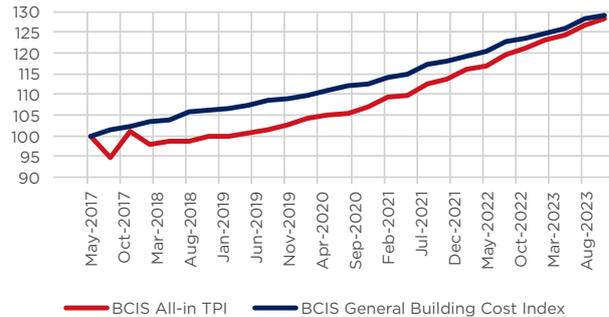
Brexit uncertainty is weighing heavily on contractors' thinking, but interestingly the largest impact was described as being the choice of preferred supply chain.

1. BCIS All in Tender Price Inflation Index and BCIS General Building Cost Index

## Impact of Brexit Planning Has Brexit:



## Input Costs and Tender Prices (BCIS, April 2019)



# SURVEY FINDINGS

## MICRO MARKET CONDITIONS

Our survey reveals a number of concerns for contractors looking forward to their next 12 months' pipeline. The top areas of concern were:

- Labour cost or availability.
- Supply chain capacity.
- Effect of Brexit on the market.

The survey also tracked a number of attributes and compared these against the competitiveness achieved in procurement activity. Our Competitiveness Score is a measure of the level of open competition driven through the process, not a measure of the end result of a tender process. Heated attributes demonstrate less competition; whether through client "push" or market "pull".

Key heated sectors include residential, education and public sector, with the latter two as likely to be driven by client choice as market pull. Regionally, the North West of the UK appears to have less appetite for competitive routes to market, but smaller contractors generally bid more competitively, more often. There is a clear correlation between size of project and Competitive Score.

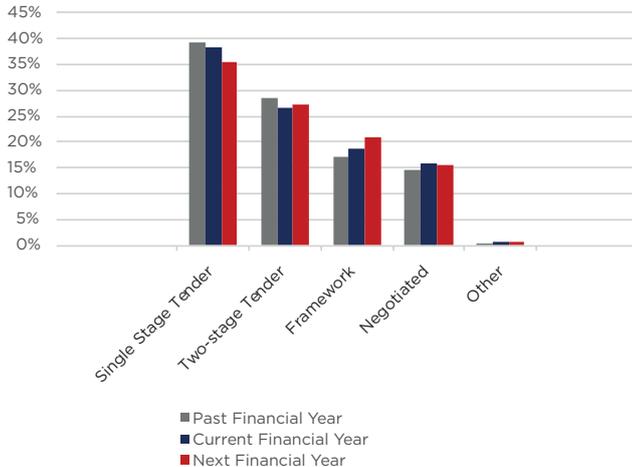
Meanwhile, heated trades include brickwork, bespoke joinery and façade / curtain walling, with more capacity in piling. Façades and curtain walling are only heated in London and the South East and surprisingly there appears to be more capacity with MEP sub-contractors.

## Competitiveness Score

MORE COMPETITION		LESS COMPETITION
Up to £7.5m	Typical Project Size	£100m+
Residential	Sector	Infrastructure
New Build	Type of Work	Fit Out
<£70m	Contractor Turnover	>£500m

# SURVEY FINDINGS

## ROUTE TO MARKET



### Commentary and Observations

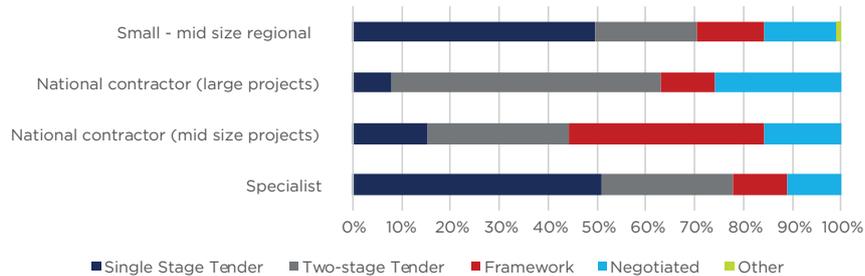
Our general observation is a resurgence in single stage tendering over the past three years. However, our survey demonstrates a move towards less competitive routes to market over a period of time. This sits against a backdrop of reported uncertainty from contractors, so it is unclear if the forward looking projections reflect a degree of optimism (winning more frameworks for example) or a shift in market sentiment away from single stage procurement routes.

What is reported is that in the last 12 months the use of negotiated routes and frameworks is on the increase and tendered scenarios decreasing. Currently the split of workload surveyed is about one third single staged, and two thirds staged.

# SURVEY FINDINGS

## ROUTE TO MARKET

### Breakdown by type of contractor



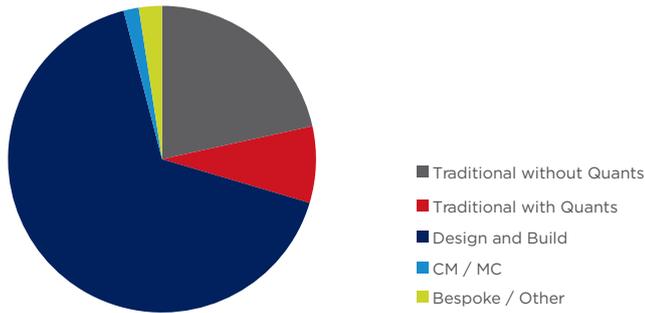
### Commentary and Observations

Smaller contractors operating in a single geographical market are competitively tendering much more frequently. Larger national contractors are taking single stage opportunities for less than 10% of their workload. Meanwhile, national contractors tackling mid size projects are particularly keen on frameworks. Government policy to encourage SME involvement is not yet showing huge dividends.

# SURVEY FINDINGS

## FORM OF CONTRACT

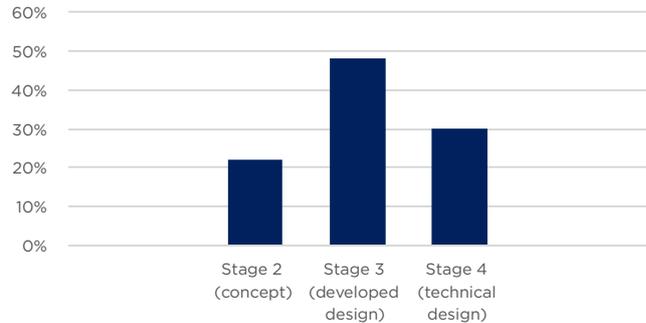
### Current Split of Projects



### Commentary and Observations

Design and build (D&B) projects are the most prevalent procurement route with approximately two thirds of reported workload according to our survey. In design and build scenarios most contractors prefer a Stage 3 design, presumably allowing some scope for influencing the design and improving margin. However "design and dump" approaches are more favoured by contractors than a more thoroughbred D&B tendered with a Stage 2 design.

### Preferred status of design at tender

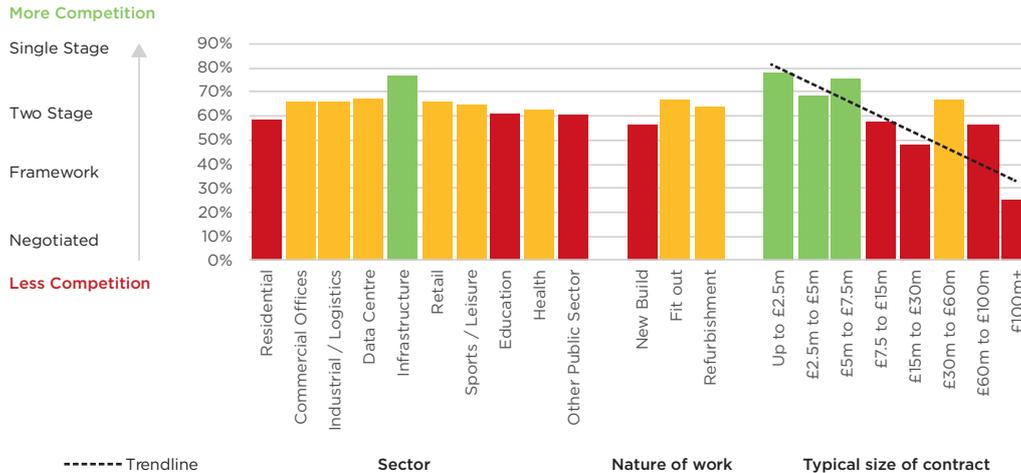


# SURVEY FINDINGS

## DETAILED HEAT MAPPING

In this section we map our Competitiveness Score to micro-level project attributes. Our Competitiveness Score is a measure of the level of open competition in tender processes; it identifies the likely market acceptance against each project type. Lower values (shaded red) are a reflection of less

competition such as negotiated routes to market and deemed more heated. Higher values (shaded green) reflect more competitive routes to market such as single stage tenders. The level of competition may be a factor of both client "push" and market "pull".



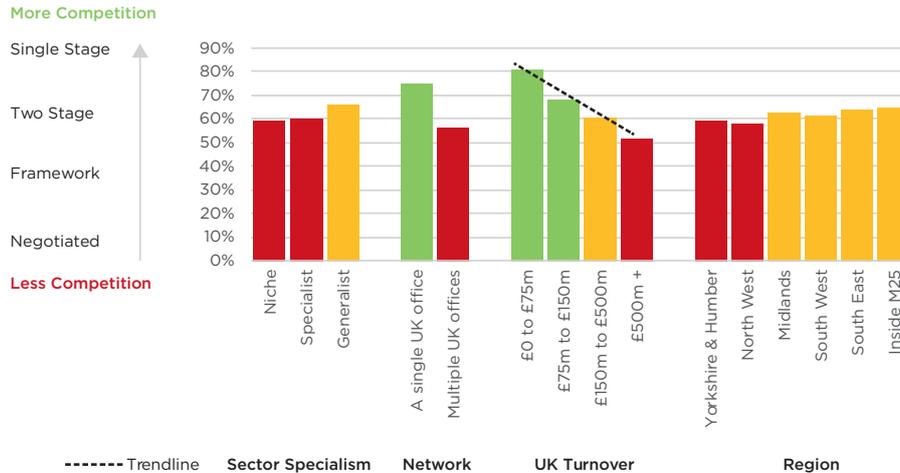
# SURVEY FINDINGS

## DETAILED HEAT MAPPING

### Commentary and Observations

It is likely that education and other public sectors are reflective of framework use. Whereas residential sector workload may be a symptom of capacity driving two-stage and negotiated routes. Meanwhile it is a surprise that new build work is shown as less competitive than refurbishment - reflective

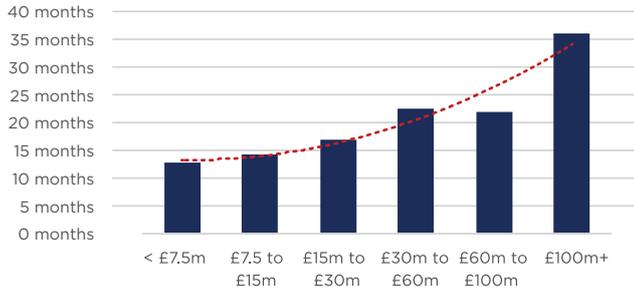
of larger project sizes in this category. The most obvious findings were that larger projects necessitate less competitive routes. Projects in the £30m to £60m category appear more forgiving of open competition than the trendline suggests ought to be the case.



# SURVEY FINDINGS

## FIXED PRICE

### Average Maximum Period Offered by typical size of contract



### Expected change in next 12 months



## Commentary and Observations

Fixed price periods typically being offered in the market are advised as likely to decrease in the next 12 months. It is expected that some of this is driven by Brexit concerns as much as expected underlying cost pressures. Coupled with the stated expected move away from single stage routes, it points towards a more favourable market for contractors. The correlation between project size and duration is strong.

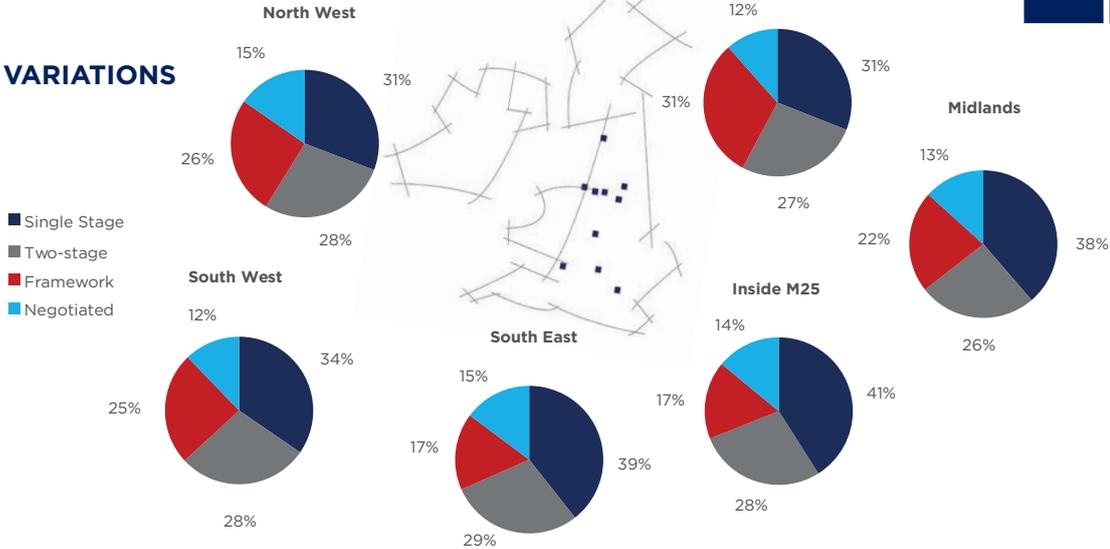
# SURVEY FINDINGS

## TRADE HEAT MAP (PERCENTAGE OF RESPONDENTS IDENTIFYING LEAST TRADE CAPACITY)

Trade	Yorkshire & Humber	North West	Midlands	South West	South East	Inside M25	UK
Groundworks	9%	0%	13%	12%	11%	6%	10%
Piling	0%	0%	2%	4%	2%	2%	3%
Steelwork	0%	0%	2%	4%	7%	6%	5%
Concrete Frame	13%	18%	13%	12%	9%	8%	11%
Façade & Curtain Walling	9%	14%	9%	4%	14%	16%	13%
Brickwork / Blockwork	26%	18%	21%	16%	16%	14%	18%
Dry Lining	0%	5%	5%	4%	2%	0%	5%
Roofing	4%	0%	4%	4%	5%	4%	4%
MEP	4%	9%	2%	4%	9%	14%	7%
Finishes	4%	5%	7%	8%	5%	2%	4%
Bespoke Joinery	17%	23%	13%	20%	16%	20%	12%
General Joinery	13%	5%	5%	4%	2%	2%	3%
Architectural Metalwork	0%	5%	5%	4%	2%	8%	6%

# SURVEY FINDINGS

## REGIONAL VARIATIONS



## Commentary and Observations

Generally the South East and London make less use of frameworks, likely to be driven as much by the relative split of public sector work amongst those surveyed in these regions.

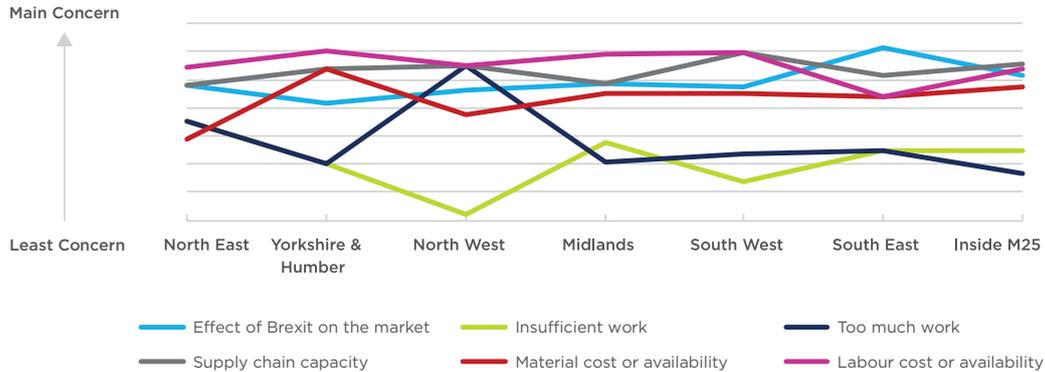
The North West, Yorkshire and South West utilise single stage routes to market less frequently than the rest of the UK, with an up to 10% points difference to London.

In these regions it is possible that contractors are seeing sufficient pipeline to be able to be more selective in the projects being taken on.

Despite the regional variations in many routes to market, the use of two stage is fairly static, accounting for just under 30% of all projects. There are only 3% points difference in the use of two stage routes between the lowest and highest region. Straight negotiation is most prevalent in the North West and the South East outside of the M25.

# SURVEY FINDINGS

## REGIONAL PRESSURE POINTS KEY ISSUES IN NEXT 12 MONTHS



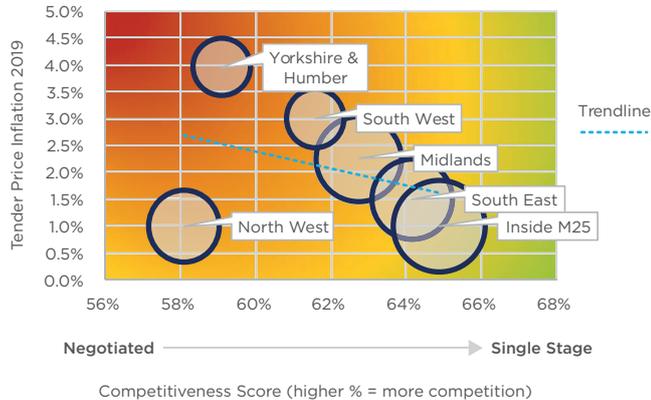
### Commentary and Observations

The future volume of work (too much or too little) is not giving contractors the most cause for concern in the coming 12 months. Instead it is the delivery concerns around supply chains, material and labour cost availability that are consistently the top reasons stated as giving cause for concern. Perhaps unsurprisingly, Brexit concerns are more

prevalent inside the M25 and in the South East. The North West's main concern seems to be too much work, perhaps supporting the great use of two-stage tendering in the region.

# SURVEY FINDINGS

## REGIONAL COMPETITION AND TENDER PRICE FORECAST



Size of bubble represents Construction Output for that region. Source: ONS January 2019.  
Tender Price Forecast is the forecast for 2019. Source: [RLB TPF Q1 2019](#)

### Commentary and Observations

This graph outlines regional Tender Price Forecast against our Competitiveness Score. The general trend shows less competition in regions with higher rates of tender price inflation. The outlying region is the North West which is showing a preference for two-stage and negotiated routes despite tender price inflation running at relatively low levels. This could be reflective of capacity issues in addition with an underlying lack of confidence in the market conditions, despite the apparently large supply of current opportunities.

# SURVEY FINDINGS

## VALUE SELECTION CRITERIA

In 2018 the Construction Leadership Council (CLC) published a report authored by Ann Bentley, RLB's Global Board Director, titled "Procuring for Value"<sup>1</sup>. One of its key themes was to promote models of value which are defined in a broader context than capital cost.

Our survey found reasonable adoption of the principles of value-based selection, with 66% evidence in the public sector and 63% in the private sector. Interestingly, where value-based procurement is adopted, the value selection criteria is only made explicit in 75% of public sector projects and 46% of private sector projects. This lends support to the CLC report which observed:

*The "Balanced Scorecard" referred to in the Industrial Strategy is a clear starting point for a new definition of Value, but its themes are broad and open to interpretation and too many clients (or their advisors) see it as a tick-box exercise to be overcome, rather than a project or programme enhancing tool.<sup>1</sup>*

The balance of cost versus value selection criteria may not only be a factor of the client's attitude but a way to differentiate a project in a more heated sub-market.

It may be that tipping the scales in favour of value-based selection could drive more competition through the procurement process.

A contractor's appetite for a single stage process may be greater if the selection is tilted more towards value than cost. Such a project may provide better prospects for a contractor than keenly bidding the first stage of a two-stage project that is selected purely on the basis of price.

For those clients who wish to make value-based selections, we are seeing greater use of two-stage routes. In these scenarios where the first stage costs are being fixed, this may typically only account for between 15% and 25% of the total. Surely, greater emphasis should be placed on value-based selection rather than costs or the provision of an organogram and the last three years of accounts.

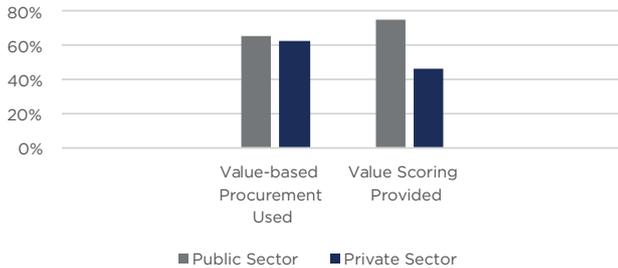
We see greater adoption of value-based selection further down the supply chain in the second stage of a two-stage scenario. However, there is more work to be done on an industry-wide basis on communication of explicit value selection criteria and monetising value-based selection criteria.

1. Procuring for Value: Outcome based, transparent and efficient, Construction Leadership Council, July 2018.

# SURVEY FINDINGS

## VALUE SELECTION CRITERIA

### Extent of Adoption

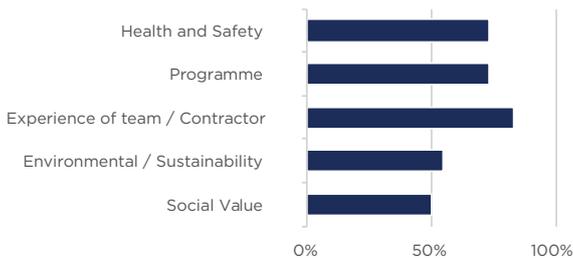


### Commentary and Observations

Value-based procurement has a reasonable foothold in the industry in both the private and public sectors. However, there is very little transparency in value selection criteria in terms of scoring, particularly in the private sector (where only 46% of contractors state that tenders provide it).

Perhaps more surprisingly is that in public sector tenders it is still only provided in 75% of cases. The most common value metrics being used are those with pass/fail criteria or those that are evidence based, rather than necessarily those that can be monetised.

### Value Metrics Being Selected

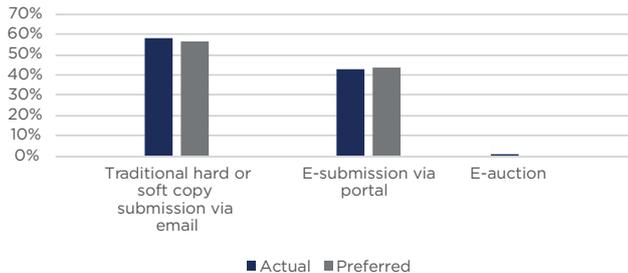


# SURVEY FINDINGS

## DIGITALISATION OF PROCUREMENT

One might think that BIM is well embedded in the industry. However, only a minority of projects provide contractors with a BIM model during the procurement stages of a project, despite the obvious benefits such as design interrogation and reduced risk allocation.

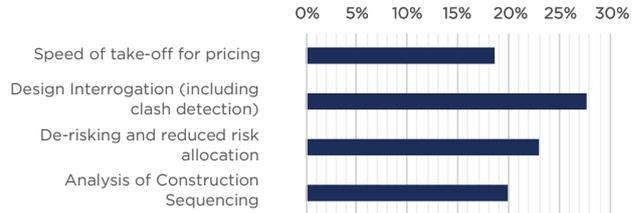
### Method of Tender Issue



### Current Adoption Rates of BIM Procurement



### Benefits of BIM Models at Tender Stage



### Commentary and Observations

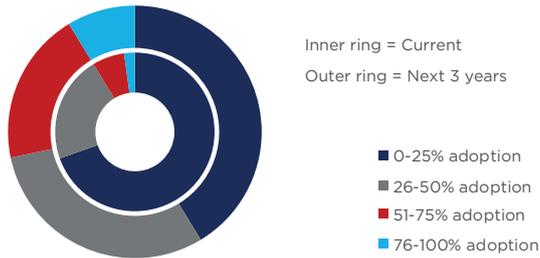
More traditional forms of tender return are still prevalent, with contractors showing a marginal preference towards this approach. E-auctions remain relatively uncommon, with not a single contractor selecting this as a preferred method of submitting tenders.

The most common response is that BIM models are only provided in less than 25% of projects, despite the obvious benefits of doing so. Perhaps designers are reluctant to share early stage BIM models for fear of portraying the wrong impression of design maturity. Overall, contractors score themselves an average of 8 out of 10 for digital preparedness.

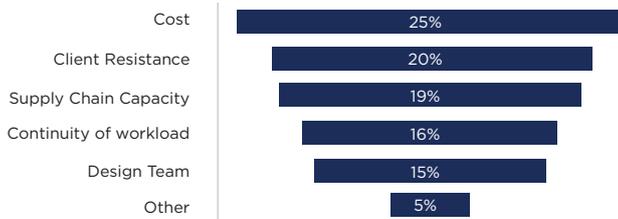
# SURVEY FINDINGS

## MODERN METHODS OF CONSTRUCTION (MMC)

### Rates of Adoption



### Barriers to Adoption



### Commentary and Observations

Current adoption rates of MMC remain relatively low - with two thirds of respondents saying it is only used in 25% of projects. However, on the positive side, the adoption rates are expected by most respondents to be accelerating over the next 3 years.

Looking to the barriers to adoption, the most common are cost, clients and capacity. These in themselves are interlinked, with costs likely to fall as more clients embrace MMC and see supply chain capacity built.

Cost remains the key; with the Government's "Presumption in Favour" pledge caveated with the statement "where it represents value for money". Cost benefits are not always obvious or apparent and may not be passed on up the supply chain. Consider the savings generated through fewer return visits to make good defects; there is a confidence drag in passing on such savings when adoption rates are modest.

Notwithstanding the absence of cost benefits, value benefits undoubtedly exist and these are often not considered in an overall value judgement.

# FUTURE TRENDS

We will be observing future trends in procurement such as the Integrated Project Insurance Model (IPI) and how it may impact procurement. RLB was involved in the first demonstration project, and has been leading innovative practice since our pioneering use of Project Bank Accounts.

## **Integrated Project Insurance Model (IPI)**

IPI is a new model that unlocks the potential of integrated collaborative working by:

- Aligning the interests of all team members with the functional needs of the client.
- Assuring solutions are achievable, affordable and delivered in a culture of full collaboration.
- Insuring the outcomes including cost overrun and establishing a pre-determined maximum financial exposure for all parties.<sup>1</sup>

We shouldn't underestimate the advances of technology as part of the procurement selection. A recent report<sup>2</sup> by McKinsey, a worldwide management consulting firm, identified Artificial Intelligence (AI) as having a potential use in tender settlement; analysing previous tenders and outturn profits, then "gaming" possible outcomes for each project. In the medium term AI may provide better data and analytics, rather than make the decisions.

Thank you to those pre-construction and bid directors who assisted with our survey; we suspect that your boards will not be willing to hand over the reigns to a machine just yet!

1. The Integrated Project Insurance (IPI) Model, Cabinet Office, 2 July 2014

2. Artificial intelligence: Construction technology's next frontier, McKinsey & Company, April 2018.

# CONCLUSION

As a result of our survey and analysis, the following provides an overview of the issues raised together with some proactive measures to facilitate the best procurement outcomes.

Key Findings	What it means to you	Consider the following
<p><b>More than 70%</b> of respondents expect the typical fixed price period offered is to decrease in the next 12 months.</p>	<p>Longer term projects may become less attractive for tendering contractors if clients are expecting a fixed price. A refusal to provide a fixed price may follow for some longer duration, higher value projects.</p>	<ul style="list-style-type: none"> <li>▪ Earlier engagement further down the supply chain to secure fixed price</li> <li>▪ Designing out (through selection or specification) Euro-sourced items where currency risk may be compounding fixed price views</li> <li>▪ Phasing (including enabling works and/or fit out separation) to mitigate programme impacts.</li> </ul>
<p>Up to <b>£7.5m</b> and <b>£30m-£60m</b> are the size of projects most likely to accept single stage tenders.</p>	<p>Projects outside of these size ranges may need to work harder to make the project attractive if a single stage tender is appropriate for the client objectives.</p>	<ul style="list-style-type: none"> <li>▪ All of a project's attributes that may dictate single stage or two-stage, or a different strategy</li> <li>▪ Other ways to drive competitive engagement if a single stage is desired but unobtainable from the market</li> <li>▪ The use of Value Selection Criteria to widen the appeal of a single stage.</li> </ul>
<p>The <b>negative impact of BREXIT</b> on pipeline is not the supply chain's biggest concern for the next 12 months, ranking just 5th out of 6 options.</p>	<p>The highest-ranking concern is material cost and availability. Nearly 45% of contractors are reporting that their Brexit planning has included a review of their preferred supply chain.</p>	<ul style="list-style-type: none"> <li>▪ Sourcing strategies at a design stage should be cognisant of source of materials and resilience of supply</li> <li>▪ A project with a design and procurement strategy aligned with market pressures is likely to de-risk the contractor's view of the project.</li> </ul>

# CONCLUSION

Key Findings	What it means to you	Consider the following
<p><b>Only 27% of projects</b> are provided with a BIM model at tender stage despite 70% industry wide adoption rates.</p>	<p>There appears to be a reluctance to share too much too early. Reasons could include tendering earlier in the design stages when the level of detail is not developed, or clash detections not yet fully resolved. Designers and clients may fear that earlier models portray a worse picture of the design, rather than reflecting the design status.</p>	<ul style="list-style-type: none"> <li>▪ Share BIM Protocols with the tender documents that provide a clear status of the level of detail, design status and clash detection</li> <li>▪ Collaborative BIM “on-boarding” as part of pre-tender engagement / interviews.</li> </ul>
<p><b>Only 46% of projects</b> in the private sector make explicit value selection criteria.</p>	<p>Without making value selection criteria explicit, how are contractors expected to demonstrate their capability? Appropriate and clear value selection criteria could actually drive more competition through a tender process.</p>	<ul style="list-style-type: none"> <li>▪ Clear communication of value selection criteria and a well-balanced cost-value weighting to drive more competition through procurement by widening the net of potential bidders</li> <li>▪ Communication of the value selection criteria and the basis of measuring them.</li> </ul>
<p><b>30% of contractors</b> advise that brickwork &amp; blockwork along with bespoke joinery are the most heated trades.</p>	<p>These are trades with the least capacity across all UK regions. Other trades have less capacity on a region by region basis.</p>	<ul style="list-style-type: none"> <li>▪ Designing out heated trades either through material selection or early adoption of MMC / Design for Manufacturing and Assembly (DfMA) principles</li> <li>▪ Engaging earlier and lower down the supply chain for more heated trades.</li> </ul>

# CONCLUSION

Key Findings	What it means to you	Consider the following
<p><b>14%</b> is the average predicted increase in adoption rates of MMC over the <b>next 3 years</b>.</p>	<p>Despite the relatively low current adoption rates, the pace is forecast to increase, albeit modestly. The largest barriers to adoption are cost, clients and capacity.</p> <p>Without capacity growing, costs are likely to remain higher than traditional methods and clients remain reluctant to entertain MMC.</p>	<ul style="list-style-type: none"> <li>▪ DfMA is best considered in the earliest of design stages</li> <li>▪ A MMC / DfMA specific procurement strategy to gain the most competitive advance from the supply chain</li> <li>▪ Capturing the added value, not just cost of deployment of MMC</li> <li>▪ The supply chain capacity and resilience, particularly with continuing Brexit uncertainties.</li> </ul>
<p><b>30%</b> of respondents prefer <b>'design and dump'</b> approaches to D &amp; B tenders with RIBA Stage 4 design.</p>	<p>Investment in more up-front design may be a time and cost burden but could widen the appeal of a design and build project. For projects with attributes resulting in less appeal for a single stage engagement, the resource that needs to be taken up in design management may be a deciding factor.</p>	<ul style="list-style-type: none"> <li>▪ Getting early engagement from lower down the supply chain to replace the buildability input that a contractor may give from tendering off an early design status</li> <li>▪ Not overdesigning proprietary elements unless intended to do so as part of a pre-selection in the procurement strategy</li> <li>▪ Be aware of the particular sectors, regions and projects sizes that may prefer more thoroughbred Design and Build.</li> </ul>

# ABOUT THE AUTHORS



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Joining RLB over 30 years ago, Matthew has a wide range of project experience, and now provides his clients with an opinion based on a sound knowledge of the major drivers that deliver successful outcomes within the commercial sector.



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Paul is a Partner of Rider Levett Bucknall in the UK and a Chartered Quantity Surveyor with experience in many aspects of cost and contract management including new build, refurbishment and infrastructure contracts.

Paul's particular expertise lies in advising clients on procurement and he is a strong advocate of understanding market conditions and aligning strategies with both client objectives and market sentiment.

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Million

UK turnover

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Offices worldwide

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UK staff





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