



# Building supply chain resilience in the construction sector

## **Building Supply Chain Resilience in the Construction Sector**

### **Recent Supply Chain Challenges**

The impact of COVID-19 has had a dramatic effect on the construction sector, with potential long-lasting consequences unless major change is enacted. The sector suffered one of its worst results in April & May 2020 according to the Purchasing Managers Index as building work was grounded by the pandemic and lockdown measures.

Spending was slashed, with some new client projects on hold and others temporarily closed while the industry adjusted to the new environment. With unclear government guidance at the start of lockdown, some firms furloughed staff across the supply chain, companies saw their capacity leak away, and the construction sector was faced with the most challenging environment for generations. This had a major impact on productivity across the sector.

Construction and its ability to bounce back is critical to the success of driving economic recovery, so having the right procurement capability with the right supply chains in place, which are geared up to deal with increased productivity, will be key to success.

The construction supply chain was one of the hardest hit during the pandemic and it was clear that very few business continuity plans were designed to deal with the effects. The confusion at the beginning of lockdown caused suppliers to close their operations and furlough their staff, making it almost impossible to source critical items for some construction projects to continue.

The disconnect between the business and the supply chain cannot continue if recovery is to be smooth and efficient, but also to avoid future disruption. Procurement needs to be placed at the heart of this solution, building robust supply chains that are fit for the future.

### **Procurement Capability**

The tragic loss of lives at the Grenfell Tower fire in June 2017 shone a light on procurement practices within construction projects. Working Groups set up to tackle competency failings identified in the Hackitt Review, *Building a Safer Future*, highlighted shortcomings in procurement and commercial practices, with too much focus on price and squeezing profit margins and cash flow at the expense of safety and risk mitigation.

We know that profit margins throughout the construction industry are low, and with high levels of competition and risk there is a real concern, despite the best intentions, that the culture of low prices and undercutting of competitors continues. Many of the shortcomings

revealed in the review are reflected more widely across the sector with COVID-19 also exposing some of these risks.

It is recognised that dedicated, competent procurement professionals are not currently involved in all required procurement activities within both projects and wider business interests, and so the value that procurement teams can unlock by applying modern procurement practices is not being realised. The Construction Leaders Council have highlighted three necessary phases to get the construction sector where it needs to be again, and procurement and supply management is vital to the success of each stage.

The plan includes 3 phases to be delivered over two years<sup>1</sup>:

- Restart: increase output, maximise employment and minimise disruption (0-3 months);
- Reset: drive demand, increase productivity, strengthen capability in the supply chain (3-12 months); and
- Reinvent: transform the industry; deliver better value, collaboration and partnership (12-24 months).

The outcomes of the plan aim to produce a more capable, professional, productive and profitable sector, which delivers better value to clients, better performing infrastructure and buildings, and competes successfully in global markets. The Construction Leaders Council warn that a failure to act will miss an opportunity, and risks the industry lapsing into a longer term recession, which erodes capability and skills, and leaves a smaller, weaker sector as a legacy.

## The Solution

The construction sector supply chain is an ecosystem which is highly interlinked and fragile, with vulnerability points having a butterfly effect through the whole industry. In order for supply chains to be more robust, procurement should focus their efforts on the following areas:

**Supply Chain Vulnerability** – The subcontracting structure of many construction projects pushes risk further down the supply chain with little or no visibility. More transparency and a review and rebalance of risk is required with proper mapping of the supply chains to fully understand the areas of vulnerability. With perhaps more focus on a self-delivery model where feasible, or a more collaborative approach to

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<sup>1</sup> <https://www.constructionleadershipcouncil.co.uk/wp-content/uploads/2020/06/CLC-Roadmap-to-Recovery-01.06.20.pdf>

working with subcontractors, better controls could be put in place to ensure that risks have been considered and every effort made to mitigate them.

Procurement professionals are also perfectly placed to add value to business continuity plans by closely monitoring the wider supply chain environment in order to predict disruptions, understand where to intervene and put plans in place to mitigate or minimise disruption.

**Demand Planning** - A large number of suppliers ceased production at the start of lockdown even though many of their customers continued to trade. Without a clear picture from across the sector many suppliers are still unsure of how much demand they can expect to see moving forwards and when it is needed. Due to the fragile nature of the ecosystem it is critical that procurement teams collaborate in a non-competitive way to ensure that supply remains as level as possible and situations such as allocation of supplies are kept to a minimum. The subcontracting nature of construction products muddies the water further as much of the goods are purchased by subcontractors.

**Supply Chain Redesign** – With COVID-19 and Brexit uncertainty making global supply chains more fragile, organisations across all sectors are looking to near or on-shore suppliers to reduce risk. Major government investment is required as well as procurement teams working together across the sector to develop the local supplier capability and capacity as well as helping them achieve the necessary quality and regulatory standards.

**Standardisation of products and specifications** – The proliferation of specifications and suppliers causes inefficiencies throughout the supply chain and introduces more layers of risk, particularly when things are changed or customised later in a project. It is well proven in other sectors that a focus on standard specifications across projects allows more flexibility in sourcing from suppliers, drives up quality standards and brings total costs down. Being exposed to sole suppliers in other countries for critical materials and products is fraught with problems, as the COVID-19 crisis has shown. Standardisation should, however, be balanced with driving innovation, particularly when it comes to striving for more sustainable solutions.

Design for manufacturing and assembly is one example of a sector approach to standardisation and increasing productivity. More procurement, supply chain and logistics led solutions are needed to bring the construction sector up to the margins and productivity of other industries.

**Procurement** - A crisis situation often provides an ideal opportunity to assess what works and what doesn't. The important thing now is to ensure that when a similar situation arises that the sector is in a better place to deal with the repercussions.

This catalyst for change relies on a redesign of how procurement is positioned and utilised to maximum effect within organisations. Procurement teams within construction should collaborate and help to rebuild their own organisations, simplify and de-risk their supply chains, and contribute to the continued growth of the industry as a whole, working with both suppliers and clients or end users.

To reboot the supply chain into action there must be much more collaboration and transparency with suppliers and subcontractors to ensure that we all emerge from the results of the pandemic in a good place where capacity and productivity increases at a sustainable pace and margins continue to grow at healthy levels for all parties.

### **Call to action**

All businesses involved in the construction sector need resilient supply chains with full supply chain transparency, better planning, risk assessment and mitigation and a focus on value rather than price. Now is the time to change so that when the next crisis hits the sector the supply chains are more able to withstand the pressures and construction projects can continue to be successfully completed on time and within budget.

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