PROCUREMENT TRENDS SURVEY

GETTING CLOSER TO YOUR SUPPLY CHAIN

FEBRUARY 2021

Rider Levett Bucknall

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INTRODUCTION

Rider Levett Bucknall's (RLB) Getting Closer to your Supply Chain procurement trends survey provides a snapshot of market sentiment on procurement issues. This is the second survey undertaken, our last being in 2019. Last year was a unique year, dominated by the global pandemic and we paused our survey as the market adjusted and aligned with the new normal.

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

Methodology: Our Getting Closer to your Supply Chain procurement trends report was compiled following a survey of key figures across the supply chain, covering a range of sectors, project size and type of contractor, to gain their insight.

The survey was completed by 113 main contractors across the UK anonymously and intended to gain a broad range of views from all parts of the industry and focused on a range of themes around procurement trends.

"The selection of the most appropriate procurement route is key and should have at its heart the protection of the out-turn cost of the project rather than the contract sum or "entry price". We consider that the choice of procurement at this current time may have a greater effect on the cost that the supply chain attribute to a project."

Matthew Brooker, National Head of Sectors, UK

INTRODUCTION

Our Survey in Numbers

66% Of projects using a Design and Build contract

24% Projects use two stage routes to market

34% Of two stage projects are a Hybrid Route, fixing an element of measured works at the first stage

16 months The average fixed price duration in months being offered by contractors

43% Of projects not selecting contractors on the basis of overall best value

51% Of projects issuing Stage 4 design information with tender documents

> **Embedding quality in procurement is an increasing topic of discussion. Clients do not necessarily need to change their preferred procurement method, including Design and Build, but they may need to change how they approach it. Define a project's objectives with clarity and embrace a culture that delivers quality with pride.**

Paul Beeston, Partner, UK

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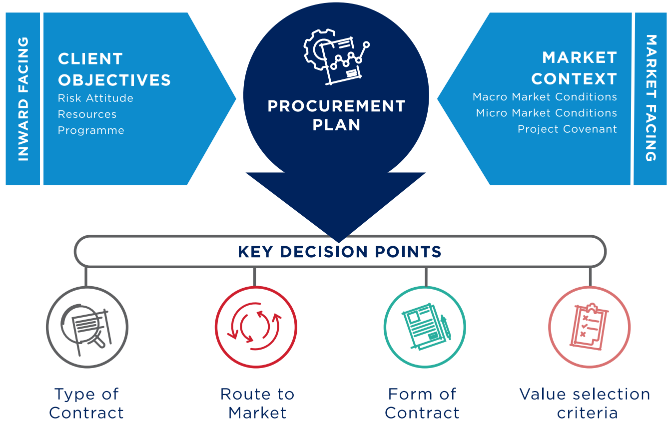
INTRODUCTION

Conceptual model - procurement planning

A successful procurement strategy is an engagement with the market that addresses clients' objectives yet understands what the supply chain finds viable. This report looks at macro market conditions with regional pressure points, trade capacity both nationally and regionally, routes to markets and the tender stage process. We look at the impact Brexit and COVID-19 have had on the market and its procurement response.

Key factors to be addressed in procurement planning include both clients' objectives and external market factors. This is demonstrated visually opposite.



Key Changes Since our Last Survey

Decrease of 2 months in the average duration of **Fixed Price Contracts** offered

Concerns over labour cost / availability swapped for **material cost / availability**

Increased use of **Single Stage** tendering but also **Negotiated** Routes to Market

Increased use of **Design and Build** forms of contract to 66% of projects

Increase in the provision of **Stage 4 design** with a Design and Build Route

SURVEY FINDINGS

MACRO MARKET CONDITIONS

Looking back to 2020 and beyond to 2021, the market is dominated by pipeline concerns. New orders crashed through the spring and summer of last year, with a vast variety in returning orders through last quarter and into 2021. The market looks likely to be dominated by a K-shaped recovery, regionally and by sub-sector of the industry.

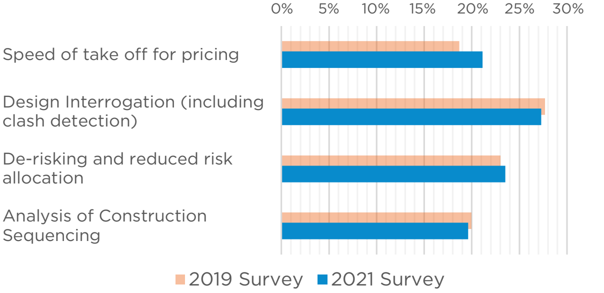
Overall, the market is dominated by rising input costs and declining tender prices[1]. With contractors still potentially commercially closing out contracts suffering the worst of lockdown and productivity impact.

Many contractors may have slimmed out pre-construction teams during the summer of 2020 leaving limited capacity in bidding teams.

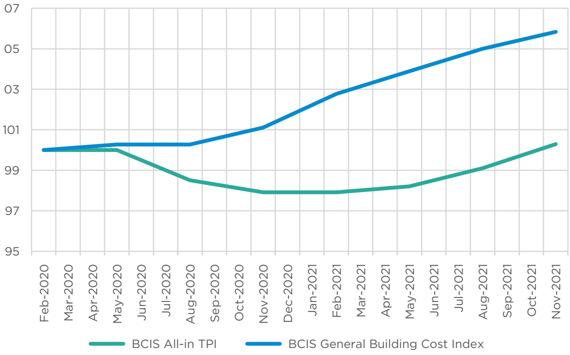
Our trade deal with the EU may have become clear on 31 December 2020 but the impact on construction remains uncertain, as adjustments work their way through the supply chain. It is material issues that are giving most concern, and labour is reported as a greater concern to respondents in London; proving the capital's greater reliance on overseas workers.

[1] BCIS All in Tender Price Forecast and BCIS General Building Cost Index

Brexit Impact (percentage reporting impact for each item)



Input Costs and Tender Prices (BCIS, February 2021)



SURVEY FINDINGS

MICRO MARKET CONDITIONS

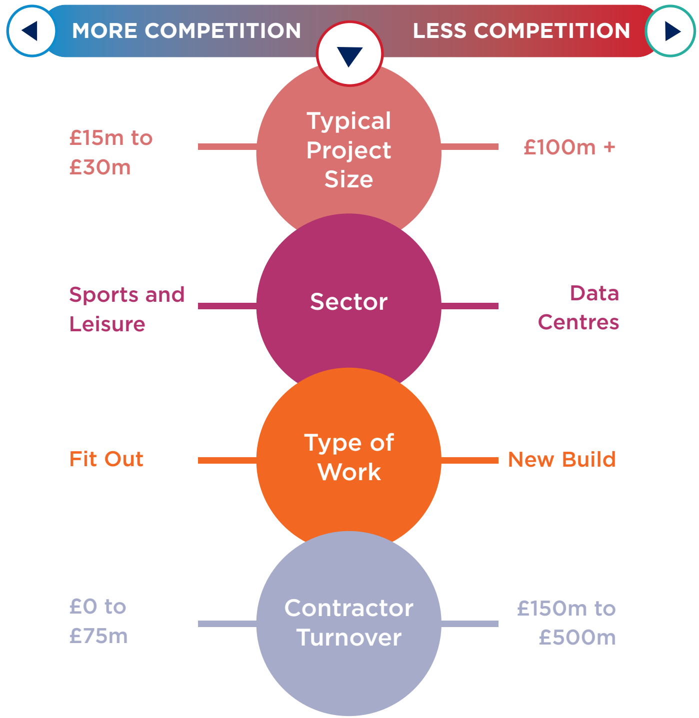
Our survey once again reveals the top concerns of contractors looking forward to their next 12 months of pipeline. The top areas of concern were:

- Effect of COVID-19 on the market
- Material cost and availability
- Supply chain capacity

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

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

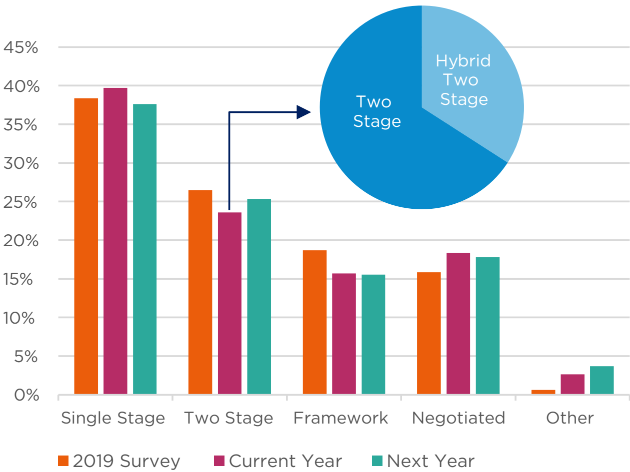
COMPETITIVE SCORE



SURVEY FINDINGS

ROUTE TO MARKET

All responses



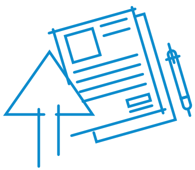
Commentary and Observations

Tightening markets normally signal an opportunity for clients to move towards more competitive single stage procurement routes. However, our survey also shows a swing from two stage procurement routes to negotiated routes.

Through the COVID-19 related turmoil of 2020, contractors' bidding capacity, clients' uncertainty in affordability and deliverability may have led many projects to engage in more collaborative routes.

Frameworks also appear to have suffered, with some of the sectors particularly reliant on framework routes (e.g. higher education) perhaps badly hindered in capital delivery by the pandemic.

We are seeing an increase in the use of hybrid two stage routes with some work packages fixed as part of the first stage, or with a pre-selected sub-contractor being used to gain cost and deliverability certainty on key packages – effectively named into the contractor's supply chain.

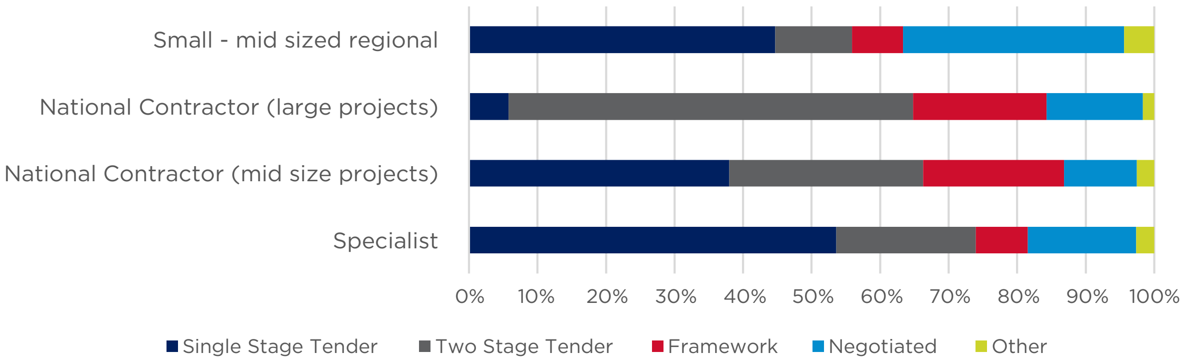


"Trend for increased hybrid procurement with more fixed price at 1st stage tender."

Mid-size London based contractor

ROUTE TO MARKET

Breakdown by type of contractor



Commentary and Observations

Smaller contractors are winning more work through single stage competitive tenders than their larger counterparts. Frameworks are still dominated by national contractors, securing 20% of their work this way, compared to around 8% for their smaller counterparts or specialist contractors.

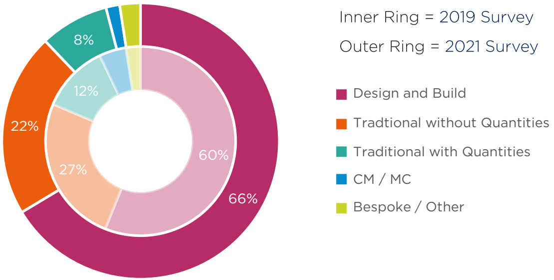
Government policy, encouraging SMEs onto public sector frameworks appears to have made little progress in the time since our last survey.

> **Tier 1 contractors become more selective due to impact on bid costs and resources.**
>
> **National contractor**

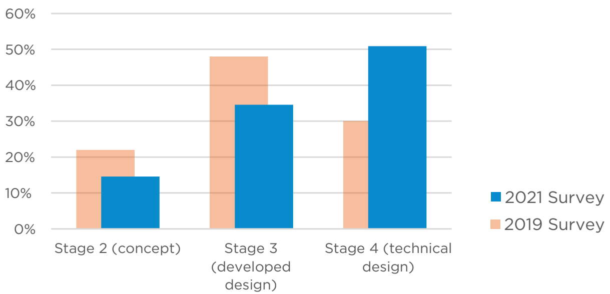
SURVEY FINDINGS

FORM OF CONTRACT

Split of Projects



Design Status at point of Tender



Commentary and Observations

A hardening market has seen an increase in the use of Design and Build over traditional and management forms of contracting. Clients are seeking and needing cost certainty if procuring in a challenging market. Funders, likely to be casting a more critical eye over procurement choices and against a hardening credit market, procurement choices are likely to be a more frequent discussion point.

In response to Grenfell, the industry has been focused more than ever on achieving quality through procurement routes and choices. The selection of a form of contract is not the only tool to drive quality through a project. Value based selection criteria is one, but the nuanced way that Design and Build can be delivered provides other opportunities.

Since our last survey there has been an increase in projects progressing to procurement stages with more advanced design status. Stage 4 design is now the most frequent point of tender. This may be a client 'push' in ensuring key quality criteria are defined and a contractor 'pull' seeking to de-risk tenders against a tightening market and to minimise resource input to bids.

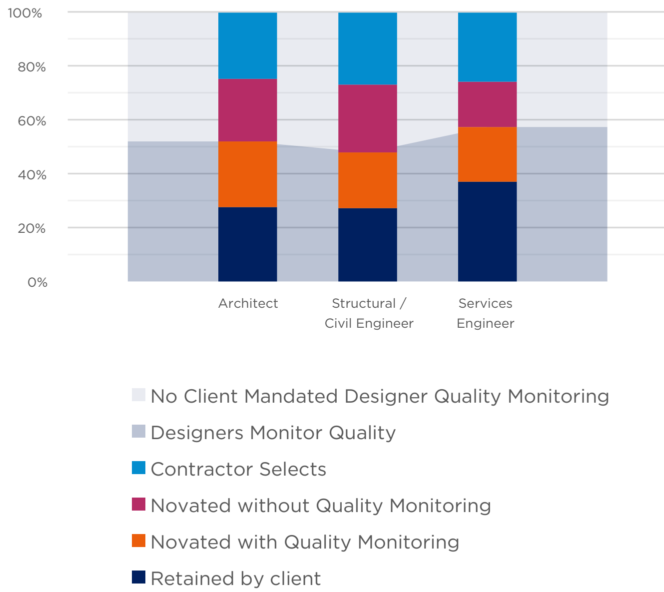
SURVEY FINDINGS

FORM OF CONTRACT - NOVATION IN DESIGN AND BUILD

Comments and Observations

The novation (or otherwise) of designers gives employers the opportunity to impose quality monitoring obligations, either in retained roles or in the scope of service of novated consultants.

It can be seen that this happens in approximately 50% of cases and this is likely to increase over time as the benefits of uniting quality monitoring to the designer are considered in light of an increased focus on quality.

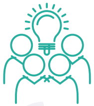


SURVEY FINDINGS

DETAILED HEAT MAPPING

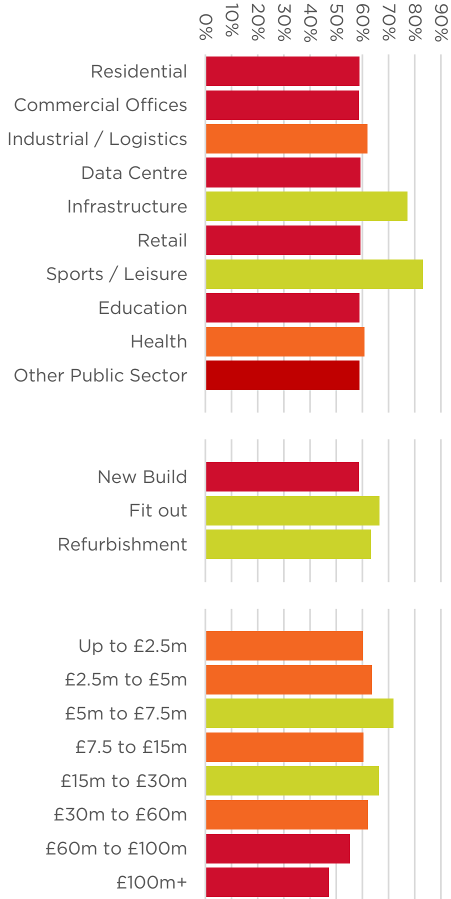
In this section we map our competitiveness score to microlevel project attributes. Our competitiveness score is a measure of the level of open competition in tender processes and identifies the likely market acceptance against each project type.

Lower values (shaded red) are a reflection of less competition such as negotiated routes to market and deemed more heated. Higher values (shaded yellow) reflect more competitive routes to market such as single stage tenders. The level of competition may be a factor of both client 'push' and market 'pull'.



We need to facilitate better informed decision making at the front end with early contractor involvement and procurement to be turned on its head to offer value not drive the race to the bottom and to procure for whole-life cost benefits.

Andy Stamps, Head of Infrastructure, UK



SURVEY FINDINGS

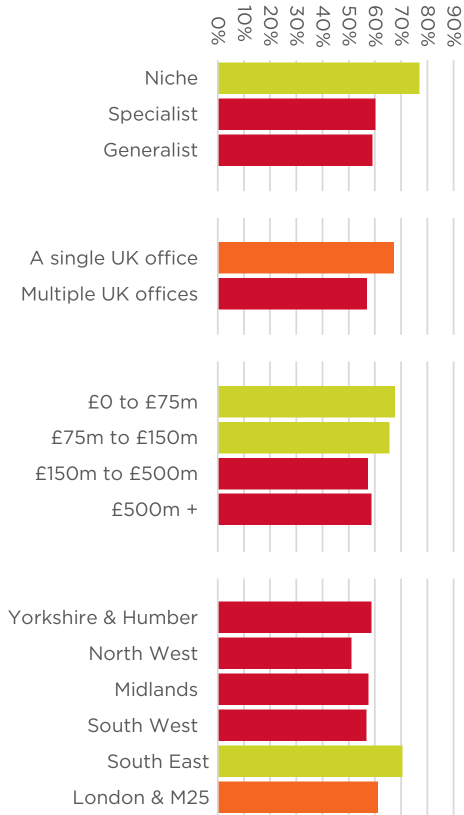
DETAILED HEAT MAPPING

Commentary and Observations

The sports and leisure sector, badly hit by the impact of COVID-19, is showing most competitive procurement practices. Overall, industry pipelines are leading some contractors to chase work in non-core sectors driving more competitive practices in busier sectors. Projects over £60m are still seeing more two stage procurement responses to attract bidders unable to commit significant resources to single stage routes.

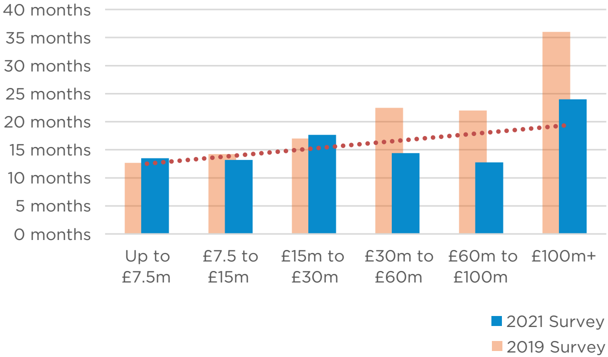
Niche contractors are seeing increased competition, presumably variable by the area of specialism.

There is more competition evident in smaller turnover contractors; more reliant on smaller projects and needing to continually replenish pipeline in a challenging market. Regionally, London and the South East is showing the most competitive procurement landscape being the regions most affected by the contraction of new orders.

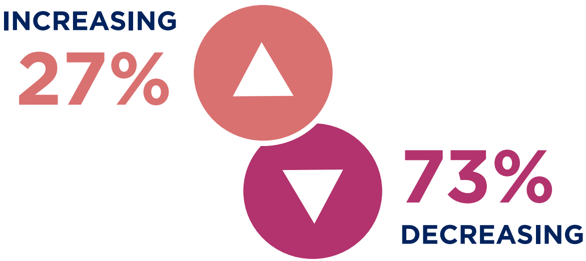


SURVEY FINDINGS

FIXED PRICE



% of respondents who reported changes in fixed price



Commentary and Observations

Against market turmoil and pressures all around, one of the most startling changes in our survey is the erosion of fixed price duration being offered. There has been an average decrease in fixed price durations of 5 months down to 16 months on average. In practice, we are seeing resolution of contracts with acceptable fixed price periods to clients.

However, the combined concern of increased input costs and Brexit impacts still working their way through the supply chain results in contractors clarifying bids and looking to off load future price increases.

Notwithstanding, projects with longer programmes in more heated sub-markets and with heated trades may be less attractive to bidding contractors as a result of concerns on fixing prices for the duration of the works.

SURVEY FINDINGS

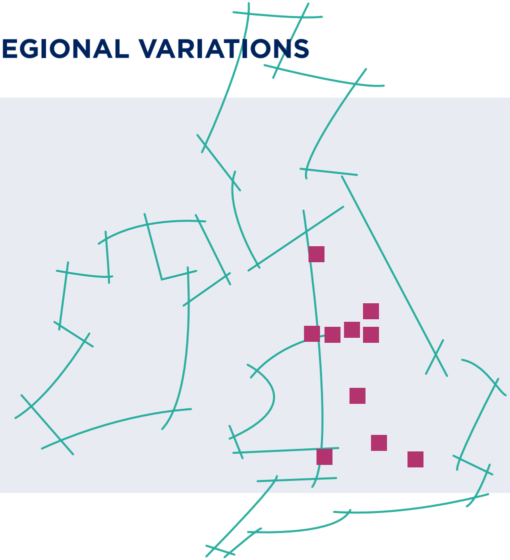
TRADE HEAT MAP

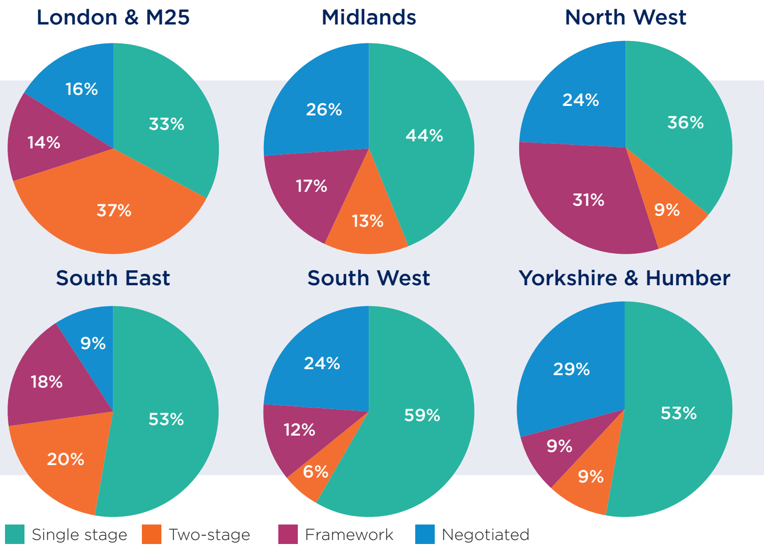
This table represents the percentage of respondents who identified the least trade capacity.

Trade	Yorkshire & Humber	North West	Midlands	South West	South East	London & M25	UK
Groundworks	17%	5%	10%	11%	8%	9%	10%
Piling	6%	5%	3%	7%	6%	8%	6%
Steelwork	8%	5%	10%	0%	5%	7%	6%
Concrete Frame	8%	5%	3%	7%	6%	4%	5%
Facade & Curtain Walling	14%	19%	18%	11%	20%	18%	17%
Brickwork / Blockwork	11%	5%	13%	7%	14%	9%	10%
Dry Lining	8%	10%	8%	7%	6%	3%	6%
Roofing	6%	10%	3%	4%	6%	5%	5%
MEP	3%	5%	8%	7%	8%	9%	7%
Finishes	6%	10%	8%	14%	3%	4%	7%
Bespoke Joinery	6%	14%	10%	14%	14%	16%	13%
General Joinery	6%	10%	8%	7%	2%	3%	5%
Architectural Metalwork	3%	0%	3%	4%	5%	5%	4%

SURVEY FINDINGS

REGIONAL VARIATIONS





Commentary and Observations

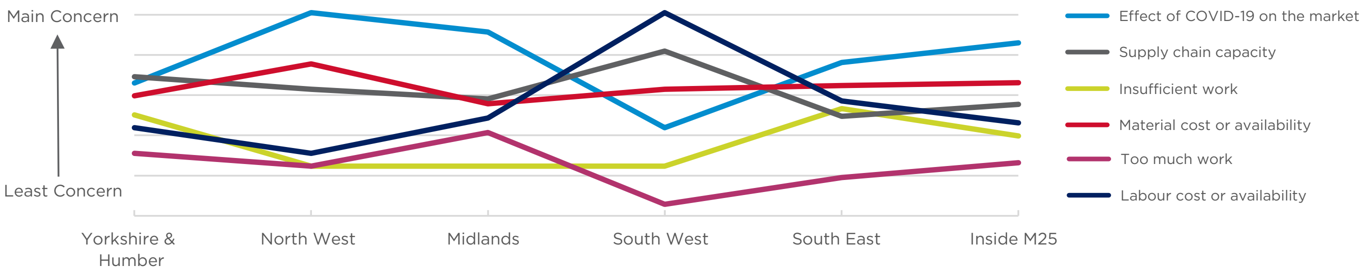
This year there are significant differences between the South East and inside the M25 with the capital far more dependent on two stage routes; presumably driven by the scale and complexity of many projects. There is far more use of pure negotiated routes in the regions outside of the South East with the Yorkshire & Humber region topping the list at 29%.

Our survey shows greater reliance on frameworks in the North West.

The amount of single stage routes being used varies on a region by region basis, with London using the least and the South West the most.

SURVEY FINDINGS

REGIONAL PRESSURE POINTS - KEY ISSUES IN NEXT 12 MONTHS

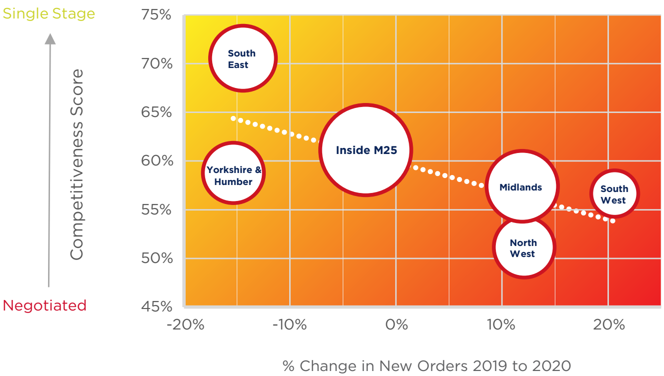


Commentary and Observations

As may be expected, the effect of COVID-19 on the market dominates the thoughts of most contractors in most regions. However, it is not the prospect of too much or too little work that gives contractors most concern for the next 12 months but supply chain capacity, material and labour costs/availability. The industry has perhaps adjusted to the pipeline constraints, like it has through many other recessions, but volatility in input costs or disruption when margins are tightening gives little room for contractors to manoeuvre. The South East has most concerns for sufficient workload, unsurprising given it is facing the greatest contraction in new orders between 2019 and 2020. The South West has greatest concerns for labour costs and supply chain capacity.

SURVEY FINDINGS

REGIONAL COMPETITION AND CHANGE IN NEW ORDERS



Size of bubble represents construction output for that region (2019).

New Orders track 12 months to Q3 2019 and Q3 2020 (being the last available).

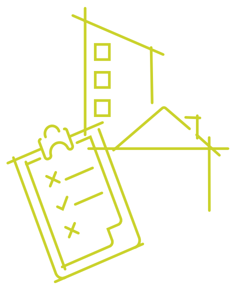
Source: ONS November 2020.

Commentary and Observations

UK regions have seen differences in the volume of new orders through 2020 compared to the previous 12 months. Regions particularly seeing pipeline contracting include London and the South East, so it is no surprise that these are seeing more competitive procurement practices.

As pipelines throttle back, it gives some clients the opportunity to use single stage procurement routes that may not have found traction in more heated markets.

More competitive procurement can drive an increase in the gap between tender price and outturn cost. A well designed and executed single stage procurement routes can give cost certainty, but a two stage route certainly has benefits in a falling market too.



"Reduced numbers and lack of quality opportunities going through planning in last 18 months will hit the market in the next 12 months."

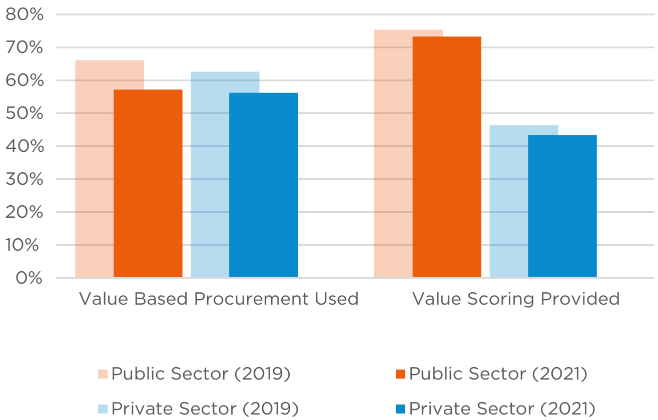
London based mid sized contractor

SURVEY FINDINGS

VALUE SELECTION CRITERIA

Value-based procurement has gathered momentum through 2020, featuring in both the Construction Leadership Council's Roadmap to Recovery[2] and the launch of the Construction Innovation Hub's Value Toolkit[3]. RLB remains committed to seeing the definition and explicit communication of value-based decision making in procurement processes.

Extent of Adoption



2. Construction Industry Council, Road Map to Recovery, 1 June 2020
3 Construction Innovation Hub, An Introduction to the Value Toolkit, July 2020

Commentary and Observations

Despite industry initiatives and government rhetoric, our survey findings are quite damming of industry progress. The opportunity for clients to abandon value-based decision making in a hardening market appears to be borne out by our survey.

There has been a minor shift in both public and private sector projects away from adopting value-based metrics in decision making.

For public sector projects Build, Build, Build can only satisfy building back better and greener if procurement choices are aligned with project objectives and investment cases. It is a key strand of government policy.

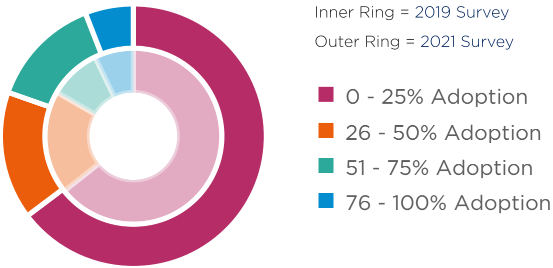
In the private sector 60% of projects fail to maximise the benefits by not making it explicit the criteria that are being used to assess tenders. Failing to provide transparent selection criteria increases bid-uncertainty and may lead contractors to focus pre-construction resources into projects where more certain bid, no-bid decisions can be made.

> **"Some clients are making decisions purely on cost rather than value."**
>
> **London based contractor**

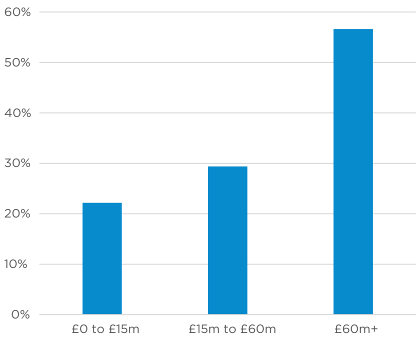
SURVEY FINDINGS

DIGITISATION OF PROCUREMENT

Current Use of BIM in Procurement



Use by Project Size

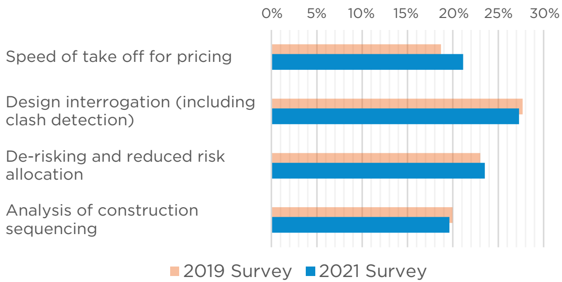


Comments and Observations

Once again there seems to be a reluctance of projects to share BIM models at tender stage. Our survey measures not the project adoption rates, but the volume of projects that provide BIM models at tender stage. Currently, this is just less than a third of projects, remaining largely unchanged since our last survey. However, contractors tackling larger projects provided with BIM models are far more frequent.

The benefits that contractors see in being provided with BIM models is largely as our last survey, but with contractors' estimators seeing the benefit in BIM to the speed of take off.

Benefits of BIM at Tender Stage



SURVEY FINDINGS

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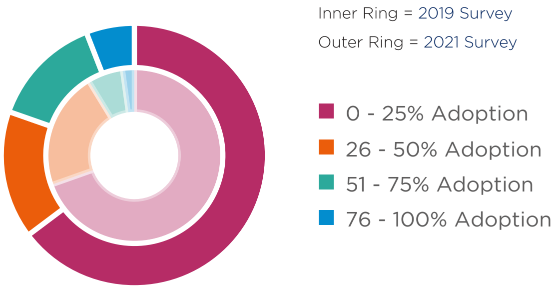
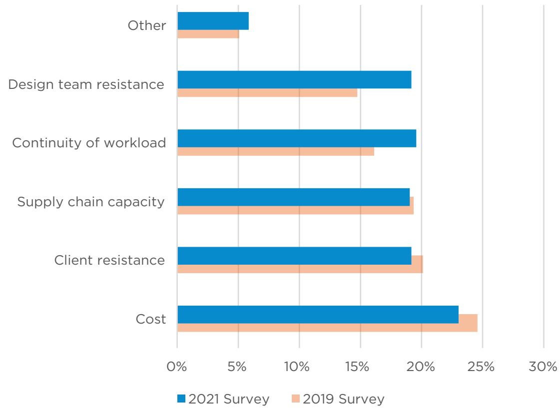
MODERN METHODS OF CONSTRUCTION

Rates of Adoption



Barriers to Adoption



Average Adoption Rates

2019 Survey 22% **2021 Survey** 24%

Commentary and Observations

Adoption rates of MMC have climbed since our last survey; towards nearly a quarter of projects. Whilst contractors still see accelerating rates of adoption for the next three years, a similar confidence in our last survey has not actually translated into current practice. The constraints preventing wider adoption have changed marginally with cost being citied less often. As may be expected following the last 12 months of market turmoil continuity of workload has increased as blocker, but sadly also design team resistance.

With government policy still focused on improving productivity, the areas of focus would appear to need to be education and building supply chain capacity.

CONCLUSION

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

Key Findings	What it means to you	Consider the following
The average fixed price period being offered by contractors has decreased by 5 months since our last survey to just 16 months	Longer duration projects are likely to present a significant risk to contractors, particularly if the work is skewed towards more heated trades.	▪ Earlier engagement further down the supply chain to secure back to fixed price for the main contractor ▪ Phasing works to mitigate cost risk (e.g. separation of enabling contractors and fit out packages)
A shift towards Stage 4 design being issued at tender stage for Design and Build (now 51% of projects – a shift of 20%)	Increased design cost to get a contractor on board. Projects tendered with Stage 2 or 3 information may be less attractive to the market and attract risk premiums. Contractors may take longer to get into contract following a procurement with Stage 3 design as risks are ironed out.	▪ Market testing key packages to get greater cost certainty prior to progressing to Stage 4 ▪ Supply chain engagement to get input on buildability prior to main contractor selection ▪ Consider if a Hybrid Two Stage route to market may give you the upfront cost certainty required
BIM is still not being provided at tender stages, with only 28% of projects providing models in procurement	Contractors may not be harnessing the benefits of BIM to provide less risk and better pricing and programme outcomes.	▪ Include in tender documents the BIM execution plan ▪ Communicate model constraints at tender stage

CONCLUSION

Key Findings	What it means to you	Consider the following
An increase in the popularity of Design & Build (to 66% of projects), despite concerns over quality delivered through the procurement route	Consider how to embed quality into your procurement planning when using a Design and Build.	▪ Making quality a key component of your value-based award criteria ▪ Test contractor commitments against the correct allocation of preliminary costs. Beware of commitments not supported financially ▪ Consider the Scopes of Service of novated design consultants, particularly around quality monitoring and sub-contractor design review
An 8% drop in projects using value-based selection criteria in procurement, now just 57% of projects	Projects using value-based procurement are likely to be more attractive to contractors and may allow projects to widen the net of interested contractors.	▪ Using value-based procurement and sharing the value selection criteria results in better outcomes ▪ Using the Construction Innovation Hub's Value Toolkit to embed value decision making
Material cost and availability remain the largest concern for contractors in the next 12 months	Projects with tight timescales and extended programmes may be less attractive or see greater risk allocations.	▪ Review early order commitment ▪ Design out heated trades and consider material sourcing to mitigate inflation risk
An increased rate of adoption of MMC, but slower progress than our 2019 survey predicted (just a 2% increase)	MMC adoption rates are intrinsically linked to procurement strategy and may dictate a departure from linear 'design-procure-construct' thinking.	▪ Procurement needs to be considered earlier in a project looking to utilise MMC ▪ The benefits of early construction integrator and supply chain engagement are evident in MMC design

CONCLUSION

Key Findings	What it means to you	Consider the following
Input costs are rising quicker than tender prices.	Contractors are facing a more challenging operating environment, with potentially increasing corporate failure rates. A tendency for the gap between tender prices and outturn prices to increase.	▪ Interrogation of all elements of contractor pricing to verify outlying bids ▪ Audit qualitative commitments against commercial elements of pricing ▪ Embracing collaborative working and partnering
Envelope trades including Brickwork & Blockwork and Cladding & Curtain Walling are the most heated across the UK	Competition in the second stage of a two stage may be compromised on a significant package.	▪ Pre-selection of sub-contractors in advance of main contractors ▪ Ensuring value-based procurement is stepped down the supply chain
Novated designers on a Design and Build do not have quality monitoring roles in 48% of cases	Those with the most knowledge of intended detailing may not be involved in quality monitoring. Even the most stringent contractor quality control may not identify misinterpretation between drawing and execution.	▪ Ensuring contractor designer scopes include for quality monitoring of the works ▪ Set quality objectives in procurement planning ▪ Communicate risk mitigation for contractor teams embracing designer quality monitoring

SETTING THE AGENDA

Procurement has a key role to play in shaping the future of our industry. It can lead, support and change industry practice for the better. Here are four key industry themes where procurement plays a significant part in setting the agenda.

Procuring for Value

Achieving better outcomes from procurement

We would like to see the wider industry adoption of value definition and selection in procurement. Tightening markets are not the time to be abandoning value choices.

The Construction Leadership Council's Roadmap to Recovery "reinvent" phase provided the sound reasoning why value should be placed at the centre of a "Build, Build, Build" economy.

Modern Methods of Construction (MMC)

Harnessing the benefits of MMC

We would like to see procurement discussions embedded earlier in projects and undertaken iteratively with design options.

Successful MMC delivery and in particular platform based Design for Manufacturing and Assembly (DfMA) requires an iterative understanding of both design implications and procurement options.

Digitalisation

Driving efficiency through the use of the latest technology

We would like to see continuity of BIM usage from pre to post contract stages spanning the current procurement 'gap'.

As MMC becomes embedded, it is essential that potential alternative MMC platforms can be assessed in BIM in terms of both methods of assembly and schedule impacts. Not providing digital information may prevent the best bid submission.

Embedding Quality

Embedding the 'Golden Thread' in procurement planning

We would like to see the 'golden thread' of quality woven intrinsically into procurement routes. Procurement should be about achieving outcomes, not just delivering a signed contract.

Those assessing tenders owe it to clients to not only to ask how contractors will build in quality, but to verify it is resourced and set the quality agenda in procurement planning.

Independent, privately owned and managed

740

UK Staff

> **“Our objective is to develop a procurement model which gives a systematic framework in which different elements – such as capital cost and end user satisfaction – can be brought together, compared and refined, thus enabling an optimum solution to be developed which delivers maximum value to the client.”**
>
> **Ann Bentley, Global Board Director**
>
> **Member of UK Government's Construction Leadership Council (CLC) and member of the Construction Innovation Hub's Value Toolkit Project Board**

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