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# The supply chain needs fairness, communication and consistency

You can't manage your costs on site unless you can manage your supply chain effectively, both up and down

**MANAGING COSTS****TIM COLE**

There are times when a reminder of something I already know has an unexpected impact on me. A recent such experience came at the *Construction News* conference on Successful Supply Chain Management.

At the event two major contractors each noted that they no longer did any physical delivery of work and therefore rely completely on their supply chain.

Although a small sample size, they also suggested that perhaps the old 80:20 ratio rule is now 85:15. Eighty-five per cent of turnover was reported to be with subcontractors and preferred suppliers accounted for 85 per cent of that spend.

The 85:15 ratio also applied to the Highways Agency, who noted at the conference that 85 per cent of its spend was now with subcontractors and that nearly

all the people we see driving round in their vans are therefore members of their supply chain.

I pretty much knew this, but it made me wonder whether supply chain management had evolved as far as the 85:15 rule might require? More to the point, were supply chain issues bubbling up towards the top of the priority list for cost management and delivery performance?

**Supply chain success**

Our industry has always depended on the supply chain, but perhaps never more so than it is today. Contractors and clients are spending an increasing amount of time and money deciding how best these are managed, incentivised, monitored and financed.

And let's not forget that the supply chain is multi-tiered. Success depends not just on whether the roofing contractor is on site but whether material supplies and plant equipment are there at the same time.

Following agreement on

the importance of effective relationship management, more 'challenging' exchanges took place at the conference around assessment and payment.

It was apparent that subcontractors were increasingly as likely to monitor the main contractor's communication and payment performance as were the contractors to monitor subcontractor performance and cost.

Then into the frame came a discussion about the Office of Government Commerce (OGC) having signed up to the Fair Payment Guide and Charter with effect from this month. This commits public sector clients (over a third of the industry output), and their main contractors and supply chain members, to a series of principles for future construction projects.

The principles, set out in the OGC's Guide to Best Fair Payment Practices ([www.ogc.gov.uk](http://www.ogc.gov.uk)), include greater transparency, no unfair withholding of payments and payment



**“If you come across an example of a government department not following best practice on fair payment, let me know”**

**STEPHEN TIMMS**

periods not exceeding 30 days.

Construction minister Stephen Timms added his weight to this initiative by declaring last year that “if you come across an example of a government department not following the best practice [on fair payment] let me know, and I will ensure with my colleagues at the OGC that the matter is taken up. We may not succeed every time, but we will give it our best shot.”

Successful supply chain management in today's construction industry will be built on good communication, consistent relationship management, earlier supplier involvement and a fair payment framework.

Companies are clearly investing to improve their delivery performance and cost management but it was widely agreed that this is one target for which we cannot claim to have hit the 85 per cent mark.

Tim Cole is business development director at Causeway Technologies

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