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Industry Insights

this issue

Construction Advisor

Welcome to the Monthly

Construction Advisor is pleased to welcome you to our monthly newsletter – Industry Insights. Bringing you all of the latest industry news, project announcements and data to help you to plan and build your business.

COVID19 Status:

- Victoria is currently subject to a 5 day (?) snap lockdown with movement across the state restricted to essential purposes only and mandatory mask wearing in public.

The Procurement Issue.

Procurement is an essential function of any project, the; materials, tools, equipment and labour required make every project possible. The purchasing process for any company, big or small, faces the same challenges: delivery schedules, prices, and settlement.

For many years' procurement was a subset of finance/accounting that was driven by the chosen organizational ERP, usually SAP/Oracle or another program. Many procurement methods and structures have evolved over time – centralized vs decentralized purchasing, pre-qualification of suppliers and just-in-time delivery methods. All have been equally successful and unsuccessful in their implementations depending on different organisations, projects and structures.

In its simplest form, procurement is easy – I need 'that' to build 'this'. The obvious challenges are; if I buy 'that' now and you don't need it for a while, where do we put it? If I don't buy 'that' now it might cost more/less in the future when you do need it. And finally, if I buy 'that' now what if you don't actually need it in the future?

The next challenge is organizational. A centralized procurement/purchasing team makes sense for many large organisations – it reduces duplication of labour and controls purchasing agreements. This model can however breakdown – a disconnect/poor-appreciation of local conditions, misaligned remuneration/rebate models and distrust from local project managers can all contribute to a broken centralization model.

In many cases, we have seen centralised procurement models that actually work against the projects that they are supposed to be supporting. This often comes in the form of rebate structures that send financial rewards for volume and activity back to the procurement team and not the project on the ground. This disconnect creates obvious friction where local managers seek to minimize cost based on 'best-quote' versus the centralized team pushing for 'preferred' suppliers.

The design and structure of a procurement team/function within an organization is largely dictated by team size, geography, materials/services required and systems architecture.

There is no doubt that economies of scale are a major benefit in procurement with large orders generally attracting significant discounts. Surprising then that this is a space where buyer collectives are yet to make a significant entrance to disrupt this marketplace.

2020 has taught us many things including the fragility of our global marketplace. With international trade thrown into disarray as a result of border closures and localized industry shutdowns, many industries faced unexpected shortages. Coming into 2020 the East Coast infrastructure 'boom' was getting into full swing which resulted in shortages in key building materials such as sand, concrete, gravel and bitumen. And finally, punitive tariffs and trade bans implemented on Australian industry by China showed how quickly a foreign political actor can impact on what were thought to be stable markets.

Covid has reinforced the risks associated with relying on offshore manufacturing. Whether it was fittings and technology from China, elevator components from Germany/Sweden or porcelain from Europe rolling shutdowns and disrupted supply chains led to significant delays on local building projects. The reality is that you can't unscramble an egg and 2-3 decades of offshoring can't be undone. The solution then (assuming we don't face another pandemic soon) is that supply networks must be diversified and flexible to adjust to changing global conditions.

Choosing suppliers

Depending on the scale and structure of your procurement function, many larger organisations will seek to enter supplier agreements/contracts with providers of materials and services. These agreements allow for greater certainty in cost estimation and supply planning with contracts locking in pricing and supply terms for longer periods.

For some product categories (such as asphalt/concrete/cement) there may only be a limited number of choices in the market compared with a category such as equipment hire where suppliers are abundant.

For more mature procurement functions, there will often be a list of pre-qualified suppliers for each given category. Usually, these suppliers have satisfied a number of conditions around safety, quality and commercial stability. There is nothing wrong with this approach – indeed it is admirable, however, being too stringent in this approach where teams are in remote locations can lead to friction where an 'un-qualified' supplier may actually be the best choice to complete the task.

There are also legislative considerations in light of recent changes in both State and Federal government policies. Increasingly, *diversity and inclusion* laws and guidelines are becoming a standard with some bodies including requirements in tenders and contracts. This means that both head contractors and subcontractors are expected to support the employment of a diverse range of employees from different backgrounds both cultural and social.

Tenders & Pricing

For smaller contractors and businesses negotiating pricing for supplies can be a difficult prospect. Many suppliers will have a 'trade' discount but further incentives can be hard to come by. For larger projects and purchasers the process can become infinitely more complex through the issuing of tenders to potential suppliers.

Managing tenders has come a long way in the past 10 years with countless platforms now available online including many Australian based businesses.

2020 saw the entrance of global player Autodesk into the Australian market with the launch of its *Autodesk Construction Cloud* product. The solution brings together a package of Autodesk products under one banner including document management, project management, data analytics and design management.

Another headline maker in 2020 was Australian startup *Matrak* (read more in our article on page 5). Short for materials tracking, the platform is a workflow management tool that tracks materials from manufacture through logistics and delivery. The company already boasts a significant list of Australian and oversees customers including Hutchinson Builders, Icon Constructions, Hickory and Reece.

Finally, we come to comparing prices. It may sound like the easy part of the process but cheapest isn't always best and even comparing prices side-by-side can be a challenge. Many suppliers will present prices in different formats and it is important to read the fine-print. Does the price on the page include everything or are there additional levies such as an environmental levy that are added at invoice time?

Some prices are subject to change regardless of any supply contract. A common challenge is long-term planning for major road and civil projects requiring significant supply of bitumen. With oil being a significant driver of the cost of bitumen, predicting the price of oil over time is nearly impossible.

Staying on top of procurement is the difference between delivering projects or not. An explosion of platforms and software to manage this function have entered the market in recent years and selecting the one that is right for your business or project is vitally important to delivering effectively and efficiently.

Under COVID-19, how are you coping right now?

During COVID-19, most people will have their normal coping abilities challenged.

Whether you've:

- lost your job
- are isolated due to remote working
- dealing with home-schooling
- working even harder because others have been retrenched …

it's natural to feel annoyed, frustrated, anxious, sad, confused or depressed.

But these normal reactions don't mean you've got a mental health disorder. They just mean you might benefit from having a chat to Someone* (by video) about what's happening and how you're dealing with it - to get some ideas you might not have yet tried and which might make a positive difference to your morale and motivation in the short term.

**Someone who knows construction and its challenges, who is qualified in psychology and who has a long track record in coaching to help people grow their potential.*

For further information …

contact us on:

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or by phone on:

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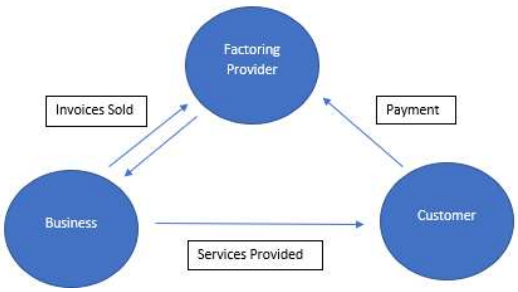
Factoring vs Reverse-Factoring explained.

In the procurement world, early 2020 was dominated by a new term – Reverse Factoring. Most notably adopted by CIMIC Group (who have since abandoned the practice) Reverse-Factoring became a by-word for big companies bullying their suppliers. So what is it and will we see it again?

Traditional Factoring has been around for centuries in some form or another. In simple terms, the practice involves a company selling its outstanding invoices (money it is owed) to a third party at a discount and the third party then chases the customers for payment. This is performed for a number of reasons but primarily it helps with cashflow management as the company gets immediate access to payment instead of waiting 30-60-90 days for trade terms or risking bad-debts. The discount that the invoices are sold for is offset by removing risk.

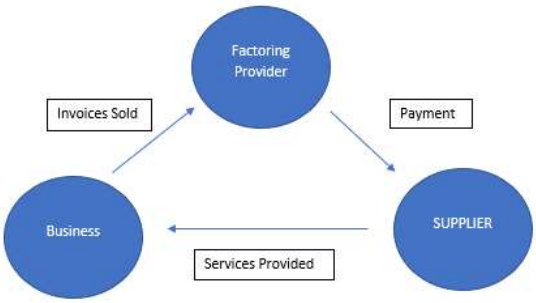
Factoring is particularly attractive in construction where payment terms can have long lags particularly when dealing with government contracts. Payment on completion/delivery also puts pressure on cashflow as labour and materials need to be purchased in order to reach the delivery payment.

The Factoring party can then choose its method of payment recovery and may for example offer discounts if the customer settles their invoice quickly.



Enter Reverse-Factoring. This takes the traditional Factoring model and applies the same principal to invoices owed (payments to suppliers). Basically, in this case, the business is selling its debt to a third party to settle with the supplier.

Sounds simple? So where did it go wrong?



In the traditional Factoring model, the customer is largely unimpacted by the process. They still receive the service that they have requested and will largely be indifferent whether they are settling their invoice directly or indirectly. Reverse-Factoring however fundamentally shifts the power dynamic of the supplier relationship.

In a normal supplier relationship, the supplier retains a level of control with its customers – if you don't pay your bills they will stop supplying you. Reverse-Factoring absolves the purchaser of their direct responsibility as they point to the third party and say that if there is a payment problem it is when them, not us.

There are obvious benefits for the business that engages in Reverse-Factoring. They remove debt from their balance-sheet and reduce admin on accounts payable.

This is where things get more complicated for the supplier though. Reverse-Factor providers then institute a string of payment terms to the supplier. Essentially, if you want to be paid for your goods now, you must give us a discount on the amount owing otherwise we won't pay you for x days but then you can have the whole amount.

In the case of CIMIC, public backlash was swift with many commentators accusing the company of bullying its smaller suppliers with unreasonable payment delays for goods and services.

It is important to point out that there is nothing illegal about Reverse-Factoring or supply-chain financing in general. Indeed, if all parties involved are entering into the arrangement willingly and are fully aware of their obligations and potential upside/downside, it provides an efficient tool to assist all parties with cash-flow management. Where it is not legal is where suppliers are forced into an arrangement and/or a scheme is implemented without the knowledge of the supplier.

So, is there anything actually wrong with practicing Reverse-Factoring? That depends who you ask. For a publicly traded company (such as CIMIC) criticism came from investors and analysts who try to study the public balance sheets and P&Ls. They claim that by engaging in the practice, companies are able to re-classify debt as 'trade and other payables' which makes it difficult to track how much the company actually owes its suppliers whereas the payments received from Factoring providers are still classed as operating cashflow. This in theory artificially inflates the cash position of the company.

In its truest form, the practice is actually beneficial for all parties. The company gets to better manage its cash flow, the factoring provider gets a clip of the ticket and provided the supplier is happy to accept a small discount they can access their payment quicker than would otherwise be the case.

Why are people so concerned about this if it should benefit everyone involved? Much of the fear actually stems back to 2018 and the collapse of a UK based services company, Carillion. The company once boasted an international workforce of over 43,000 people.

At the time of its demise Carillion did not seem to be a company in distress, it didn't appear to have significant debts or money owing that would cause the group to collapse. It was only in the aftermath that regulators discovered the true extent of its debts which had been disguised in the afore mentioned 'trade payables'. This meant that whilst Carillion reported debts of around £219m in actual fact its Reverse-Factoring program added between £400m - £500m above that amount.

What about Security of Payment (SOP) legislation?

Each State and Territory in Australia has some form of SOP legislation that dictates the terms of payment in construction. NSW, QLD, WA and NT all have strict payment terms of between 15 and 42 days irrespective of any other agreement. Other States and Territories are less invasive – individual contracts between parties can overrule default periods where terms are agreed between the parties. This means that Reverse-Factoring is a less attractive option in those stricter locales as suppliers are already guaranteed payments within a short period and so have less incentive to accept a discount for earlier payment.

It should be noted that CIMIC (and construction) is certainly not alone in engaging supply chain financing. The practice has been growing significantly in recent years across many industries including telecommunications, logistics, aviation and services.

The reality is that as a practice, Factoring and Reverse-Factoring are both here to stay. Provided structures and agreements are entered into in a fair and even way, actors behave in good faith and users are transparent in their level of exposure, there is nothing wrong with Factoring.

Developing positive relationships at work and at home

Almost all kinds of relationships, become strained when either or both parties are subject to the challenges we now face under Covid-19, and current statistics bear this out (1 out of 2 breakdown).

Access to information which helps us understand, diagnose and improve relationship behaviours is critical if we are to create a positive environment, both in the workplace and at home.

Whether with clients, colleagues, a boss, a partner or children, the quality of these relationships will have a profound impact on both your business performance and personal wellbeing.

The Construction Advisor Relationship webinars contain 12 key principles designed to increase your relational competence to help you understand and implement helpful behaviours, and minimise destructive ones.

For further information ...

contact us on:

ask@constructionadvisor.com.au:

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0456 134 634

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What and who is Matrak?

A big winner in 2020 was materials supply software management platform Matrak. Securing an additional $6m in working capital to finance its growth the company looks set to take-off globally on the back of the recovery in construction.

Like every good 'overnight success' story, Matrak has been over 7 years in the making. Founded by brothers Shane and Brett Hodgkins, the Australian start-up was conceived when the brothers saw the challenges faced by their father's window installation company in managing materials on site.

Seeing the pile of paper delivery orders on top of the seemingly endless phone calls chasing up materials and their delivery status, the brothers came up with a solution.

Matrak is an end-to-end supply chain management solution. Bringing together networks within projects, materials (and their status/location) can be tracked from manufacture to installation.

The platform offers a comprehensive set of reports, analytics and notification services to ensure that you can stay on top of your project supply chain.

The benefits don't just flow to the end user though as it also assists manufacturers and material suppliers with their delivery process. The ability to upload photos of deliveries acts as insurance to prove that products have been shipped in full and good order. Equally, the platform can automatically notify the supplier of defect notices (including photo evidence) and reorders.

Understanding that the supply chain is more global than ever, the platform is already available in more than four languages (English, Mandarin, Thai and Spanish) with more being added.

The platform has already signed up some significant customers including: Hutchison Builders, Icon Constructions and Hickory. Whilst also building its supplier network with the likes of Reece, One Global Logistics and G. James.

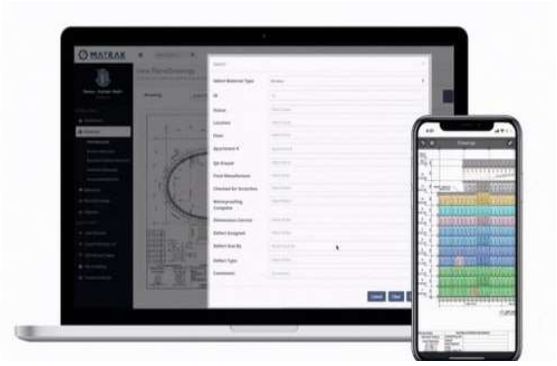
The concept is good and growth obviously will rely on the ability of the company to continue to grow its supplier network and offer seamless onboarding of both suppliers and end-users.

The company already acknowledges that it is part of a bigger ecosystem of platforms stating that it works to integrate with existing systems and processes. This is particularly important when looking to pair with other delivery management systems already in the market such as the equipment rental industries adoption of custom delivery management apps.

Along with the brothers, Matrak is being supported by Aconex co-founder Leigh Jasper and venture capital firm Rampersand.

To find out more about the company and try a free demo, visit the website.

Matrak.com.au



Pricing in Equipment Rental

Equipment Rental can be a frustrating category at the best of times. A fraction of a project's cost but a huge risk factor. When that one generator goes down or crane doesn't turn up the costs can be multiplied exponentially in downtime. But one area in particular can seem like a dark art – pricing.

Pricing in equipment rental has come a long way this century. Long time methods such as payback terms, weekly rates being a fixed ratio to single day rates (e.g. 4.5 times the day rate) and others are slowly being phased out as the industry better understands its own costs and price management tools.

For those with longer memories, the early days of 19' scissor lifts costing $500 - $600 per week are long gone, as is the novelty of things like power-to-the-platform in boom lifts. In fact, intense competition in the sector has seen prices broadly fall significantly over the years.

But how do rental companies set their prices and how can the responses you receive vary so widely sometimes?

The factors that drive pricing in rental are surprisingly complex. Companies usually start with the capital cost of the asset and then apply factors to calculate the end price. Consideration has to be given to working location, hire duration, insurance, maintenance costs, overheads, cost under-recovery (such as transport/labour), competition and scarcity/utilization.

On top of these transactional considerations, the industry also needs to cover its own downtime from stand-downs due to weather events and breakdowns.

It is this complexity that can lead to confusion and misunderstanding. Scarcity and higher operating costs in remote locations (such as the Pilbara) mean that the industry can achieve higher prices when compared with other metropolitan locations. This is somewhat offset by higher equipment specifications to comply with industries such as mining. This is why a rental company will almost never agree to a single price agreement nationally – the market conditions are too variable around the country to justify a flat price everywhere.

Utilisation is another important reason for price variations between suppliers and regions. This is both an internal and a broader market consideration of equipment scarcity. If you take an example of a generator in town A, rental company A may have 2 available whereas rental company B has 10. Company B is far more likely to be agreeable to a cheaper price in order to get their stock on hire versus Company A being more likely to hold off for a customer willing to pay full rate – this discount can sometimes be significant

Another sometimes misunderstood part of this industry is the practice of sub-hire or cross-hire. This is where the rental company may not have any of their own assets available to hire out and so they source equipment from a third party. This may or may not impact the price depending on the third party – they may be willing to offer a low enough price for your provider to still make a margin, otherwise your provider will usually try to negotiate a new price that allows this.

Keeping up with the latest news? This is what you should have seen on Constructionadvisor.com.au

- $306B infrastructure plan for New York announced
- A new home for Canada's historical artifacts
- A new type of vibration-measuring glove has been developed
- Calculating the carbon footprint of construction equipment
- Carillion directors to face prohibition from the boardroom
- Construction material shortages in the US will continue in 2021
- Creating concrete from soft plastic
- How chain food (fast food) restaurants in the US are redesigning for a digital future
- Hurry! You can still have input into Infrastructure Victoria's 30-year strategy
- Lendlease Europe on the road to Zero Carbon emissions
- Monitoring usage of appliances and equipment reduces site emissions by over 75%
- MWRRG releases new multi-unit development recycling resources
- New research into rail track piling design
- Nitrate pollution holding up construction projects in Southern England
- Scotland invests in 'active travel' schemes
- The road to sustainability starts at home
- The UK's Climate Change Committee sets out road to Net Zero
- There's an app for that – stock management made easy
- UK Government sets up building products regulator
- Australian Building and Construction Commission
- Built wins $450m 60KW Project
- Do you have a truck protection gizmo?
- Federal Government increases support for energy efficient programs in the built environment
- Icon kicks of 2021 with $300m win
- LendLease Bets on Melbourne Housing Market Rebound
- Major Steel Manufacturer Enters Administration
- Post-pandemic design of the future
- Worker Dies After Crane Load Fails
- Workplace Safety and Industrial Relations ACT
- Would you like lobster with your concrete?
- Eurozone's downturn in construction continues
- Fairwork Commission
- Ferrovial in collaboration to develop 'roads of the future'
- Frankston Hospital Race down to three runners
- Gender pay gap widens in the Construction industry
- Housing Industry Association (HIA)
- Industrial Relations Australia (IRV)
- Maryvale Waste to Energy (WtE) Project
- Recycling oven makes asbestos safe to reuse
- Scotland launches awareness campaign on isolating safely during electrical work
- Testing electricity poles with 'Thor's hammer'
- UK's Mace Construction achieves net zero carbon emissions in 2020
- VIC Government announces $9M hazardous waste facility