

Securing supply: a real challenge in a changing market

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After nearly five years of consolidation and retrenchment, UK plc is starting to grow again, with planning and investment in new construction or refurbishment projects now on the Boardroom agenda. However, as Occumen's Rob Alexander explains, construction and FM companies may be struggling to keep up.

For the retail, hotel and leisure and public services sectors, a gradual return to economic confidence means many organisations – particularly in the South East – are looking at expansion; or at least a 'spring clean' of their existing property and facilities portfolios. While potentially good news for the UK overall, the impact on the construction and FM supply chain may be a challenge as it struggles to meet this new demand.

From around early 2012, minor weaknesses in the chain began to appear as procurement teams found it increasingly difficult to source skilled resource. Two years later and the chain is showing signs of major strain, to the point where it is now creating major Boardroom challenges as organisations strive to procure the best quality suppliers ahead of their competitors. Those under pressure include architects and construction contractors, equipment and specialist product manufacturers. In procurement terms, the issue is 'security of supply' and, as is now becoming evident to a range of companies, without planning and due diligence at an early stage of any construction or refurbishment project, procuring and maintaining supply could mean significant cost.

The hotel sector, for example, is already suffering. Only recently, construction giant Balfour Beatty reported delays to its £30m development of Citizen M's flagship London hotel. Meanwhile analysis by EC Harris has highlighted project delays caused by a shortage of luxury construction companies. While London may be the 'golden goose' for the construction industry, the rest of the UK is very far from being an 'ugly duckling' for suppliers.

The private sector is not alone. For example, as DEFRA and the Environment Agency look to mitigate the effects of increasing flood risk across the UK, the availability of specialist flood-resistant products is almost certain to be squeezed, particularly as resistance specifications



are becoming more stringent.

What this means is a reversal in the balance of purchasing power. From a buyers' market during the early post-recession years, FDs and Heads of Procurement are now experiencing a very different relationship with suppliers. The latter now have the upper hand and, as a result, a change in attitude to procurement strategies is now required, as well as broader financial thinking at Board level.

With security of supply under threat, this seller's market is seeing 'beauty parades' being conducted by the suppliers, rather than the purchasers. Negotiations are no longer simply about cutting the best deal, there is far more discussion about which customer can offer the best long-term relationship on the most attractive terms. While choosing the right supplier remains critical to ensure project outcomes meet corporate aspirations and objectives, it is purchasers that now have to make themselves attractive. This can mean bundling projects together to create scale; agreeing more commercially attractive terms or, simply, creating a procurement culture that is perceived as pleasant, reliable and empathic to deal with. However, this could entail an organisation-wide culture change.

Securing supply requires tender processes that offer total clarity. From initial brief to appointment, clearly-written documents and due diligence are critical. This not only provides purchasing security, but also identifies suppliers with the capability to fulfil the contract and that are likely to stay in business long enough to do so. This can involve examination of external factors such as

suppliers' progress on other projects and, if listed, movements in their share price.

Once supply is secured, a framework of contracts which speed-up the process of awarding new pieces of work should be considered. This will keep the purchaser looking attractive while ensuring budget certainty. Best practice also recommends a 'stage-gate' project process, with hawk-like oversight to ensure suppliers only pass 'through the gate' to the next stage of a project if all contract criteria are met. Here the challenge for the purchaser is to avoid unplanned design, supply or financial changes that can result in subsequent additional costs or legal disputes.

Relationships also form a major part of supply security. The closer and longer-term these are, the more secure the chain, particularly with professional teams and contractors. This requires strong communication and collaboration skills from the in-house procurement team and smart strategies. Consider 'grouping' certain professionals across a number of projects: structural engineers, for example, because they work using generic calculations, rather than architects who provide creative input unique to each project. Alternatively, consider companies that can provide a bundle of professional services for one project.

In combination, all of these elements demonstrate the importance of considering security of supply at the earliest stages of project planning. This may add pressure to financial processes, but meeting the supply security challenge head-on can avoid costly delays or re-thinking further down the line. www.occumen.co.uk