

Insights

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The purpose of this newsletter is to bring you new perspectives on key subjects to stimulate your own thoughts and ideas. In each edition (which are published bi-monthly), we look at an aspect of business we hope will be of interest to you as an industry leader.

The members of acumen7 bring their skills and experience together so that they can offer innovative solutions to today's complex problems. Full details about our network can be found on www.acumen7.com

CAN WE TAKE 20% OUT OF OUR CONSTRUCTION COSTS?



acumen7 member Simon Murray writes: Several large clients have recently said that they intend to reduce their construction costs by 20%. I suspect that what they mean by this is that they face unprecedented financial challenges and if they cannot improve the delivery of their projects, they might not be doing any for some time. The economic outlook is causing many of us to ask whether the UK can even maintain the level of investment in our national infrastructure needed to sustain long-term growth in the economy. What can we realistically do about this?

Introduction

Improving efficiency is a bit like trying to lose weight. We can decide to go on a diet or we can take a long hard look at the root causes of our obesity and set out to change the way we live. Initiatives, like diets, rarely deliver sustainable improvements in performance. If we want to improve our efficiency in construction, we have to face up to the excesses of the last decade and look for fundamental changes in the way we do things. And to start the process, I offer you three practical suggestions.



Terminal 5 under construction

Improve Project Development Skills

To begin, we should find a way of defining the projects that we are going to build with the minimum of studies, debates and value engineering. In the UK we are blessed with experts in the planning, construction and operation of infrastructure. But every time we set out to design a project we seem to need the protection of countless alternative designs and reports on every possible risk and outcome. It is responsible to examine options and assess risks in projects but it is questionable whether all this work is really needed.

Back in the 1990s BAA learnt from its property company Lynton that project development needs particular skills that are different from the skills of project management. BAA trained a team of development managers who were responsible for defining the projects needed to develop their business. They found that they were getting to the right answers more quickly and were able to define their requirements more accurately for their designers and contractors. If we adopted this approach on all projects, we would probably take 10% out of the cost before we started construction.

Tackle White-Collar Costs

Next, we should look at our approach to designing and constructing projects and ask ourselves how much of this activity is really adding value. Our project processes seem to be designed to benefit the participants rather than to deliver value to our clients. We spend a disproportionate amount of time writing contracts, organising tenders and doing designs that are repeated by our suppliers. We have created an industry of consultants that monitors progress, reports on failure and helps us comply with regulations. This white-collar activity is evident on all of our projects but nobody seems to know how much it costs.

The construction industry knows a lot about prices but very little about its costs of doing business. We should do the analysis to understand our costs right down to the lowest level in our supply chain and we should then ask our clients whether we need all of these white-collar activities. At the same time we could look at

other industries for ideas on more simple ways of doing business. I have no idea how much this would save but a straw poll amongst some of my colleagues suggests that it is at least 10%.



JabHouse Concept from Innovare Systems

Manage Production

Finally we need to get to grips with the management of production on site. Over the last fifteen years studies have shown that on typical construction sites about 50% of man-hours and up to 20%

of materials are wasted. Furthermore, the UK construction industry accounts for 8% of GDP but produces a third of all the waste that goes to landfill. Even before the financial crisis, these levels of waste were unacceptable. They are now downright irresponsible. We have to do something about this.

The root cause of this waste is poor management of the work on site resulting in operatives being unable to complete the tasks they are given. On most sites contractors and construction managers give priority to the commercial management of sub-contacts over the direct management of production. Transferring risks to sub-contractors has become more important than managing our work efficiently.

In conclusion

These are practical steps that we could take now to achieve our clients' objective of taking 20% out of their construction costs. None of them requires any great investment in new technologies or equipment. But they do require us to take our clients seriously and align our businesses with their needs.

This article first appeared in 'New Civil Engineer'.



Simon Murray is a civil engineer who advises on the development of infrastructure projects. He has held senior management positions in the UK's privatised airport and railway infrastructure companies and has been responsible for the delivery of several large infrastructure programmes including Section 1 of the Channel Tunnel Rail Link.



NEXT EDITION: Budget Cuts: Where's the Opportunity for Business?

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