

Equal Partners

Customer and supplier alignment in private sector construction



CHANGING RELATIONSHIPS



A MAJOR STUDY BY



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Business Vantage has produced this report in association with research partners Construction Clients' Group. We acknowledge the help of all those involved in the project. Projects such as this are dependent for their success upon the generosity of companies and individuals who are prepared to give time and impart their first-hand experience and knowledge to the research team.

We have been particularly fortunate to have gained the support and co-operation of a large number of leading thinkers and practitioners in the retail sector and we fully acknowledge their support.

Interviews were held with the following customers

- Argent
- Asda Stores Limited
- BAA
- Berkeley Group
- Bristol Water
- British Land
- BT Openreach
- Crest Nicholson
- GSK
- Halfords
- Hammerson
- Hermes
- Igloo Regeneration
- Iliad Group
- John Lewis/Waitrose
- Land Securities
- MacDonald's
- MEPC
- Microsoft
- Musgrave Budgens
- Nationwide
- New Swindon
- Pfizer
- Royal Mail
- Somerfield Stores
- Somerset Housing
- Sovereign
- Stanhope
- Unite Group
- University of Reading

Supply chain workshops and meetings involved the following advisors

- Adams Kara Taylor
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- Buro 4
- Candy & Candy
- Charles Rich
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Foreword

Building on the foundation of the previous Equal Partners studies exploring private sector procurement, we embarked on this project with the Construction Clients' Group in early 2008. At that time, economic conditions were changing but the market was still buoyant – who could have anticipated what has happened since and during the process of this study?

We now face distinctly different market conditions as the UK enters its first recession for almost two decades. The speed and severity of this downturn exacerbated by extraordinary economic events that have taken place across the globe have combined to create an unprecedented economic environment that was still unfolding as we went to press with this report.

Whilst the industry is adapting to function in these difficult times, the concept of value and specifically procuring on value rather than lowest cost combined with the principles of integration and collaborative working have become common themes from the interviews and workshops that we have undertaken with both the supply and demand sides of the industry.

There is a realisation that both clients and the supply chain have a common purpose in collaborating to work their way through these uncharted waters, to deliver projects with changing parameters, whilst managing teams to maintain valuable resource and experience.

This report revisits the principles from the previous studies by pinpointing the key issues and gaps that lie between the expectations of senior decision makers and the delivery from the industry and starts to address the key issue of how we can collaborate together to manage our way through and out of the current recession. We hope that this report will inspire you to do so.



David Jennings

Managing Director
Business Vantage Ltd

The Construction Clients' Group (CCG) is the only dedicated client body combining both public and private sector clients in promoting best practice and industry improvement

The CCG aims to:

- Enable clients to get better value from construction procurement
- Provide a learning and sharing network for clients
- Promote best practice and industry improvement
- Provide a portfolio of products and services for members
- Influence government policy and forthcoming legislation
- Provide a collective client voice in key representative groups for private and public sector clients and client representatives
- To increase client competence in the procurement of built assets
- A better built environment and return on client investment

How this is achieved:

- Networking at international, national and regional events
- Representing clients at the Strategic Forum for Construction, Construction Skills, HSE and other industry stakeholder groups
- Influencing government policy and legislation through consultation events with CCG members
- Publication and communication of guidance and best practice to influence client behaviour

Introduction

In the original Equal Partners private sector construction report we addressed the issues that construction clients faced in 2002 including understanding their perceptions of key supply chain stakeholders as well as their desire to change to become more competent construction clients. This was at a time when the concept of 'Partnering' was introduced into the construction lexicon as part of the process of creating closer more productive relationships.

This perspective was balanced by the opinion of the supply side in the revised reprint of the report in 2004. Although committed to implementing the principles of the Rethinking Construction report the report advised that the pace of change was too slow. The supply chain accepted that it needed to be more proactive but in general terms relied upon clients to drive closer relationships.

Setting the economic context

When we started this study the construction industry was virtually at full capacity, funding was not an issue for developers and most major customer organisations had record forward workloads. Materials and energy costs were increasing, with two clients reporting that their energy costs had doubled in a 6-month period. Combined with other observations such as projects being larger and more complex, it was also identified that there is greater regulation and legislation that now impacts on private sector construction clients, for example, the CDM (2007) regulations.

Market conditions have changed considerably since we started this project – with the mothballing of some projects, predominantly in the private sector; forward workloads have now dropped off with many private sector developers and clients now having to seek increasingly innovative funding solutions for projects. Most major developers have continued the planning approval process but have placed projects on hold after this has been obtained.

This in turn has increased supply in the market place and an increased emphasis on the Government as a construction client to utilise the capacity now available across the sector.

Materials costs have also reduced but the extent of the impact of the rising energy costs have not.

Other observations from clients have included that many major designers, consultants and supplier organisations were struggling to attract and retain qualified staff and were also unable to generate sufficient margin. Whilst for the short-term the staffing issue has resolved itself there are concerns that in the longer term the overall position has been exacerbated by the current economic conditions. Many clients are now identifying a future skills shortage in the industry as being a critical issue as and when the market recovers.

Methodology

As with previous Equal Partners studies we have followed the same proven methodology to ensure consistency and enable each of the studies to be compared with each other. This comprised of face-to-face interviews with senior executives responsible for construction procurement and delivery in private sector clients organisations.

To create a balanced perspective this process was complemented with a series of supply chain workshops engaging designers and consultants, quantity surveyors and project managers, contractors and specialist contractors, and product manufacturers.

This whole process is aimed at providing an authoritative and pragmatic insight into the relationship between clients and the supply chain.

Objectives of the study

As with the previous studies, the outputs of the interviews and workshops will be used to understand customer and supply side drivers, highlight major issues and opportunities, to identify existing and future procurement models and methods, and explore new areas of cooperation. The report then goes on to identify key areas for improvement for customer & suppliers and then create a 'road map' for change to drive industry performance improvement.

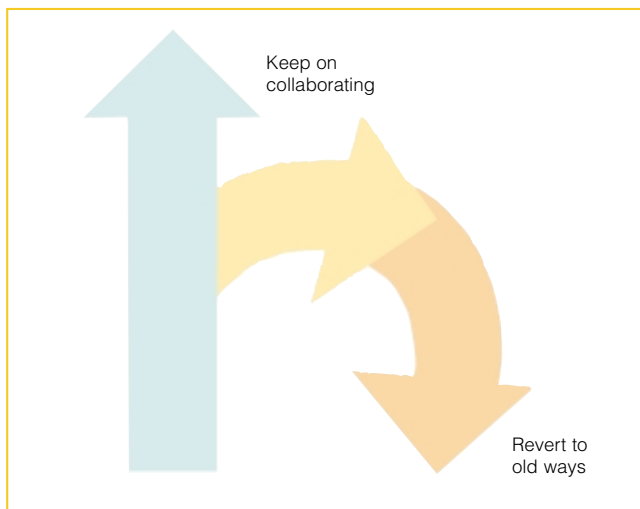


Executive overview

The biggest threat facing the industry with its current challenges and in the face of economic pressures is that it takes a short-term perspective and becomes 'price focused'.

From the feedback from both Client and Supplier organisations there is appetite and argument for closer collaboration to deliver better value and project outcomes.

Keep on straight ahead – or turn back?



We can't cut training or strategic marketing as these will be our lifeblood when the recovery comes
– Supplier

We need to keep a focus on more sustainable products and ways of working as our clients will still expect improvement
– Supplier

Keep on

- Collaboration with clients and suppliers is even more important in a recession
- Building and maintaining relationships, this is more important than ever, especially in remaining in a strong position to capitalise on the upturn in the market when the recovery comes
- Compete on a superior understanding of what value is to the customer and this can be delivered
- Work closely with clients to keep good teams together to avoid them being irreparably damaged – it is in both parties long term interests
- Work with suppliers to understand cost, drive out waste and therefore reduce price without impacting value or profit

Turn back

- This is a short term phenomena therefore a focus on winning low margin work and maintaining resources and teams is a viable option
- Clients need to reduce costs to make projects viable and will therefore will be looking for more competitive bids
- There will be increased number of supply chain organisations bidding for projects
- Some clients will automatically take advantage of market conditions to drive down costs
- There is an opportunity to pass risk down the line as the supply side becomes more desperate
- The design and construction supply chain will inevitably have to compete and reduce margins to win work and keep clients

“

We are only worried about the next 12 months so collaboration doesn't matter
Lowest price tendering will do fine for now, the short-term is all
we are worried about

Clients won't care about value, only lowest price, so we don't need to either

We don't need to keep teams together, whoever gives us the lowest price will do fine

We take a sharp pencil to all our costs, they are all just overheads

Suppliers will be desperate for work so we can drive a hard bargain on the price

We can forget about all sustainability issues and other new-fangled ideas,
no-one will care about these in a recession

”

Effect of economic situation and impact on industry

Project delays and cancellations

Undoubtedly the deterioration of the economy into recession during the process of this study has impacted on private sector clients. Early in 2008, the economy affected private sector housing; however, it has since shifted into almost every other aspect of private sector construction.

Major client organisations have reviewed and re-planned major work programmes to match funding availability and perceived market demand. Similarly large-scale projects have been re-phased to manage the supply of space coming onto the market and to align to funding requirements.

This has inevitably resulted in project cancellations and delays with many mixed used development projects being mothballed until the economy recovers. One contractor reported that in the USA it was fairly common to be told to leave a job at very short notice. For the first time in his memory this had happened in the UK when they were told to vacate a part finished site immediately.

Many clients that were interviewed stated that their priority was to keep their businesses going in the current market conditions with many projects having being stopped as the number of buyers in the market has also reduced significantly. This in turn has led to some organisations interviewed into downsizing, slowing down project completions, and standing down suppliers.

This is critical as clients need to work closely with their supply chains during any period when projects are being re-phased, postponed or mothballed. Ongoing communication between a client and their supply chain partner can enable effective planning and assists in confronting issues such as managing capacity and the skills the supply chain has available and alleviation of risk for all parties by managing out the impact of a slowdown in programmed activity.

“The housing sector will take 7 years to recover to the level of mid-2007 – private sector housing developer”

Financing

Financing for projects is also becoming increasingly difficult to secure through the traditional route of the banks following the unprecedented events in the financial services sector. Global events such as the meltdown of the sub-prime mortgage market in the USA, the collapse of the banks in Iceland and in the UK, the government intervention that has taken place across the financial services sector have dramatically hit future financing for projects across the construction sector. Whilst current projects are being completed or mothballed, presently new projects are only being taken to the planning stage.

As a result, for the first time in two decades there is now over supply in the construction sector as projects start slowing down across the private sector which, is in turn increasing competition, typically on cost. For the projects that remain, many clients are reporting a six-fold increase in responses to pre-qualification questionnaires as the year has progressed – this is set to increase further as supply chain companies fight for survival during the recession.

“Some clients are reporting a six-fold increase in responses to PQQs from supply chain partners – main contractor”

“The value of stock is reducing whilst costs were still increasing – several private sector clients”

To combat this, developers are now seeking increasingly more innovative financing solutions to enable projects to continue, however, it is likely that developers will continue to struggle to obtain funding for the foreseeable future which will inevitably result in continued project delays.

Other issues for private sector client consideration have been the depreciation in value of land banks and stock whilst operating costs continue to rise, with energy costs doubling in the previous 6-month period for some private sector clients. In an economic environment where inflation is decreasing and costs continue to rise, clients will need to seek improved value contributions from the supply chain partners to realise efficiencies elsewhere that does not significantly impact upon their overall business strategy.

Opportunities to differentiate

It was recognised, that with the number of projects starting on site reducing, that there is increased capacity in the supply side of the industry with many private sector clients reporting that they are receiving increased expressions of interest for committed projects. From a client perspective this is offering supply chain organisations increased opportunity to differentiate themselves through innovation and commitment to improvement.

A private sector house builder offered that current market conditions present opportunities to trade contractors to differentiate themselves from organisations who potentially have lost their edge when there was too much work available. They are now asking their supply chain partners for ideas to improve their offering for their customers.

There was an admission from some members of the supply chain that an abundance of work and resource pressures had led them to take business for granted and that this had inevitably affected their ability to innovate and deliver optimum value.

A major food retailer also identified that in spite of current market conditions sustainability is becoming a driving force for their organisation and that they have now opened their first carbon neutral store in October 2008. A critical driver for them is how they are differentiated in the market place from other supermarkets, other than by being ‘the lowest margin retailer’ - their challenge is to find other areas where they can create value and sustainability has been a key focus area for them.

The critical issue here is that there is a real opportunity for the supply chain partners to get closer to their clients, understand their business better, the pressures that their businesses are potentially under and the opportunity to build an offering that meets and exceeds the client’s business needs and requirements.

One private sector developer offered that those supply chain organisations that get closest to their client during the current recession would be in a better position to secure work and to assist them in minimising risk to their own businesses during the recession.

Don't revert to type

On a number of occasions during the research process reference was made to "Bills of Quantities" with a throw-back to single stage bids, to take advantage of market conditions.

By getting closer to your customer will enable companies to win more work, minimise risk and manage themselves through the recession
– private sector developer

Equally there was also acknowledgement that if supply side decides to put aside 15 years of reform and seek to manage their way through the recession by filling their order books with lower margin projects, clients will have to manage the ensuing increased risk and uncertainty.

However, whilst the larger players have diversified, by sector and geographically, and therefore have some cushioning against the recession many smaller organisations do not have this luxury. It is critical that these organisations get closer to their clients and focus on what value they can bring to them to differentiate themselves from their competition. In turn, they should expect to receive more modern ways of managing commercial arrangements such as favourable payment terms, which will assist with cash flow during the recession.

Practically all clients that were interviewed identified that the economy was having a significant impact on the supply chain. This in turn was creating pressure on resource, their ability to win projects with no financial slack in the market, and lead times starting to go out as projects are delayed.

All clients were also unanimous in commenting that the industry has come a long way from the generally confrontational and adversarial relationships that existed 15 years ago. Many clients advised that they now have much more collaborative long term working relationships with their supply chain partners that enables them to achieve the best outcome and value from their investment, enables management of risk more effectively and across the team, and successful planning for future workload and resourcing.

This approach has worked effectively in a time of economic stability and certainty – during the next 18 months this will be severely tested with less informed clients being tempted to test the market and supply chain organisations reverting to focus on cost rather than value. Without exception, the clients that were interviewed were even more committed to working with their current supply chain partners but did acknowledge that there would be significant pressure from group procurement departments to test the market. This would be avoided where at all possible.

Over the last 15 years the industry has improved significantly delivering much better value for money
– major food retailer

“Clients are coming under increasing pressure to test the market
– high street bank”

“As the industry consolidates, skilled people are leaving the sector which will create a future skills shortage and increase in project costs when the market returns
– major IT corporate”

Future skills shortage

A further observation was that in previous recessions, the industry typically consolidates and as companies downsize and restructure, with typically skilled and experienced workers leaving the sector as supply side organisations cut costs. The other difference between now and earlier recessions is that many organisations have diversified with global operations and are in a position to send staff to more lucrative markets, such as the UAE for example.

This presents a problem when the market returns and project come back on-line. In this situation, it seems inevitable that demand will exceed supply and ultimately will result in a skills shortage and project costs increasing in the medium term as costs increase to accommodate higher demand. Many clients interviewed saw this as being a major future risk for them and the key challenge for the sector after the market recovers and projects are either continued or re-started. How will the industry respond to the resource need and the increase in demand – ultimately, many felt that project costs will spiral as companies increase costs to accommodate under-supply in the industry.

Impact of recession not fully realised

One of the key observations from the supply chain workshops was that the full impact of the current recession has not yet been fully realised and that there will inevitably be further consolidation across the sector. Many recognised that the real bite will come when current projects are completed and there are no new ones to start, with June 2009 being mentioned by several participants as being the crunch month.

There was also a shared view that the industry had become too complacent with the volume of projects and work available in the market place over the last two decades with many companies becoming acclimatised to lots of available work which has led to inefficiencies that the current economic climate is giving firms the opportunity to address. The importance of the project teams and their structure is critical in this process and those that work more collaboratively together will manage their way through the current economic downturn.

Rising costs were undoubtedly a key issue for some clients, with a food retailer, a developer and a high street building society, identifying that significant rises in materials costs and energy prices with utility bills doubling over the last 6 months. The building society has now joined a hedging fund as a solution to the problem of rising energy costs.

Workload and international working

Workload is now a key issue for the sector with supply side capacity increasing and competition for contracts becoming fiercely competitive. As a result, some supply chain organisations are seeking to fill forward order books with lower margin projects which is exposing themselves and their clients to increased risk and increased possibility of future claims. Alternatively, companies are increasingly exploring international markets and sending their employees to work on international projects.

Future workload is the lifeblood of any supply side organisation, however, filling order books with lower margin projects whilst maintaining turnover is not the answer according to clients and the supply chain workshops. Supply chain organisations should be seeking increased efficiencies and better ways of working to maintain value and margin on future projects rather than reducing costs by only attacking margin and significantly increasing future risk for projects and their companies. It was commented that companies would be better off restructuring and preparing their businesses for the impact of the recession rather than running their businesses as they currently are doing and hoping that the lower margin projects will see them through the recession.

Supply side organisations need to address their inefficiencies and cut their cloth accordingly to prepare their businesses for the recession
– private sector developer

Learning from previous recessions – closer collaboration

Given the economic climate, committing to a proactive and not reactive approach is vital to all members of the supply chain. Flexibility and adaptability will be key to managing through the current recession. There is also an opportunity to learn from the experiences and actions that have been adopted in previous recessions. This in turn will minimise risk, enable closer engagement with clients and delivery of improved value. The industry must take the lead and proactively offer a better way of working through integrated and collaborative working techniques to construction clients and the benefits that they will provide.

Impact on other issues

Over the last few years, the industry has experienced the impact of sustainability as it becomes increasingly critical in the delivery of our built environment. Given the current recession the industry has sought a different kind of sustainability in terms of business survival but what happens now to key issues such as Corporate Social Responsibility and environmental sustainability?

Current plans and actions are being driven by the economy so will sustainability take a back seat? There is clearly an opportunity for supply chain partners to continue to differentiate themselves by addressing these issues providing real added value to their clients as well as continuing to commit to continuous improvement.

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A developer also identified that the commercial office sector is now being affected as organisations retrench and downsize to react to the market conditions and as their headcount decreases so does their requirement for office space. This in turn impacts on the wider commercial market as the demand for office space decreases and rents start to drop developers' returns and investment values are at risk.

Valuations from the Mortgage Council are having a significant impact on property values and return on investment

– major housing developer

A house builder also advised that a critical issue was with regards to value in the property market and liquidity in the mortgage market with the Mortgage Council downgrading valuations on properties. This is having a significant impact on the market value of properties and the business case for continuing to progress existing developments. The mortgage market is experiencing its worst take up of new mortgages in decades and the Royal Institute of Chartered Surveyors are forecasting that house prices will have fallen by 25% by the middle of 2009.

The RICS are predicting that house prices will have fallen by a total of 25% by the middle of 2009

– house builder



Type of relationship

A strong team-working ethic was identified as a minimum requirement. Several clients advising for example that they continue to work with the same contractors and consultants on a long-term basis and that having the 'right' relationships has been critical in terms of delivering success on their projects and programmes. Having the right level of relationship was also identified as being crucial – having the capability to pick the phone up to the CEO to discuss issues, project matters or construction requirements is of considerable value to construction clients. It was deemed to be important senior executives in supply chain organisations understood the clients businesses to enable them to deliver improved value.

The present danger is that the nature of these relationships, effective as they are, could change with the current economic climate as clients seek to make projects viable and to drive cost out of the design build process. It vital that the need for improved value and efficiencies to maintain the return on investment is not interpreted as a cost cutting exercise.

All clients interviewed were united in distancing themselves from the behaviour of certain clients particularly those in the house building sector during 2008, who sought retrospective discounts from the supply chain and extended credit terms, advising that they would be working even more closely with their supply chain partners, collaborating to identify and introduce improved efficiencies. They did not expect their partners to do this alone as this would be a move away from the integrated team ethic they have worked hard to develop and a reversion to type and typically more adversarial ways of working.

For example, a national postal delivery company commented that their partners really understand their business and have the right mindset to meet and exceed their requirements.

This approach has enabled the supply chain to understand their business better and help deliver improved value on their construction portfolio. A private sector housing developer also advised that their supply chain partners must have the right attitude and relationships should be 'like a marriage – built on trust, honesty and proximity'. A private sector developer commented that their relationships were based upon openness and a direct approach with communication and building trust as critical success factors.

A private sector house builder also advised that attitude was key. With a can-do, positive, problem solving, opportunity creating approach from their supply chain partners they have been able to address key issues and overcome challenges to deliver improved value and product quality.

We will be working with a our supply chain partners to realise efficiencies rather than edicting cost cutting measures as experienced in the house building sector in 2008
– high street building society

“...relationships should be like a marriage – built on trust, honesty and proximity
– private sector housing developer”

A food retailer seeks an environment of collaboration and team working with their supply chain partners as a minimum requirement – if this is not understood or not encouraged by their partners then they will seek an alternative supplier who does.

“The client must be prepared to drive innovation and continuous improvement in their supply chain
– specialist contractor”

A private sector developer also commented that having an open and transparent relationship based upon honesty and trust was key with communication remaining the critical aspect. Supply chain partners must be able to demonstrate similar integrity and approach to the private sector developer; however, critical to success was having relationships at the right level to deliver success across their secured programmes of activity.

“Supply chain organisations must focus on their client's business rather than on the process of building
– major food retailer”

Most of the interviewees acknowledged that for new supply chain partners there would always be a steep learning curve at the start of the relationship and time must be invested by all parties to navigate the learning curve. This is a rather obvious fact as people get used to working together and the supply chain partner starts to understand the client's business more and what they expect from project delivery. The key factor from a client's perspective is to drive continuous improvement, innovation and expectations that as the supply chain partner becomes more accustomed to working practices and project deliverables that they can apply the learning from one project and apply it to the next to deliver it quicker and more cost effectively.

Know your customers

Understanding your customer's business was identified by many clients as being a very important requirement from any potential supply chain partner. By understanding what a client does as their core business activity the supply chain can develop and fine tune their offering to align to client expectations and differentiate them from the competition. This was specifically commented on by a national postage delivery company, a high street building society and a sustainable regeneration developer.

The criticality of understanding a client's commercial drivers was imperative for these clients and their supply chain's capability to understand and interpret their organisation culture, what they do as their core business activity and how what their input into the design and construction process can do to add value to their client's business was essential. In general, it was commented that construction companies tend to be too focused on the product that they build rather than the value that the building can have for their client's business.

This was supplemented by clients wanting construction companies to spend time understanding the market sectors that they are targeting to win work in. It is not sufficient now to compete and bid for work. Potential supply chain partners need to be able to understand what constitutes value for any given sector, the commercial drivers and sector sensitivities. Without stating the obvious, the requirements of a high street food retailer will be significantly different to that of public sector school – this needs to be recognised and supply chain organisations need to customise their offering accordingly on their understanding of what deliver improved value for the given target sector.

A national postage delivery company advised that they need their supply chain partners to really understand their business and the conditions and environment that they operate in – they need to be able to demonstrate how they can contribute additional value to their business if they want to be considered as a supply chain partner. Similarly, a high street building society commented that their supply chain must fully understand their business and its dynamics if they want to go beyond the pre-qualification stage.

A private sector sustainable regeneration developer acknowledged that they are deliberately ‘a bit woolly’ as an organisation in an effort to challenge the supply chain to be more aware of the company’s business drivers so that they can enhance their construction offering to assist them in improving their business performance and to meet the company’s expectations.

Listen & learn – how they can add value, understand the business

As well as aligning their businesses to meet with client’s expectations, a critical part of building strong relationships is the capability to communicate, to listen and to learn from experiences. The clients interviewed during this study advised that a supply chain partners ability to communicate and listen effectively was a critical factor.

The critical issue for supply chain organisations is that they need to be good communicators as well as continuing to learn and add value to a client’s business. As we have covered earlier in this study, the capability of the supply chain partner to listen, learn and take the experiences of one project interaction with a client and then apply that learning to the next project is critical for any client. This demonstrates commitment and underpins continuous improvement and provides the platform for innovation to deliver enhanced value to the client from one project to the next.

“Construction companies need to be able to customise their offering for the sector they are targeting
– private sector sustainable regeneration developer”

“You’ll need to understand our business if you want to be considered for any of our work
– mixed use and retail developer”

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“If construction companies spent 10% less time trying to sell to me and 10% more time trying to understand my issues they would be 50% more efficient
– international company”

“Taking learning from one project and applying it to the next one to deliver enhanced value to me as a client is critical
– fast food retailer”

One high street retailer advised that long term working relationships are reliant on this capability and they drive their supply chain partners to deliver process and project improvements on every project.

It should also be noted that client organisations are not always as effective at communicating their business needs, drivers and expectations to the supply chain and were criticised for not always investing sufficient time with the supply chain organisations. Best in class clients have a formal induction process and are proactive in supporting suppliers, in their various forms in engaging with their businesses and people.

Openness and honesty

This is vital to the success of any working relationship in terms of managing workloads, resources, risk and delivering value on projects. To have a completely open and honest relationship enables both the client and their supply chain partners to complement each other and assist in future programming and resource planning. For example, in the current economic environment it is critical that the clients advise their supply chain partners as early as possible of any delays in phasing or postponements of projects so that these organisations can re-deploy and manage their resources within their businesses and to meet the new programme.

If there is no finance available or projects are mothballed, the client should be open with their supply chain, whilst keeping all members of the project team up to speed with any developments.

As the industry gets acclimatised to different economic conditions there will be opportunities for all supply chain partners, including clients, to engage in extracting better value and managing out risk from projects. There is now a real opportunity to develop a model in which suppliers and clients can engage and work to deliver value and a successful future outcomes for all parties engaged. A national postage delivery company commented that better communication ensures that everything is clear to all.

This also puts the supply chain in a position to manage outcomes and to better resource projects and future phasing of projects and could influence decisions around consolidating and restructuring the supply chain partners business and prepares them better for future planning and producing enhanced project outcomes.

Developers vs corporates

What is the difference?

When exploring the requirements of private sector clients there was a significant difference between developers, retailers and corporate clients. The business case for a project, potential end users, the financing routes and the way that projects are procured are all subtly different.

Developers tend to have relatively flat structures and short decision making chains, with experienced, confident, individuals who work to tried and tested processes. Corporate clients, who tend to build less often, have more stakeholders, are more procedural, less confident and need more management and support. Retailers interestingly sit some where in the middle.

For retailers the imperative is centred on maximising revenues through opening new stores on a timely basis and trading through refits with a minimum disruption to both sales and customers. The supply needs to understand the dynamics of the retail sector, the importance of trading windows and how to work to a common purpose.

Developers typically seek an immediate return on their investment and work to a clearly defined business model, underpinned by a financial / investment appraisal. Conversely corporate organisations generally build with a longer-term view on return on investment and a building is driven by a specific business need or requirement in their service or product portfolio.

This is best demonstrated through the approaches of a private sector sustainable regeneration developer, a private sector developer and a high street building society. A private sector sustainable regeneration developer operates a Funder-Developer-Owner model with them ultimately owning and maintaining the asset. Similarly, a private sector developer identifies their key stakeholders as fund managers regarding financing, community links where the buildings exist and tenants or end users of their buildings.

A high street building society operates a Customers-Suppliers-Employees model which is based around integrated working and service provision to their banking customers – this model is fundamentally different to the private sector regeneration developer or a private sector developer approach and needs to be considered and accommodated by the supply chain when working with these two distinctive groups.

So why is this important? Well the supply chain partners must be able to differentiate between these significantly business drivers and customise their approach and proposition accordingly. It is therefore imperative that the supply chain understands these drivers and what constitutes value to the different client groups and cultures to enable them to win work and assist their client in enhancing their offering to their customers.

Supply chain partners must be able to differentiate the requirements of corporates and developers and customise their offering accordingly
– main contractor

As well as recognising and understanding these different sector traits the supply chain also needs to take account of individual client cultures, if it is to align to the client, deliver to expectations and develop a sustainable relationship.

After project completion

Managing project completions, particularly where phased handovers are concerned is a key issue. In the housing sector managing completions of individual residential units is crucial to meeting the house builders commitments, maximising revenues and critically meeting cash-flow targets.

Similarly in the retail sector the ability to meet deadlines, often against a backcloth of a developing design and specification is vital when trading windows are commonly mission critical. The commercial property developer particularly in the present climate needs to manage phasing to manage expenditure and capture lettings and occupier interest.

In the case of the commercial developer post handover, the relationship the supply chain has with their client will often shift from the developer to the tenants in the building. A private sector developer made the point that there is a significant difference for the supply chain partners after practical completion from any other type of project - after the tenants have occupied the finished building it is not a building site any more as it is now occupied space and the rules of engagement are therefore completely different with regards to additional time and respect required to tenants who are typically not construction experienced and expect to be moving into a completed facility.

“PC for developers means that your relationship transfer to the tenants rather than the developer – private sector developer”

A private sector developer confirmed that practical completion is the critical phase in any of their projects as this phase of the project will impact upon their reputation as a developer with their customers, the tenants the completed building. Therefore an honest approach with no surprises is what they expect and demand from their supply chain partners.

With the corporate organisation, the relationship between supply chain partner and client will be maintained post-handover and both can continue to manage any post completion handover issues as you would on any typical project.

All types of clients retailers, developers and corporates are affected by the impact construction can have on their reputation but in different ways:

- Retailers, particularly when doing live refits have a direct interface with their customers, disruption will impact on sales revenues and on customer loyalty
- Developers are predominantly affected by their reputation with funding partners, who are effectively buying into their expertise, and with future tenants and the public through any ongoing disruption
- Corporates are interested in their relationships with their customers, their employees who often bear the brunt of any disruption and to a lesser extent the public

These significant differences that should be understood by the whole supply chain especially when practical completion is approaching.

Impacts of project financing in the recession

Given the current recession, private sector funding for developer-led projects has become increasingly difficult to secure and many proposed projects have now either been delayed or cancelled.

Debt financing on any scale even with the strongest covenants is presently difficult to obtain. Speculative developments in the current climate have all but ceased and most developers seek pre-let commitments before proceeding with a project.

Client organisations are looking for more innovative methods of funding projects, with a more open approach to joint ventures and shared equity projects.

Whilst in the study we did not come across members of the supply chain participating in the shared financing of projects, in the previous 90's recession major contractors played a role in supporting project financing and in the process secured project and future workload. Major players in the supply chain particularly contractors should be potentially exploring this avenue of opportunity to collaborate with clients over the financing of projects.

In overall terms this shortage of available funding has resulted in the supply side focusing the now available additional capacity to the corporates clients who are still procuring work and typically using their company's resources to fund projects and their construction programmes.

Core vs non-core business activities

For developers construction is a core business activity for them and they are frequent procurers of construction work and are typically, best practice clients, who understand the construction industry, have had experience of engaging with it in the past and have spent time understanding how they can work with their supply chain partners to enable enhanced value from their construction procurement.

Retailers also have a vested interest in working closely with the design and construction industry and have successfully engaged with supply chain developing teams of contractors and consultants. The repetitive nature of their work and the direct relationship between their building [stores] and their customers drives the need for collaborative working.

For corporates, construction is typically a non-core business activity and generally remote from its customers. Projects tend to be one-offs and infrequent.

With financing becoming increasingly difficult for developers, construction companies are now focusing on corporate clients for work
- main contractor

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“There is a significant difference between a client that procures construction as their core business activity and one that doesn't
– main contractor”

“Increasingly corporates are being encouraged to test the market
– specialist contractor”

This is not to say that they are not good construction procurers as many of the corporates that we interviewed as part of this study demonstrated real innovative client thinking and had spent considerable time, effort and money in up-skilling their own competence as construction clients but it is only part of what they do.

Testing the market

Construction procurement can also be impacted upon company procurement policy, which can impact upon their capability as a construction client. Construction in some instances is being treated as a commodity, like loo rolls and being procured in a similar way. Increasingly corporates, as an example, are being encouraged to test the market now that there is increased capacity across the industry and in some cases are being asked to focus on driving cost down rather than procuring on value which ultimately affects the value proposition that they have previously been working to achieve.

The supply side needs to be preparing to respond proactively by offering innovative solutions that focus on delivering improved efficiencies, that demonstrate cost transparency, rather than focusing specifically on driving cost down and putting product quality and relationships at risk.



Lack of interpersonal skills

During the interviews clients commented that representatives from supply chain organisations often lacked self-confidence and the capability and interpersonal skills to start develop relationships with clients.

Typically, it was perceived that this was due to these qualities being outside of the usual skills set and training requirements for construction companies. However, clients in general were critical and identified that these are the key skills required by any representative from an organisation to start building long term working relationships. It was also acknowledged that these are the skills that take construction people out of their comfort zones.

Supply chain organisations need to understand that the importance of developing of communication and interpersonal skills as an essential part of the process of developing future working relationship with their clients and that time and effort needs to be invested to up-skill their capability in this key area.

Using expertise earlier

Many clients that were interviewed had a good understanding of the construction industry and the project process. As a result, they recognise that to deliver a successful project that there is a diverse range of expertise across the sector and full engagement is required at early stages of the project process to positively affect decision making and to enable clients get better value from their construction procurement.

They recognised that an early engagement with the supply chain was critical to realising maximum value, driving out waste, achieving practical solutions and to identify and manage risk.

Exploiting the inherent knowledge and know how of supply chain both first and second tier can deliver considerable value and iron out any problems at the design stage before become construction issues.

For those clients that don't have a good understanding of the sector, the supply chain partners need to be more proactive in offering guidance and advice to their clients so that it can be employed earlier in the decision making process and ultimately enhance value for the client.

Managing risk exposure

This is even more important given the current economic climate when potentially clients could be exposed to the increased risk of companies going out of business during a project.

Interpersonal skills are critical in developing any long term relationship but is critically the skill that is typically missing from construction companies

- national company

Clients need to use the specialist expertise of their supply chain partners earlier in the decision making process to get better value from their construction procurement

- major corporate client

This risk can be managed out by developing relationships with supply chain partners and working in a more integrated and collaborative way. Openness and honesty are a prerequisite for collaborative working. Early engagement and involvement of the supply chain in the pre-construction phase is an important factor in this process.

Typically the best people in the UK are now going abroad to work on international projects or are leaving the industry all together
- major insurance company

Where are the skills going?

It is essential that training and graduate recruitment is maintained by industry even in the current economic climate. The consensus from the supply chain workshops is that organisations are reducing their workforces but are still recruiting good quality people. The real impact on skills will be felt in the next two or three years with companies competing on international projects through the quality of their people but will these people return to the UK? The fact that organisations are sending their staff abroad to work; leaving a gap for graduates to come in could be a good thing, but this needs careful management. There were concerns about the level of knowledge and experience across the sector for the future.

This is a significant issue for clients as with skills potentially leaving the sector, there could be an immediate problem with the skills and competence of people that are remaining and a resource gap is inevitable when the market recovers.

A national postage delivery company advised that there was a need for more skilled people. With the shift towards globalisation of suppliers, the sector is in danger of losing too many people from the UK and to other countries.

In the UK half the council's planning departments are from Australia. If they all went home we would have a big problem
- national company

Future skills gap

Clients also viewed that the current recession will inevitably lead to a skills gap in the sector as people leave the sector completely or move abroad to work and do not come back to the UK. There is a real concern that when the market eventually recovers when projects come back on-line that this will inevitably create over demand across the industry and as a result project costs will escalate rapidly which could ultimately result in a slower recovery for the sector.

Proactive guidance and solutions

Industry is too reactive

It was widely acknowledged that the construction industry is far too reactive and with many supply chain organisations waiting to be told what to do by clients irrespective of the client's expertise or competence as a construction client.

This can often lead to bad decision making and strained relationships. The industry has the expertise to offer advice and guidance proactively and could in the process deliver a value proposition to the client earlier in the project process. To be effective this needs to be developed and offered on a proactive basis to drive innovation and to deliver more robust solutions.

Almost all the interviewees had specific comments regarding this issue such as a high street building society who commented 'construction is at its best when it is in rescue mode'. A private sector sustainable regeneration developer also commented that the industry is guilty of 'doing the same old thing' by focusing on cost and specific issues that they don't understand or deliver to and challenged the industry to get itself out of the rut it is in.

“Construction is at its best when it is in rescue mode
– private sector client”

A private sector house builder also mentioned the same theme adding that the industry is too reactive and needs to be more pro-active by focusing on identifying value up front and delivering this to the client. A major food retailer also challenged the supply chain needs to 'step up to the plate' and start meeting the challenges set by clients. This is consistent with earlier Equal Partners studies and clearly remains an area for focus and improvement.

“The industry has to get itself out of the rut it is in
– private sector developer”

A private sector developer acknowledged that there is diverse expertise across the sector but suggested that the industry needed to challenge the way things have always been done, through questioning standard practices and then assessing different ways of doing things. A private sector developer advised that the supply chain need to 'get out of their silos and think of the project in its entirety' and then get the right focus on what is important for the project. Others advised that increased flexibility and adaptability of the supply chain is required to make this a success.

It is worth mentioning that best in class clients drive relationships and early engagement and that conversely there are exemplar members of the supply who are proactive in this process and as a result reap the rewards.

Success in the face of adversity

However, it was also highlighted that the industry is often at its best when confronted with adversity and creating solutions for project problems – so why can't these problems be proactively managed out before they occur? This was attributed to the working relationship between the client and their supply chain and when they are engaged in the project decision-making process.

The industry is often at its best when confronted with adversity and creating solutions for project problems

- major high street retailer

Earlier engagement should enable construction clients to make more informed decisions about their project and get better value

- private sector developer

To alleviate this, one private sector developer advised that they work with their supply chain partners to agree overhead and profit, which are ring-fenced, and then cost is the only issue. As part of this process they incentivise their supply chain partner and expect them to actively assist in reducing costs as part of agreement.

Early engagement = improved versatility and better decision making

Engaging the supply chain earlier in the project process and encouraging clients to utilise the guidance and expertise of their project partners as construction professionals is critical to the success of the project outcome. This should enable construction clients to make more informed decisions about their project and get better value from their construction procurement as a result. To assist clients, supply chain partners should be encouraged to adopt a more proactive approach in advising clients and, where appropriate, provide more innovative solutions. Clients are seeking this behaviour from their project partners, which should also deliver improved versatility and adaptability throughout the supply chain.

A high street building society actively encourage this through their annual supply chain conference where the six themes that are to be addressed throughout the forthcoming year are all selected by their supply chain partners. Their approach has been to move away from a cost (short term) to a value (long term) perspective.

A private sector sustainable regeneration developer advised that clients need advice and guidance from the supply side and a major food retailer commented that better improved guidance from the supply chain enables better decision making internally through constant evaluation of processes. A private sector developer actively encourage supply chain partners to propose value ideas and commented that they need their supply chain partners 'on-board' to deliver value.

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Focus on reducing inefficiencies through process innovation NOT cost reduction

Rather than focusing on cutting costs, project partners should be addressing process inefficiencies together and collaboratively with clients. When the focus is on cost alone, this typically erodes margin for supply chain partners and increases risk for the client. This has been witnessed in the private sector housing sector earlier this year with some house builders demanding that their supply chain partners reduce costs on existing contracts by up to 15% in some cases.

There is evidence that some housing developers are ring fencing profit margin for their supply chain partners and are working with them to reduce process inefficiencies and improve process innovation. This will result in savings in excess of those typically being demanded from less collaborative clients in this sector.

A private sector sustainable regeneration developer advised that the supply chain always comes back with the same 2-stage tendering solution rather than focusing on value.

When the focus is on cost alone, this typically erodes margin for supply chain partners and increases risk for the client
– major food retailer



Client competence

Ultimately, do clients spend enough time putting their project team together?
- project management company

Good or bad client practice

The experience and competence of construction clients is critical to the success of any construction project. Whether they are occasional or frequent clients, the critical differentiator is if they are employing best practice or poor practice in terms of their construction procurement. A criticism of clients in general from the supply chain has been that not enough thought and/or process is put into the development of project teams or in project strategising. Ultimately, do clients spend enough time putting their project team together? This is fundamental to completing the project to the right quality, on time and to budget!

Conversely some clients point out that where construction is not their core business they rely on the advice from their supply chain partners to inform their decision making process. However, it is clear that clients or their key advisors need to take the lead in major projects but at the same time the supply chain need to recognise their role and that they need to provide more support and proactive guidance. This would enable the supply chain to influence project decision making and would enable the client to benefit from enhanced value on their project. However, in the final analysis the right collaborative working environment needs to be created to make this a success.

We have a 360 degree peer review process in place to assess our competence as a client
- national building society

A major client organisation advised that they recognised the need to modernise and become more effective as a construction client. A high street building society advised that it has a competency model in place, which is based on 360 degree peer review which also assesses their capabilities as a construction client.

A major retailer advised of a slightly different problem. Their franchised network of outlets has led to the creation of a plethora of occasional clients, with store managers occasionally questioning costs leading to questions such as 'I can get that cheaper from B&Q' and

'My mate the builder only charges £x per hour' and as a result they have to be diplomatic but forceful in the procurement guidance that they provide.

A major food retailer also have a slightly different approach by getting better value from their own in-house teams making procurement decisions. They have upskilled their in-house team as a construction client. Growth and return are now key drivers for them.

Enabling better decision making

By utilising best practice principles in the procurement of supply chain partners or their management of the project process will enable better decision making as critical supply chain partners can be engaged earlier in the decision making process. This will enable the opportunity for the supply chain partners to have a positive impact on the project outcome. Clients must make an effort to up-skill their own competence as construction clients to understand programme issues and their relation to good project planning and management.

A high street bank also advised that they attempt to create a community approach with their building partners to network and share ideas.

Know the industry and project process

To enable better project decision making clients need to have a better understanding of the industry structure as well as programme issues. By investing time in understanding the project process and the supply chain structure and how it operates prior to any project starting can assist clients in making informed decisions at the right time. Relationships can break down if clients don't understand the construction process.

Managing risk

A practical understanding of the construction and supply chain process can provide clients with a realistic understanding and expectation of risk on any project and to determine how this risk should be managed. Risk is an integral part of any construction project and the competence of the construction client can determine how the risk is managed. The supply chain tends to expect the client to take the lead on risk management issues – as a result client competence and understanding of the project process can have a significant impact on how risk is managed during a project. Risk will also significantly affect relationships throughout the supply chain.

The more experienced and intelligent client, who have mature supply chain relationships, have a pragmatic approach to the management of risk and recognise that any attempt to simply pass it down the line, is not the most economic or sustainable way of dealing with it.

A major fast food retailer takes special care to ensure that all suppliers understand their way of working and this assists them in reducing risk to themselves as construction clients. This process includes a half-day induction; a safety course and leads to them successfully obtaining a 'passport', that allows them to work on any of their sites.

“Clients need to recognise the impact that early engagement can have on more effective decision making
– main contractor”

“Managing risk on any project is critical to the success of the project outcome
– private sector housing developer”

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A private sector developer argues that risk should be enabled by the supply side but can be managed out. Predominantly, all risks can be determined at the pre-construction phase for a private sector developer and 'all the hard work is done in this phase'. One developer commented that once this critical phase has been successfully concluded the rest of the project should be relatively easy.

Having the right experience

Many problems on construction projects are related to procurement practices that are not relevant to construction. More experienced clients are more open to collaborative working and typically more loyal to their supply chain.

Given the current market conditions, less experienced construction clients may use more opportunistic behaviour to get tender costs down which is not beneficial to any of the project contributors and will only succeed in increasing the risk profile of the project - clients need to be encouraged to spend more time with their supply chain and not be tempted to take short term actions.



Better integration and collaborative working

The benefits of NOT reverting to type

With the sector already reporting opportunistic behaviour on the part of all project participants, there is considerable concern in these times of 'economic climate change' that different stakeholders across the project team may revert to type and the bad old ways of lowest price tendering and the subsequent claims game. The right way forward, according to the majority of the more experienced clients, when there are price and budget pressures is greater collaboration and a focus on value.

“Don't throw away
15 years of industry
reform by going
back to lowest cost
– private sector client”

A high street building society adopts a policy of 'Strategic Flexibility' where all parties understand their capability against the capacity that the supply chain partners have available to meet the project pipeline. The same organisation is also actively advising their supply chain partner against reverting to type through the policy of a 'supply chain that doesn't learn is a supply chain that churns'.

A private sector regeneration developer warned against the industry going back to the old confrontational ways and recognised the potential benefits of the 2-stage bid process, arguing that if done right – it provided the opportunity for early collaborative involvement, exploration of risk and value, and for specialists to get paid.

A private sector developer advised that strong management would be required at the beginning of the projects to ensure that behaviour does not revert to type. They went on to comment that it's often worth paying the supply side in the early phase of a project as it builds trust and improves performance.

Enable better decision-making

By using the principles of collaborative working the client can engage the supply chain earlier in the decision making process enabling clients to get the 'right advice at right time'. It also enables the supply chain partners to have improved versatility & adaptability, which in turn creates an environment to innovate a deliver better value on the project.

“Getting right advice
at the right time
is critical
– major leisure
company”

A national building society advised that one of their Project Manager / a QS advisor has created a value platform for ideas generation which over three years has resulted in £15m savings. A private sector regeneration developer advised that these principles are good and that efficiency needs to be improved and early involvement of key supply chain partners is critical to this process.

“We have a cladding
company that
practices on a smaller
scale on-site before
beginning work
– major property
developer”

A private sector developer advised that some of their partners are innovating already and continuous improvement is an integral part of their organisation. A good example of this is a German cladding organisation that practices the construction methods and techniques on a smaller scale on site before beginning the main work on the project.

A private sector house builder commented that they work closely together to drive out inefficiencies, reduce the cost base and can work together to kick start the industry. A private sector house builder is now realising 20% savings through efficiencies obtained by engaging specialist earlier and working collaboratively. A major food retailer agreed with this process and ring fence profit to enable innovation a challenging the way things have always been done and to move the thought process away from cost to whole life value.

We're now realising
20% improvement
by collaboratively
managing out process
inefficiencies with
our supply chain
partners
- private sector house
builder

Collaborative forms
of contract provide
the mechanisms that
reduce risk to the
client in this area and
provide supply chain
partners with
certainty of payment
- major corporate

Addressing glass floor/ceiling

Through the principles of collaborative working clients can integrate and engage supply chain partners from below tier one contractors into the decision making process and reap the benefits. Typically however there has been a glass floor for clients, that prevents access to the rest of the supply chain partners by stopping at the tier one contractor level and likewise for the supply chain partners there is a glass ceiling that prevents access to the client at the tier one contractor level. Better integration of the whole supply chain will enable better collaborative working and project decision-making throughout the project team that should result in delivering enhanced value to the client.

There is evidence that some major clients have broken through the glass floor, referred to above, and have worked down through the supply chain and as a result have captured significant improvements in both efficiency and value.

A food retailer commented that there 'needs to have a meeting of minds' with the clients and their supply chain partners meeting each other in the middle.

Improved commercial alignment

There is a strong case for improved commercial alignment to deliver better management of risk, shared mechanisms for communication and fair payment for all – in a recession, clients seek reassurance that their supply chain partners will be in existence as the project is delivered. Collaborative forms of contract provide the mechanisms that reduce risk to the client in this area and provide supply chain partners with certainty of payment.

A private sector developer agreed with their suppliers before the start of any project what they will pay consultants and contractors for upfront work, pre-design and will not proceed to the contract stage of the project until all risks are identified and agreed. This approach enables this client to reduce risk and reduce the possibility of claims further down stream in the project.

Focus group outputs

The view from the supply side – Consultants and Engineers

Construction Clients need to invest in competence	<ul style="list-style-type: none"> ■ Clients are diverse in their approach and expertise ■ Need to understand supply side as much as demand side ■ Need to understand the construction process ■ Need to understand programme issues and how they relate to good project planning/management ■ Need to have procurers with construction experience
Role of external project managers/client advisor	<ul style="list-style-type: none"> ■ Process now over complicated – creates trust issues and communication can deteriorate ■ Now need to simplify the process ■ Need to be value focused rather than process focused ■ Need to develop trust with the supply chain as your expert ■ Spend time developing relationships outside of the project environment ■ Need to get 'right advice at the right time'
Earlier engagement in the decision making process needed	<ul style="list-style-type: none"> ■ Include other supply chain partners such as trade contractors/specialists ■ Break-down perceived glass ceiling to clients, due to managing contractors – this is down to commercial practicalities rather than client benefit ■ Review how suppliers are measured/incentivised – better integration of the supply chain ■ Needs to be driven by contractors developing a USP for themselves ■ And by clients demanding a more integrated supply chain
Managing risk	<ul style="list-style-type: none"> ■ Need to consider the collective risk of the project rather than their own risk ■ Need to drive culture and behaviour on projects [e.g. BAA with T5]
Key Challenges for the future	<ul style="list-style-type: none"> ■ Workload is now a key issue – construction in recession (down by 20%) ■ Enquiries have dropped 'sector has ground to a halt' ■ 'In the past have been able to pick and choose work' ■ Now looking internationally to Gulf and Middle East ■ Increased fee competition ■ Increased consolidation across the sector – smaller consultancies will struggle ■ Adversarial vs Collaborative working – survival instinct will kick in i.e. more adversarial working practices ■ Skills and recruitment of good people ■ Need for graduates and school leavers to join the industry – but will they keep their jobs
Other issues	<ul style="list-style-type: none"> ■ Need to do things smarter and quicker to avoid adversarial working ■ E.g. how industry delivers what it designs – increased automation ■ May require expertise from other industry sectors ■ Agree with clients that relationships, communication and proactive input are all critical in delivering success BUT best value is not the lowest fee! ■ A consistent corporate approach is essential to making this happen i.e. consultants that act on behalf of clients e.g. lawyers

The view from the supply side – Project Managers and Quantity Surveyors

Impact of the recession

- Collaborative to adversarial – will clients resort to type?
- Perception – industry has got very slack due to too much work
- Lack of finances to invest in collaborative ways of working
- Projects now undertaken on an ad hoc basis rather than planned
- Too much fragmentation in the industry
- Industry is not very good at processes!
- Lessons to be learnt from other industries - petro-chem. industry is much better integrated
- Developers need to recognise good advice when they get it and pay for it upfront – often they get advice for nothing!
- Market conditions changing therefore supply side has taken on more risk
- Need to establish impact on risk
- Clients need to strategise more about their requirements

How competent are the clients?

- Lack of understanding/willingness to understand – one off clients
- Clients are reluctant to spend money on experts and specialists
- Shift from cost managers to strategic cost managers
- Could lose skill base of cost management during recession (and therefore ability to make informed decisions)
- Putting effort in upfront is fundamental
- Project Managers and Quantity Surveyors get involved later on down the line, but should be involved from the beginning?
- Some clients are informed, so how could we use their knowledge and expertise to influence the rest?
 - Mentoring opportunities/critical friend
 - How do you procure a project – need guidance
 - How to be a good client?
- Difference between construction being core or non-core to the client's business
- Clients need to spend more time putting teams together to get the best results
- Public sector is far worse than the private sector
- Waste – need to cut waste out of process and programme
- Teams – importance of the project team and their structure

How can clients deliver success?

- Spend time planning and strategising
- Clear brief and objectives
- Rounded strategic guidance up front at an early stage
- Engage more stakeholders – surround yourself with expertise
- Understand supply chain structure, businesses and process
- Pay on time (now slowing up)
- Clear decision making at the right time
- Need a cost plan that's achievable – cost must influence budget
- Learn the lessons of an informed and frequent client

Key challenges for the future

- Don't fully understand the full extent of the recession
- Continuity of finding the right work at the right cost
- Financing of projects is a major problem
- Keeping hold of the skills and talent in the industry – could take generations to recover
- Need to add value to your offering for less
- People going abroad to find work

The view from the supply side – Contractors and Product Manufacturers

Impact of the recession

- The effects on the construction industry, downturn on work
- Clients have taken advantage of the recession via driving cost down
- General opinion is that clients are testing the market
- Moving away from collaboration – all the good work that's being done could be to be lost
- Industry will consolidate, companies will merge, and overall there will be less people in the sector
- When the industry recovers, will there be a lack of resources or will there be a better use of people, better quality people that will deliver better value?
- Loss of skills by people leaving to go abroad to find work
- How long will it take for the industry to recover from this recession?
- The industry is now depending on Government as a construction client to take up the extra capacity from the supply side of the industry

Managing through the recession

- Innovation – need supply chain to be more innovative. At the moment versatility and adaptability is not strong enough
- Explore alternative financing solutions to drive and fund schemes
- Communication is lacking, need communication to be open to drive efficiency
- Still need to be selective, even in the bad times
- Need to re-emphasise the importance of engaging partners at an early stage
- Need to be open and honest
- Collaborative working is so important
- Clients are becoming opportunistic? Need to find a way to address it
- Needs to be a discussion about honesty and the importance of engaging at an early stage
- Need informed and wise clients
- Sector is very fragmented, all fighting their own corners – again the importance of being involved at an early stage.
- Value in focusing on the service provider rather than the contractor

Key challenges for the future

- Relationships are critical
- Consultants need to allow contractors want to engage directly with more clients and build relationships
- Contract terms need to be realistic – putting more risk on companies, which creates caution and therefore less likely to innovate
- Insurance needs to be added to risk and finance
- Need to manage risk profile and not revert to type by not working collaboratively together

Roadmap for improvement

The previous reports have concluded that greater collaboration and integration between construction clients and their supply chain partners would be required in order for any improvement initiatives to be sustainable.

Five years on and, in a distinctly different economic climate, this message is even more important. There is no doubt from the interviews and workshops that have been undertaken in this study that there is overwhelming evidence that suggests that the industry has improved and moved forward in the way that it interacts with clients and in the way that clients procure their construction work.

However, the industry and its clients now faces its biggest challenge for two decades – the recession and the impact of unprecedented global events have created a unique scenario that the industry must navigate through to market recovery. The critical question is: how do we get there?

The industry is at a cross roads the key issue is does it dispose of 15 years of industry reform and improvement and revert back to the ‘bad old ways’ of lowest price tendering and the subsequent claims game?

Or does the industry plot a different course and take collaboration to the next level, creating an environment where clients and all members of the supply chain work more closely together to improve efficiency, value and deliver mutual benefits.

Based on the feedback and input from the client and supply chain organisations in this study we recommend that "closer collaboration" is in the best interests of all parties and that this will deliver the best results in dealing with the impacts of the recession and provide longer-term benefits.

The following ‘Action Plans’ provide recommendations drawn from the findings of the study



Action plan for clients

<p>Clients Think Strategically</p>	<ul style="list-style-type: none"> ■ Review your project workload ■ Assess the demands, nature and timing of future projects ■ Review your supply chain against your project demands ■ Determine which supply chain partners are critical ■ Develop a strategic plan ■ Promote collaborative working principles to internal stakeholders / investors as a mechanism of enhancing value ■ Think how your supply chain partners can assist you in driving out inefficiency and reducing cost and risk to you
<p>Engage and Communicate</p>	<ul style="list-style-type: none"> ■ Select & engage with key supply chain partners ■ Share your project strategy ■ Share business models, project appraisals and budgets ■ Support the supply chain in understanding how value can be created ■ Challenge the supply chain, set goals, define your expectations ■ Invest time in understanding supply chain issues ■ Create an environment that encourages collaboration, openness and challenge ■ Plan for early involvement and supply chain engagement ■ Keep the supply chain aware of project changes, slippage and delays ■ Decision making is critical to any project – this can enable removal of inefficiencies and cost from the project process. The client must recruit to assist in the decision making process
<p>Remuneration and Incentivisation</p>	<ul style="list-style-type: none"> ■ Review how you remunerate your supply chain ■ Consider ways of incentivising suppliers and consultants against key objectives ■ Reward innovation
<p>Measure and Feedback</p>	<ul style="list-style-type: none"> ■ Monitor and measure project outcomes ■ Feedback results with supply chain ■ Explore areas for improvement ■ Set revised goals
<p>If you are an Occasional Client</p>	<ul style="list-style-type: none"> ■ Lowest cost is not always best – you expose yourself to increased project risk and delivery ■ Utilise the expertise of your project team – they are the construction expert, you are not! ■ Challenge supply chain partners to bring new ideas or solutions to the table ■ Use their experience and expertise to enable you to get better value from your construction procurement ■ Learn the lessons from frequent clients via the Construction Clients' Group website
<p>Maintain skills and talent in the industry</p>	<ul style="list-style-type: none"> ■ Clients need to focus on their own skills and competence as construction procurers ■ Demand evidence from supply chain partners that they are investing in their own skills capability ■ This can eliminate risk to you as the client during your project

Action plan for supply chain

Supply Chain (ALL) Think Strategically	<ul style="list-style-type: none"> ■ Review you client relationships – where practical select clients that best fit your business; culture; projects; ongoing workload; and potential for sustainable relationships ■ Consider how you can add more value to each client as part of your differentiation from the rest of the market ■ Review how you can best deploy your resources to meet client / projects demands ■ Think how you can assist your clients in meeting their targets for driving our cost, risk and inefficiency ■ Can you proactively assist in providing funding for projects that would have otherwise been mothballed? ■ Consider what skills / training is required to better engage with clients ■ Promote Innovation / challenge existing ways of working ■ Develop a strategic plan
Engage and Communicate	<ul style="list-style-type: none"> ■ Select & engage with key clients ■ Share your strategy – explain your ambitions ■ Invest time and effort in understanding your clients business; drivers, needs, objectives ■ Understand where you can create value, generically and on specific projects ■ Develop specific client / project plans with key objectives ■ Proactively engage with the client and the project team, challenge and add value ■ Be a team player, demonstrate commitment ■ Develop skills to enable early productive engagement ■ Keep close to the client, communicate and manage any changes to your team / resource ■ Making the right decisions at the right time is critical to the success of any project. The supply chain must provide the relevant guidance to assist the client in the decision making process
Remuneration and Incentivisation	<ul style="list-style-type: none"> ■ Consider how you can align your remuneration / reward to the needs of the client / demands of a project ■ Be innovative - ascertain where you can make a difference and how you might be rewarded
Measure and Feedback	<ul style="list-style-type: none"> ■ Review your performance v the goals agreed with the client ■ Measure your own performance internally ■ Explore areas for improvement ■ Use successful case examples to feedback internally & externally
Managing Occasional Clients	<ul style="list-style-type: none"> ■ Expose these clients to the benefits of collaborative working ■ And advise them of the disadvantages of procuring on lowest cost
Maintain skills and talent in the industry	<ul style="list-style-type: none"> ■ Continue to invest in training to alleviate any future skills shortage ■ Investing in training will differentiate you from your competitors ■ Invest in supply side management capability

Collaborative working is the way to thrive in a recession

We welcome this latest report from Business Vantage with the support of the Construction Clients' Group. In these difficult economic times it is good to see that the majority of big private sector clients still report a desire for collaborative working and a focus on superior value, rather than a reversion to the bad old ways of lowest price tendering and claims.

Budget concerns are always a fact of life, and clients or contractors always want more for less, recession or no recession. Tough times have led to reports of suppliers required to achieve 10-20% cost reductions - but how to achieve that? The last fourteen years saw a major change in the UK construction industry towards collaborative working and long-term relationships in the form of frameworks of one kind or another which enable project teams to learn together and improve their delivery project by project. However, in these good times many people saw collaboration as about relationship marketing, a means to win the job or framework on partnering principles - but then still delivered the same old way. Too many saw the benefit in the procurement process, not in the subsequent more efficient delivery of a higher value product or service. They did not get to the second stage of implementing lean techniques to reduce waste, arguably because the imperative to change was not strong enough.

Maybe the radical threat of a major recession will now concentrate minds, and those firms who want to come out stronger and fitter will get serious about collaborative working throughout their supply chain, and finally get everyone working together to rethink the process to implement radical improvement. There is certainly enough encouragement in this report to suggest that this would be a highly successful business model.



Don Ward
Chief Executive
Constructing Excellence

Acknowledgements

Projects such as Equal Partners depend on the commitment of those who are willing to share their knowledge and experience. We are fortunate to have had the co-operation of a large number of leading customers and their supply chains.

We would like to thank the sponsors for their support, without which we would not have been able to produce this report.

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In addition we are very grateful for all those customers who took the time to meet with us and to all the representatives from the supply chain who attend our workshops.

We would also like to thank Constructing Excellence for their input and their Constructing Clients' Group who were our research partner.

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Selected photographs courtesy of Bovis Lend Lease

Business Vantage is a research and marketing support consultancy working with organisations in the property sector.

Syndicated research studies - Equal Partners customer and supplier alignment



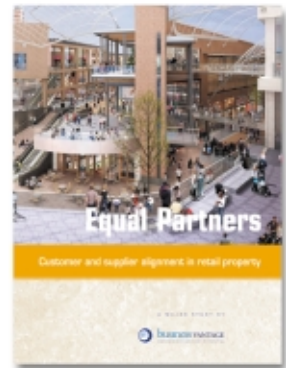
Private Sector Construction



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Office Occupancy



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In addition to the syndicated "Equal Partners" reports Business Vantage has produced a number of bespoke reports including:

**Bovis Lend Lease -
Customer Alignment Review**

A series of studies to help Bovis Lend Lease better understand their market

**Concrete Centre -
The Industrial Building Marketplace**

A major study to understand the construction industry's perception of the use of concrete in construction

**Grosvenor -
Service Offering**

A study of Grosvenor Estates residential and commercial customers

**Hyder Consulting -
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Major study to assist Hyder more closely align themselves to market demands

**P&O Estates - Strategic Review
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A series of studies to help P&O understand the logistics market and the implications for a new Business Park in Essex



Business Vantage would like to thank our sponsors for their support in producing this report

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