
PROCUREMENT TRENDS SURVEY

GETTING CLOSER TO YOUR SUPPLY CHAIN

MARCH 2022

RLB

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 third survey undertaken, which, in an industry used to variable market conditions has certainly seen some extremes over that period.

This report draws on the trend analysis and what it means in a dynamic market.

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 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 question for all of us is what we can do to ensure that we remain as resilient as possible for the foreseeable future. Our answer remains the same as it is whatever the state of the market. Stay close to the supply chain and unite as an industry.

Matthew Brooker, National Head of Sectors, UK



INTRODUCTION

Our Survey in Numbers

 **54%** Of projects using a Design and Build contract

 **27%** Projects use two stage routes to market

 **20%** Of projects currently negotiated

 **16%** Of contractors widening supply chain to mitigate supply side risks

 **34%** Of projects not selecting contractors on the basis of overall best value

 **71%** Of projects issuing Stage 4 design information with design and build tender documents

“Project managers and quantity surveyors can play their part by supporting their clients to embed information management and modelling into the procurement process and becoming more digitally literate. Ultimately, digitally enabled procurement will result in better tender returns and improved project performance.”

Paul Beeston, Partner, UK



CONTACT

Paul Beeston
Partner

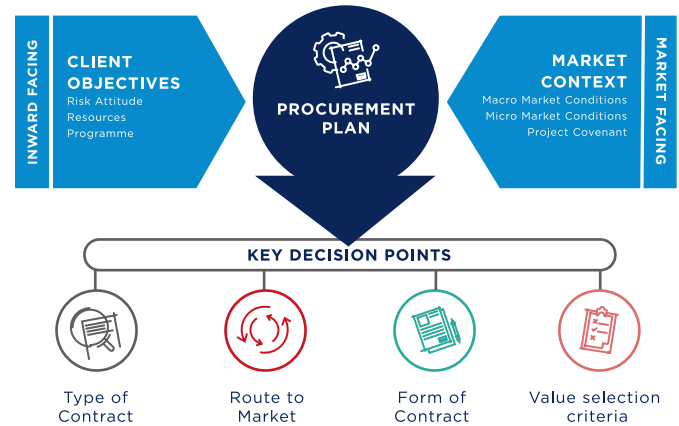
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INTRODUCTION

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 contractor trading conditions 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



SURVEY FINDINGS

MACRO MARKET CONDITIONS

Looking back over the previous 12 months, the market has seen a significant bounce back in demand. Pipeline has increased significantly and presented a more challenging market for those procuring construction projects.

Overall, the market is dominated by input costs rising more quickly than tender prices¹. The resulting squeeze on contractor margin results in contractors looking to reduce exposure to price risk. Many contractors are suffering from constrained pre-construction and bid resource and therefore focusing resources on securing the most certain, lowest risk, higher margin work.

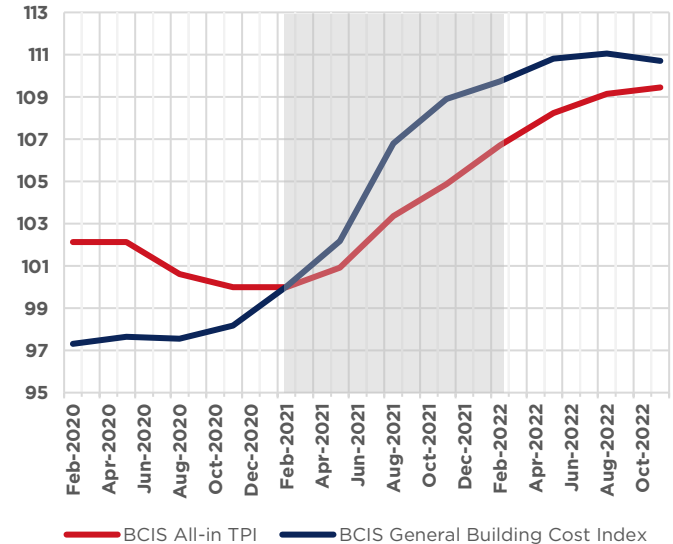
Many contractors are being more selective in the projects they are willing to take on, and more still those that are willing to bid in competitive procurement processes.

More broadly the economic climate is one of a focus on inflation, with particular attention on energy prices. The Bank of England may have moved interest rates up in 2022 but these are small steps against historic low rates and inflation predicted to hit 7% by April 2022. The emerging geopolitical situation is likely to bring further uncertainty to inflationary pressures.

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

Tender Prices and Input Costs Compared

All in Tender Price Inflation (TPI) and General Building Cost Index compared. Our survey window is shown shaded.



SURVEY FINDINGS

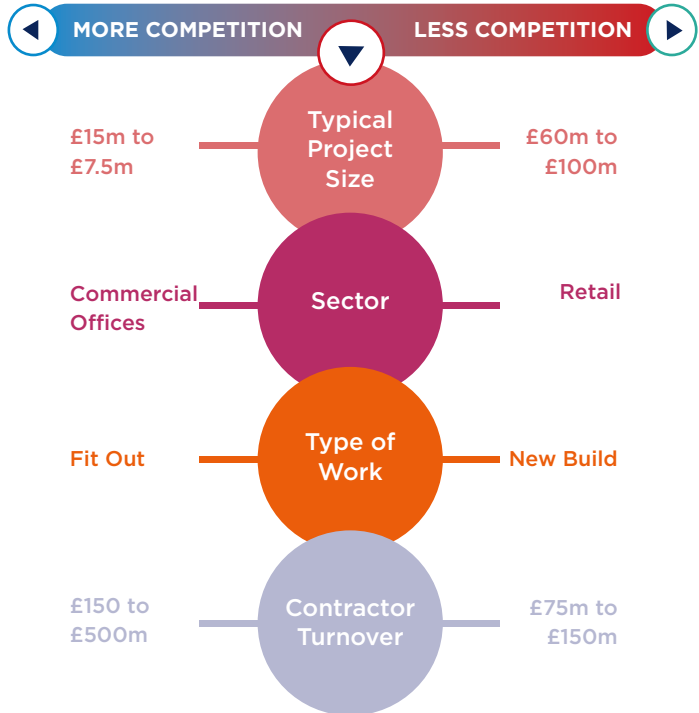
MICRO MARKET CONDITIONS

Our survey reveals the top concerns of contractors looking forward to their next 12 months of pipeline. The top areas of concern are entirely focused on contractor's inputs

- Supply chain capacity
- Material cost and availability
- Labour cost and availability

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'.

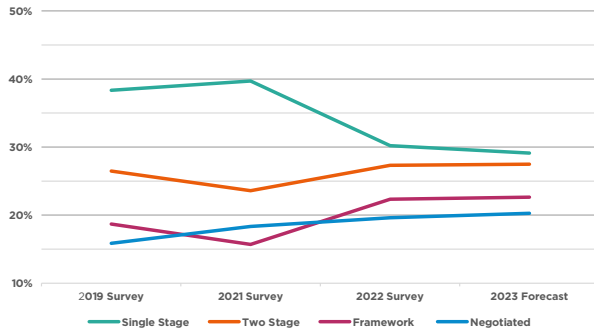
COMPETITIVE SCORE



SURVEY FINDINGS

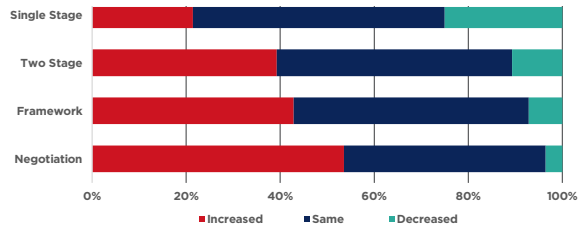
ROUTE TO MARKET

All responses



Time spent in procurement

For a comparable project, on average how is the time spent on each of the following procurement approaches different this year to last year?



Commentary and Observations

In a much more active market with strong pipeline, contractor's bidding resource has become constrained across the industry. Contractors focused on securing profitable work has led to some market constraints for those procuring.

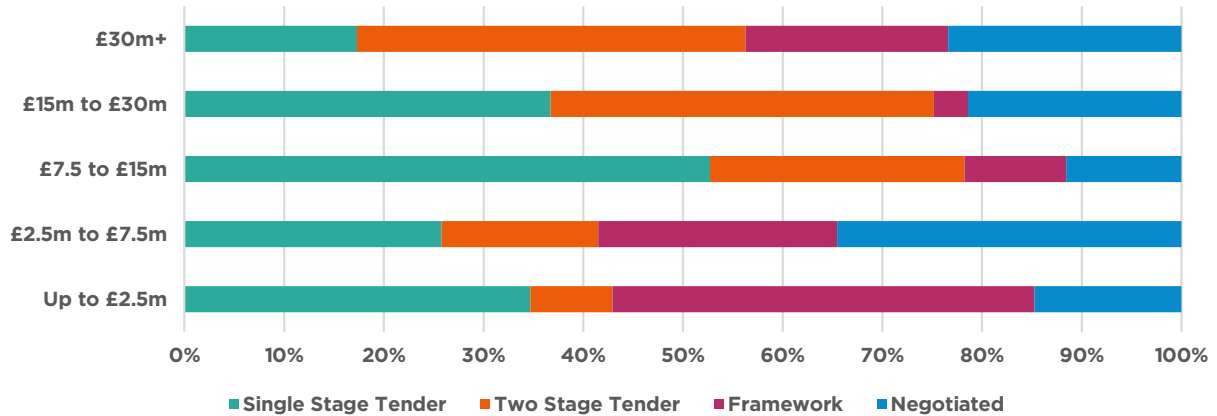
There has been a noticeable fall in the use of single stage routes, perhaps also driven by Construction Playbook guidance for earlier contractor engagement and longer term contracting. The increased use of frameworks would also suggest that the moves are partly public sector driven. The growth in two stage routes has outstripped the use of negotiated routes.

This year we surveyed how the time taken in bidding projects has changed over the last 12 months. What is striking is that single stage projects have largely stayed the same or decreased in the time taken to conclude procurement exercises, whilst two stage, frameworks and straight negotiated routes are taking an increased period to convert to contract. With frequent price increases, and difficulty in supply chain engagement this is no great surprise. A well-designed single stage route, particularly if there is limited competitor involvement may tie up a contractor's bid team for a shorter duration. In the right circumstances, when combined with clearly demonstrated value selection metrics, bidding contractors may prefer a single stage route in favour of a two stage route.

SURVEY FINDINGS

ROUTE TO MARKET

Breakdown by size of project



Commentary and Observations

Size of a project has a significant bearing on the route to market. The smallest project ranges dominated by frameworks and negotiation being most common in the £2.5m to £7.5m range. Single stage procurement is still common in mid size contracts, with two stage becoming increasingly frequent after £15m in project value.

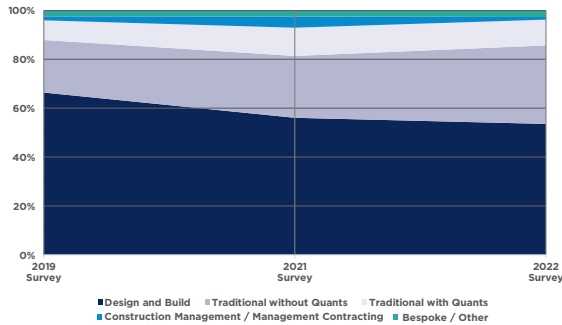
“ A very busy market where securing the best supply chain partners is a key challenge. ”

London based Contractor

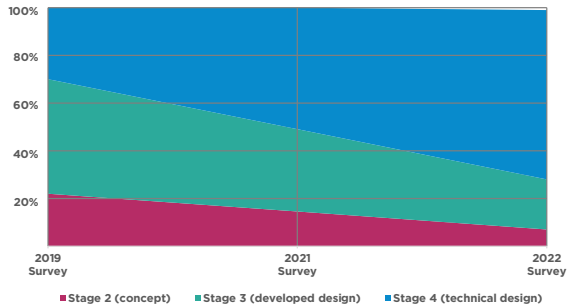
SURVEY FINDINGS

FORM OF CONTRACT

Split of Projects



Tender Design Status on a Design and Build



Commentary and Observations

The trend towards traditional forms of contract has continued with a swing of over 10 percentage points since our 2019 survey. With the ONS data showing Repair and Maintenance output increasing at a quicker rate than New Work the change is likely to be partly reflecting the nature of projects.

However, with contractors seeing growing pipelines and increased supply chain volatility, appetite for significant design risk is likely to have waned over the period too. On top of which, a possible push from clients wishing to retain further design control as the industry increasingly focuses on quality. Construction Management and Management Contracting remain a tiny proportion of surveyed volume but have also decreased in the period.

The stage of design at the point of tender on a Design and Build has seen a more significant swing. Stage 4 is now the significant part of the tender volume, with ‘thoroughbred’ design and build now a rarity. Covid uncertainty last year may have pushed back the large investment decisions of starting construction but provided the opportunity for clients to progress design. Contractor aversion to design risk is also a likely factor in a market where contractors face significant price risk.

SURVEY FINDINGS

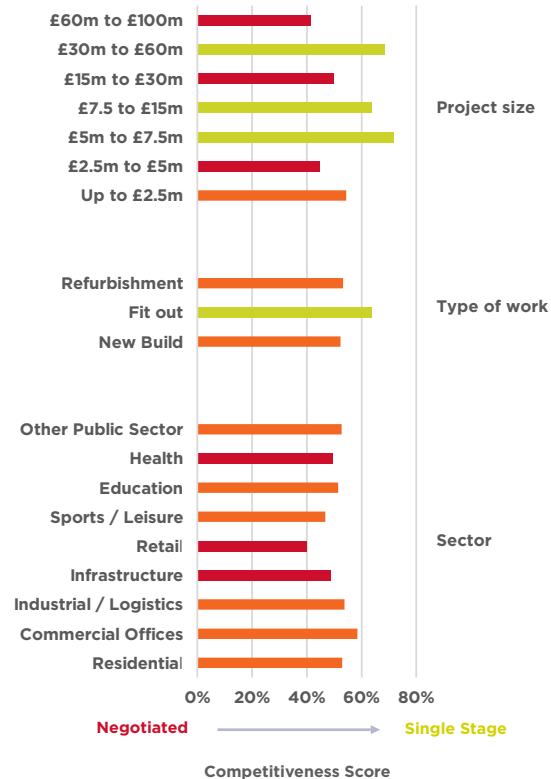
Detailed heat mapping

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'.

The Construction Playbook's objective is transformational change in our industry. To be achieved by harnessing the government's huge investment programme to demand better outcomes for government and citizens. This change will affect the way buildings and infrastructure are procured, how the supply chain is incentivised and rewarded and how success is measured.

Andy Stamps, UK Head of Infrastructure



SURVEY FINDINGS

DETAILED HEAT MAPPING

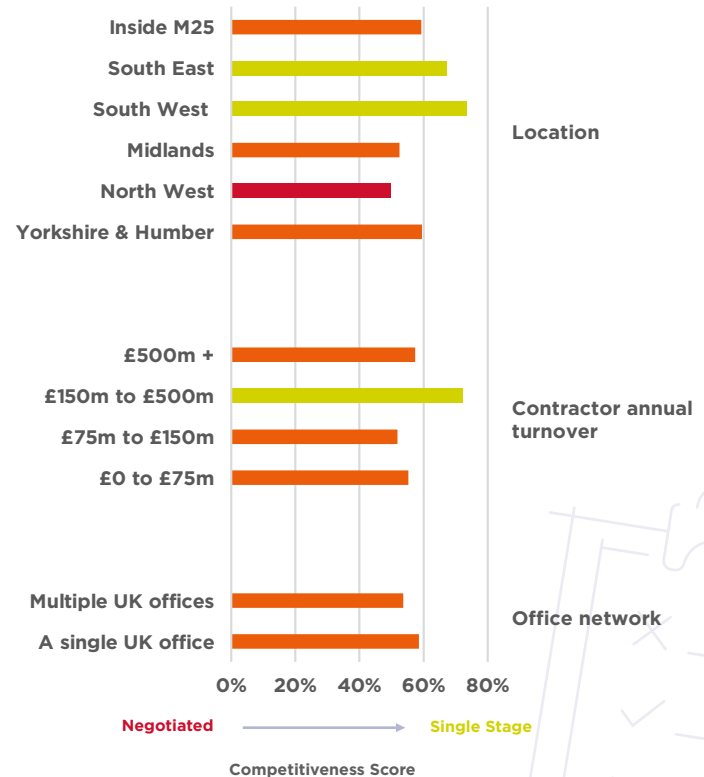
Commentary and Observations

Health and Infrastructure sectors are looking particularly heated in procurement activity. Perhaps more surprising is the retail sector being less competitive, perhaps a sign of the relatively small number of specialists in the sector as clients start to turn back on projects.

Smaller turnover contractors tackling projects less than £5m are using competitively tendered routes less frequently. Projects with values in the £15m to £30m range are also securing more work by negotiation and frameworks. Projects in the range of £5m to £15m are seeing more competitive procurement landscapes.

Interestingly projects in the range of £30m to £50m are seeing more competition, which is partly driven by the use of two stage routes and partly by frameworks, which may have a competitive element to contract award.

The South West and South East regions are still seeing reasonable levels of single stage tenders compared to other UK regions.



SURVEY FINDINGS

FIXED PRICE MITIGATION MEASURES

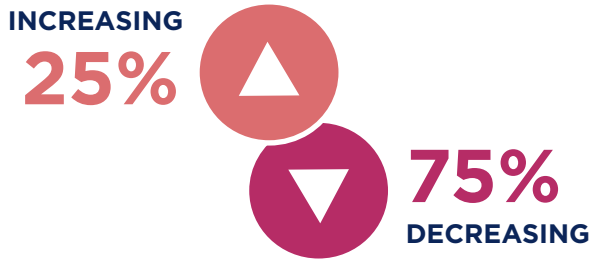
Our survey this year also asked contractors for the mitigation measures being deployed to deal with material price volatility and availability. Approximately a quarter of measures are in collaboration with Employers, with the rest fairly equally split between programming measures and supply chain measures.

| | | |
|---|---------------------------|--|
|  Programme Led | Early ordering | Materials ordered / called off at a site level early and stored for use |
| | Stockpiling | Stockpiling of materials in a central location to feed a number a number of sites |
|  Supply Chain: Commercial & Procurement | Vertical Integration | Unbundling packages (for example MEP), buying labour only packages with direct procurement of materials, self-manufacture of components or materials |
| | Risk Share (supply chain) | Share mechanism of any price increases down the supply chain with sub-contractors |
| | Widening supply chain | Enlarging the base of supply chain partners |
| | Narrowing supply chain | Concentrating supply chain to leverage buying power |
| | Financial hedging | Using financial hedging instruments against raw material price fluctuations |
|  Employer Shared | Risk sharing (employer) | Share mechanism of any price increases upwards with the Employer |
| | Design out | Designing out heated trades or finding alternative specifications or suppliers in collaboration with the Employer |

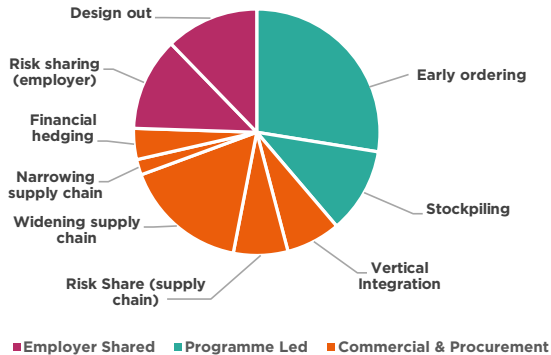
SURVEY FINDINGS

FIXED PRICE

Durations



Responses to price volatility and availability



Commentary and Observations

Probably the stand out market condition of 2021 has been the difficulty for contractors to offer significant fixed price durations. Our 2021 survey reported 75% of respondents seeing fixed price durations decreasing, which has undoubtedly been the case. These figures are largely unchanged since last year, with few contractors yet having confidence in volatility decreasing meaning they may be able to offer longer fixed price periods.

Our survey findings were an overwhelming number of contractors offering fixed price durations of 6 months or less. This does not accord with our practice where we are seeing a significant number of clients securing fixed price contracts in excess of 12 months. The results are expected to reflect difficulty in both holding tender figures and entering into fixed price contracts. We are seeing increasing number of contractors requiring extended final contract negotiations so that they back off fixed prices down the supply chain from the outset of the project.

SURVEY FINDINGS

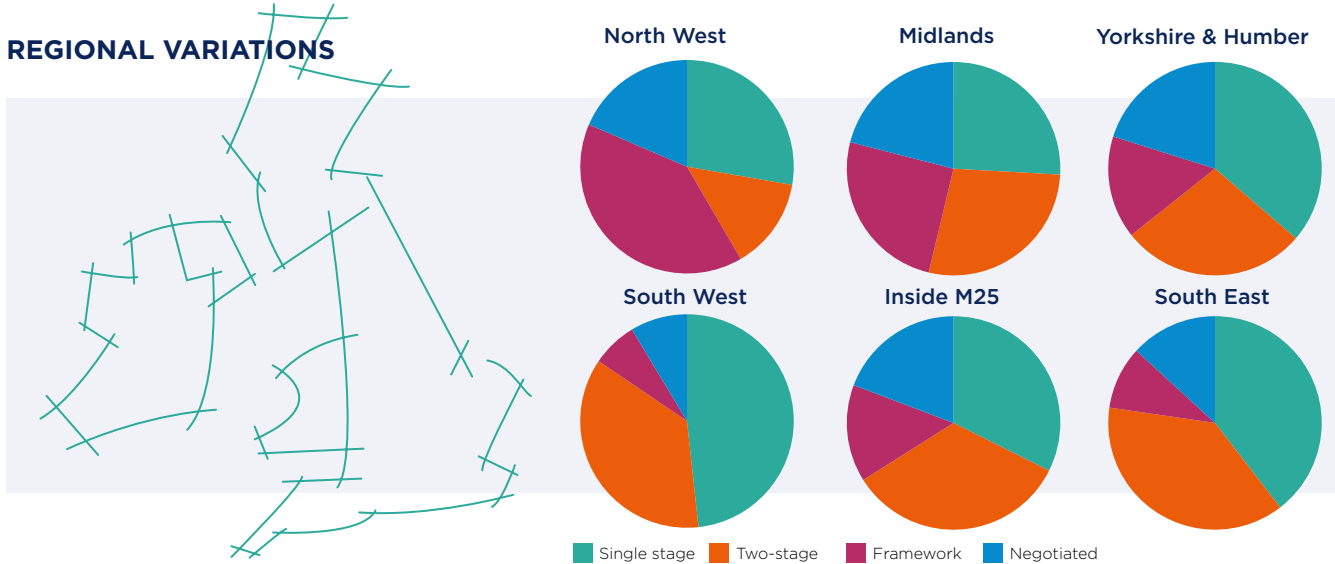
TRADE HEAT MAP

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

| Trade | Yorkshire & Humber | North West | Midlands | South West | South East | Inside M25 | UK |
|--------------------------|--------------------|------------|----------|------------|------------|------------|-----|
| Groundworks | 8% | 12% | 8% | 0% | 0% | 5% | 6% |
| Piling | 17% | 18% | 6% | 13% | 13% | 5% | 11% |
| Steelwork | 17% | 12% | 14% | 13% | 13% | 3% | 8% |
| Concrete Frame | 17% | 18% | 8% | 6% | 6% | 3% | 11% |
| Facade & Curtain Walling | 25% | 18% | 19% | 25% | 25% | 16% | 22% |
| Brickwork / Blockwork | 17% | 18% | 25% | 19% | 19% | 16% | 18% |
| Dry Lining | 0% | 6% | 6% | 13% | 13% | 11% | 7% |
| Roofing | 0% | 0% | 3% | 0% | 0% | 5% | 3% |
| MEP | 0% | 0% | 0% | 6% | 6% | 8% | 4% |
| Finishes | 0% | 0% | 3% | 0% | 0% | 0% | 1% |
| Bespoke Joinery | 0% | 0% | 6% | 6% | 6% | 19% | 7% |
| General Joinery | 0% | 0% | 3% | 0% | 0% | 3% | 1% |
| Architectural Metalwork | 0% | 0% | 0% | 0% | 0% | 5% | 1% |

SURVEY FINDINGS

REGIONAL VARIATIONS



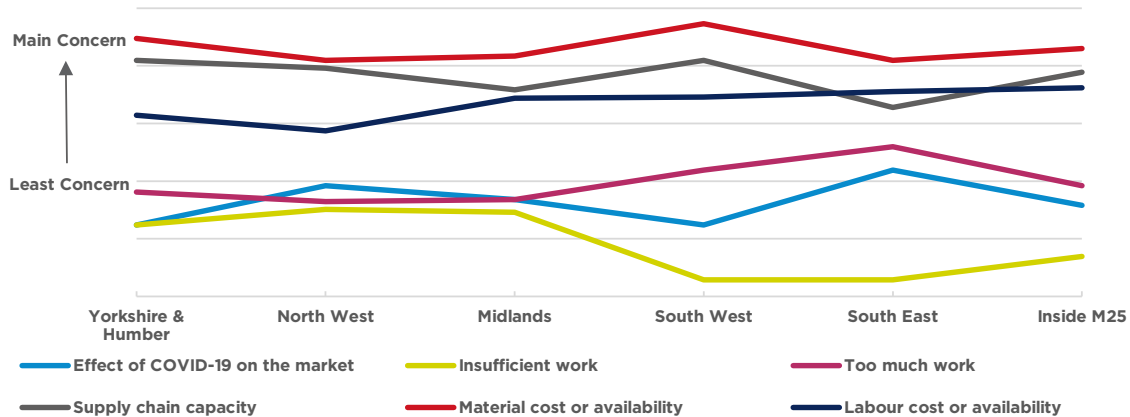
Commentary and Observations

As in previous years, there remains significant variations in regional approaches to procurement. Regions with significant outliers include the South West, which is far more dominated by Single Stage tendering and the North West where those we surveyed were far more reliant on Frameworks for their work.

Midlands based contractors are seeing the least single stage tender routes, with their projects relatively equally distributed between the principal routes to market. London and South East based contractors, as in previous years, have the highest use of two stage tendering. This is believed to partly result from the skew towards larger project size.

SURVEY FINDINGS

REGIONAL PRESSURE POINTS - KEY ISSUES IN NEXT 12 MONTHS



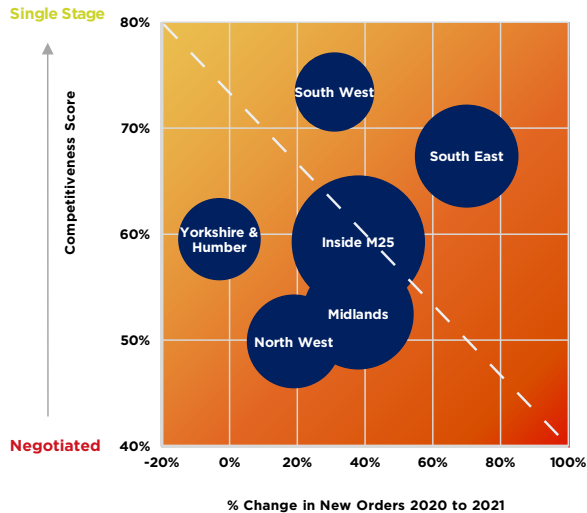
Commentary and Observations

This year's survey is dominated by contractor's input side risks dominating concerns: supply chain capacity and both material and labour availability and cost all dominating concerns. The South West has peaked concern regarding material cost availability. There is a north-south divide in pipeline concerns with all southern regions having less concern.

As may be expected, labour availability and cost is of greatest concern in London, the market having been historically more dependent on migrant labour.

SURVEY FINDINGS

REGIONAL COMPETITION AND CHANGE IN NEW ORDERS



Size of bubble represents construction output for that region (2021).

New Orders track 12 months to end of 2021

Source: ONS February 2022.

Commentary and Observations

Volatility in new orders has been unprecedented in the last two years. As new orders and pipeline increase, contractors are generally less willing to follow competitive procurement routes.

The graph opposite shows regions with their procurement competitiveness score plotted against new orders.

Those regions bucking the expected trend line are Yorkshire and Humber (relying on more negotiated and frameworks) and the South East which is seeing more competitive routes being followed despite the pipeline prospects.

“Taking a project to Stage 4 and then procuring under a single stage design and build doesn't make sense. The Main Contractor has little way of influencing the design.”
London based National Contractor

SURVEY FINDINGS

VALUE SELECTION CRITERIA

Value based selection in procurement has gained prominence through 2021. With key government policy, such as the Construction Playbook directing industry to adopt the practice.

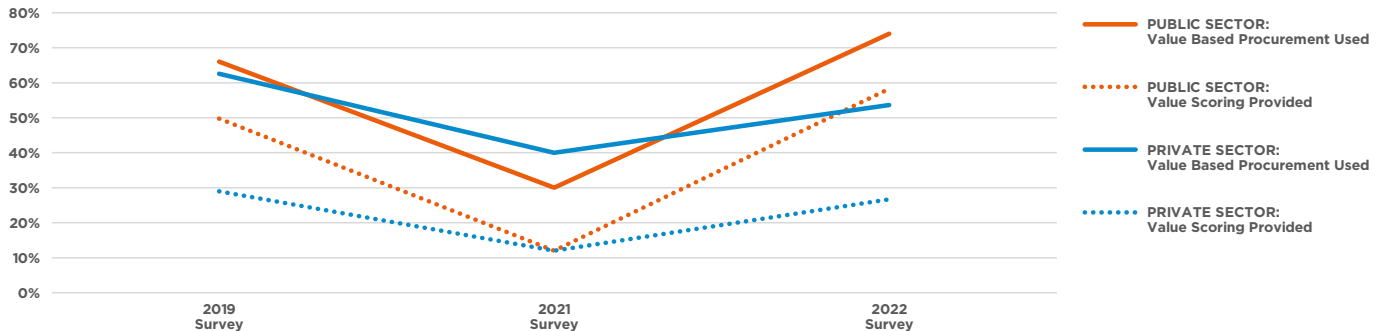
Commentary and Observations

Following a fall back in our 2021 survey results of best practice adoption of value-based procurement, our 2022 survey is showing far more positivity.

In the public sector, value-based selection is now reported in 74% of projects and nearly 60% adopting the best practice

of making explicit the project's value selection criteria. Both have grown since 2019. Closing this gap between good and best practice is clearly a focus with initiatives such as the Construction Innovation Hub's Value Toolkit.

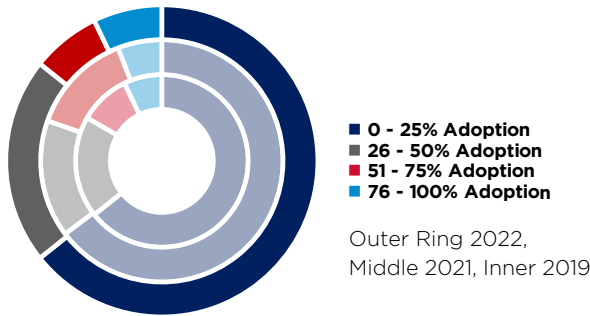
In the private sector adoption rate have also improved significantly, but with levels not returning to those in 2019. In many cases this result from a viability squeeze as costs are often increasing more than value side metrics. In the private sector, the proportion of projects making selection criteria clear is less. A procurement exercise making clear the value-based decision making to be applied is likely to have wider market appeal and therefore attract more interest in a heated market.



SURVEY FINDINGS

DIGITISATION OF PROCUREMENT

Current Use of BIM in Procurement



Use by Project Size

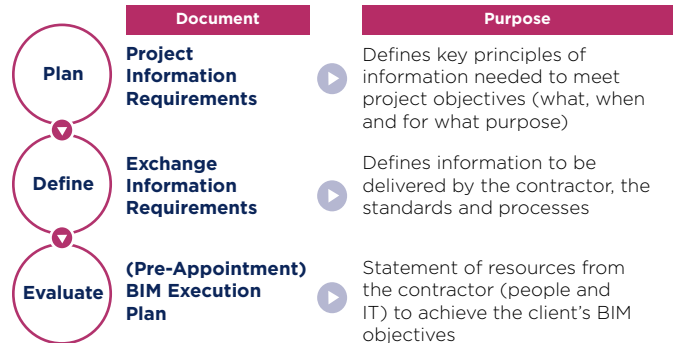


Comments and Observations

Sharing models at tender stage remains a static position in our surveys. This issue was explored in a recent [RICS article](#) authored by Paul Beeston. In it he explored that designers are unwilling to share incomplete models for the fear of miscommunication.

Instead of holding back information, procurement activity should embrace guidelines which provide a framework for clarity on design status and process. A model for bridging the digital gap in procurement is shown below.

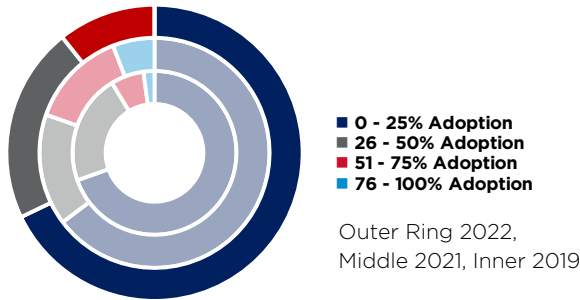
There is some comfort that BIM is being used more frequently at tender stage on larger projects.



SURVEY FINDINGS

MODERN METHODS OF CONSTRUCTION

Rates of Adoption



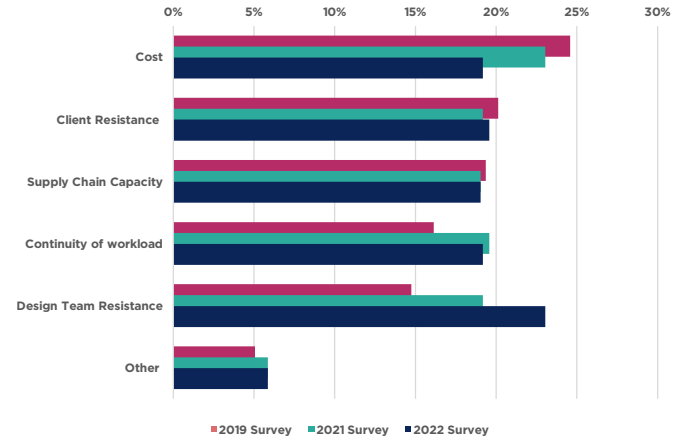
Average Adoption Rates



Commentary and Observations

Average adoption rates of MMC have fallen back since our last survey; still at nearly a quarter of projects. Optimism remains high at future adoption rates, as it has in previous surveys, so the barriers to adoption are seemingly impenetrable. Looking at those barriers, in the current market context supply

Barriers to Adoption



chain capacity and cost pressures account for 40% of stated barriers. Interestingly, plotting the trend over the course of our surveys, costs are now less frequently cited (possibly meaning more sophisticated analysis of the cost of MMC) but design team resistance has increased.

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 rapidly, but only 25% of projects have clients actively assisting in mitigation | <p>More heated markets and longer project durations are likely to have less market appeal.</p> <p>Contract negotiations are likely to take longer to conclude than may have historically been the case.</p> | <ul style="list-style-type: none"> Employer led mitigation measures are likely to make the project more appealing to the market, potentially exposing the project to more contractors willing to tender. 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 71% of projects – a shift of 20%) | <p>Increased design cost to get a contractor on board.</p> <p>Later contractor engagement is likely to result in less contractor input on buildability and supply chain risk.</p> | <ul style="list-style-type: none"> 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 | <p>Contractors may not be harnessing the benefits of BIM to price less risk and achieve better pricing and programme outcomes.</p> | <ul style="list-style-type: none"> Engage designers in procurement planning Make BIM planning central to the procurement process, not an afterthought |

CONCLUSION

| Key Findings | What it means to you | Consider the following |
|---|---|---|
| An increase in the popularity of Traditional Procurement Routes (to 43% of Projects) | <p>Undertake proper risk review of tender documents to ensure design coordination.</p> <p>Consider how to achieve specialist design coordination.</p> <p>Consider how to gather buildability advice into the design stages.</p> | <ul style="list-style-type: none"> Consider that a two stage process may provide buildability input, even if more frequently used in Design & Build arrangements. Engage contractors in post tender review with the aim of buying out the outturn cost, not tendered price. |
| A rebound in projects using value-based selection criteria in procurement, now 74% of projects, but with 16% fewer projects making explicit their value selection criteria | <p>Projects using value-based procurement are likely to be more attractive to contractors and may allow projects to widen the net of interested contractors</p> | <ul style="list-style-type: none"> 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 |
| Supply side risks remain the largest concern for contractors in the next 12 months | <p>Projects with tight timescales and extended programmes may be less attractive or see greater risk allocations.</p> | <ul style="list-style-type: none"> Review early order commitment Design out heated trades and consider material sourcing to mitigate inflation risk Consider risk allocation in contracts |
| Static adoption rates of MMC | <p>MMC adoption rates are intrinsically linked to procurement strategy and may dictate a departure from linear 'design-procure-construct' thinking.</p> | <ul style="list-style-type: none"> 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 |
|---|--|--|
| <p>Contractors are seeing growing market opportunity, whilst current contract commitments likely to be under commercial pressure</p> | <p>Contractors are facing a more challenging operating environment, with potentially increasing corporate failure rates.</p> <p>A tendency for the gap between tender prices and outturn prices to increase.</p> | <ul style="list-style-type: none"> ▪ Interrogation of all elements of contractor pricing to verify outlying bids ▪ The range of surety offered to employer's in contracts and how to prevent these contributing to toughening trading conditions ▪ Embracing collaborative working and partnering |
| <p>Envelope trades including Cladding & Curtain Walling are the most heated across the UK</p> | <p>Competition in the second stage of a two stage may be compromised on a significant package</p> | <ul style="list-style-type: none"> ▪ Pre-selection of sub-contractors in advance of main contractors ▪ Ensuring value-based procurement is stepped down the supply chain |
| <p>Negotiated tenders, frameworks and two stage projects are more frequently taking longer in procurement now than 12 months ago (between 40% and 55% of projects taking longer)</p> | <p>Allow sufficient time in procurement planning.</p> <p>Choices made in procurement planning are likely to influence the time taken to close out a tender exercise and enter into contract.</p> | <ul style="list-style-type: none"> ▪ Set out clear and fair risk allocation in contract conditions ▪ Demonstrate clear steps and timescales on employer side governance to enter into contract ▪ Active planning and monitoring of procurement activity may mitigate delays |

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 clearer communication of value selection metrics in procurement. In a more heated market, procuring for value is likely to give a project wider market appeal.

Best Practice involves clear communication of the value selection metrics at tender stage.



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'.

Adopting the tools for digital procurement requires a shift in approach and those advising on procurement developing a greater understanding of the BIM environment.



Golden Thread

Embedding the 'Golden Thread' in procurement planning

We would like to see the 'golden thread' of information 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 appropriately resourced and set the quality agenda in procurement planning.

Independent, privately owned and managed



800
UK Staff

“ As a sector, we do not need to be convinced of the virtues of value-based decision-making. Thanks to the excellent groundwork laid by the CLC Procuring for Value workstream which I was privileged to lead, and the Construction Playbook published by the government, value-based approaches will become the modus operandi for construction in the months and years to come.

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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