



Case Study

Sourcing in the Construction Industry

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The client is a fast growing provider of products and services nationally for the UK construction industry and has a reputation for executing large, complex projects from airport terminals to the power transmission sectors whilst maintaining enviable safety standards. Recent growth provided a scale of operations to consider purchasing materials and components directly from low cost countries, rather than through distributors in the UK.

Although well established in a competitive industry, the client was new to overseas sourcing and required a wide range of materials and products, including pressings, forgings, castings, fasteners, welded assemblies, plastic laminates and woven fabrics. Processes required included galvanising, zinc plating, painting and printing and all the products needed to meet strict BS/EN standards.

The Challenge

The Consultancy Company was asked to develop a strategy and implementation programme for offshore sourcing and deliver a complete solution. This included a full review of product categories and of countries which could meet their needs and a precise identification of qualified suppliers suitable for direct purchases. The client was aware that their UK suppliers were importing from Asia but needed to really understand the product costs and ensure that quality levels could be met consistently.

Our Approach

The Consultancy Company has developed proven techniques which identify and map the key stages in the transition towards successful offshore purchasing and adapted this approach to the unique requirements of the client. This entailed the following steps:

Assessing the Opportunity

Identifying the products, standards and volumes of items involved and establishing target pricing and expected savings. This meant working closely with the senior management team to identify products which were viable and to establish priorities by reviewing the overall value of saving.

Initial Sourcing

Research identified that India as well as China was a very viable source for many items. Suppliers were identified, using terms of reference established in Stage 1 of the methodology to pre-qualify them. A detailed RFQ was developed setting out the engineering standards, material specifications and projected quantities and sent out to over 90 potential suppliers.

Pricing was evaluated using total cost of acquisition models to assess indirect costs of procurement and delivery through to the client's warehouse and suppliers were short listed based on a basket of factors. Mapping of prices was used to demonstrate regional pricing responses compared with current and target prices for each product. This provided a target group which met the agreed objectives and warranted further investigation.



“We were new to sourcing outside the UK and The Consultancy Company achieved all our goals by their practical, hands on approach, working closely with us. The visits to factories in India and China were excellent and really taught us a lot.”

Andy Needham,
Managing Director



Qualification of Suppliers

Visits were arranged to assess the suppliers' factories and ensure that they could meet the standards needed. This involved an intensive trip to India and China covering over a dozen cities, meeting and evaluating over 30 potential suppliers. About 30% were rejected as a result of this process.

Implementation with Suppliers

After a further round of price and specification checking, a shortlist of recommended potential suppliers was agreed for each product category. Samples of the products were arranged to be made to the client's requirements for evaluation and testing to the appropriate BS/EN standards as a final confirmation before initial volume supply could be agreed.

Results

The results were overwhelmingly in support of an outsourcing strategy. Savings ranged from 25-50% on metal parts with the higher figures usually on parts with more added value and for plastics, savings were between 25-60%.

Evaluation showed the strengths of China and India in different sectors of supply and the client was able to take the best from each. The high level of qualification further reduced the numbers to a manageable range of supply options. In addition, additional quality sources for plastic products were identified in Korea and Vietnam, following identification of the ownership of suppliers in China.

Visiting suppliers with the client provided additional benefits:

- Some suppliers claiming to have factories did not in fact own them or subcontracted the majority of manufacture. This is sometimes impossible to determine at a distance.
- Factory tours eliminated others due to safety, quality systems or the local management. Some suppliers were deemed too small for a long term relationship or simply not ready for exporting to the UK and consistently meeting the required standards.
- The client was able to 'sell' themselves as a strong buyer and an important long term potential client and we were then successful in negotiating from a position of strength and achieving further price concessions. Many buyers, in China in particular, fail to understand this approach and the value to cementing a relationship.

The end result was a successful selection of a group of eight strong and fully validated suppliers across the wide range of products.

We built and shared with the client a strong understanding of the structure of the relevant industries and they gained a new awareness of competitor activity as a result of our wide coverage of the supply chain and ability to assemble many small pieces of information from all the potential suppliers. This provided a major competitive tool and the confirmation to the client that they had gained a real depth of procurement knowledge.

The project provided powerful reinforcements of our strategic thinking as we reviewed results with the senior management.

These included:

- The need to really understand raw material pricing by country and to understand the impact in terms of material content and hence viability of supply.
- Defining the regions specialising in particular products enabled an understanding of competitive advantage.
- Reviewing the role of traders and understanding the inherent danger of working with this channel without clear definition of the factory to be used. There were several instances where the client was offered alternative factories after a visit to one referred by the trader.

In summary, this project entailed many safety critical components, across a range of industries and two key countries. By using regular reviews with senior management and a highly detailed, pragmatic approach, we were able to exceed the client's expectations for savings by a considerable amount. The client was able to work with us and position themselves as a highly attractive client, by visiting suppliers and assessing them first hand in a structured methodology. Results were achieved in the required timeframe and this could not have been achieved without our consulting work.

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