

DIGITAL TRANSFORMATION – THE KEY TO LONG-TERM SURVIVAL

Construction solution specialist RedSky is holding seminar and networking events around the UK and Ireland, focused on digital transformation. Rob Driscoll, Director of Legal & Business at ECA, was the keynote speaker at the January event – here he summarises his presentation...



My main message is that it is possible for UK construction companies to ensure their long-term survival, despite our flat economy and the sustained political uncertainty.

There's no denying that, as a nation, we all love a bit of doom and gloom. Since the 2016 referendum we've all been living through an era of great political uncertainty. And the 2018 global economic crisis only served to add to the confusion.

It seems to me that we've all been blaming Brexit for this bad news saga, but I'm starting to see things differently.

RISING BORROWING

Having read a number of economic reports on construction in recent months, it's clear that pure economists don't hold Brexit responsible for our current economic woes.

Their message is a simple one: if you keep on borrowing, you can only run out of credit. And that's a big worry, because when you can no longer borrow, what you end up with is a global economic crisis. You can't keep putting petrol in the tank if you don't have the money to pay for it.

The signs are all there, what with President Trump having borrowed heavily to turn US fortunes around and China having done the same to fuel a decade of tiger growth in manufacturing. And now we're starting to see the emergence of trade wars and tariffs, leading to knee-jerk, uninformed decisions by political rivals. The money markets don't like it. And when you add in Brexit, it's a highly toxic mix.

Since 2016, the only certainty we've had is uncertainty. Although the construction industry gained

a bit of momentum in the lead-up to what seemed like the final 31 October Brexit deadline, what we've seen since is order books drying up and a dramatic drop in the number of tender enquiries reported by subcontractors.

People are playing it safe, putting projects on hold for a while until they know what's going to happen. As a result, the economy is flatlining, which means that companies can't grow. It's a negative, decreasing circle: if the construction industry's not building new assets, facilities management can't maintain them.

TIME TO CHANGE

If there are no opportunities to increase profit, how can construction companies obtain the money they need in order to grow? Two of the main remedies available are to increase volumes by incorporating building information modelling (BIM) and offsite production processes and/or to reduce overheads by digitising manual processes.

The first of those remedies echoes the recommendations made by the 2016 Mark Farmer Review: *Modernise or Die*. His report paints a picture of UK construction as a burning platform. The title conveys a stark message, but it's one that the industry needs to take seriously.

Put simply, the companies that carry on doing things the way they've always done will eventually become the Blockbusters of the construction industry – and the architects of their own downfall. Whereas those that embrace digitisation and adopt best-practice business processes will become the Netflix winners – and the only ones able to compete effectively in a marketplace of wafer-thin margins.

The Farmer Review, the Industrial Strategy and the Sector Deal all direct the construction industry to evolve. Recommendations for change include the following:

- **Design for Manufacture and Assembly (DFMA)** – this is about changing the nature of project delivery. The current norm is an onsite process with lots of manual trades designing and constructing at the same time, whereas you could reduce the safety risks and boost overall efficiency by prefabricating offsite.

Some companies are already reaping the benefits of DFMA. For example, when Mace built the Shard, Western Europe's tallest tower, space was very tight, so it overcame that obstacle by maximising prefabrication and off-site assembly, just outside the M25. And more recently I was astonished to read a BBC article reporting that the Chinese city of Wuhan was using a prefabrication approach to build a new hospital in just six days, in response to the outbreak of the coronavirus

- **Time and cost reductions** – DfMA will enable the UK construction industry to modernise and evolve, driving up efficiencies by digitising processes. It's clear that BIM has a big role to play in that: it provides the opportunity for everyone involved to collaborate in producing a workable design to match the available budget; and with BIM, you can really start to nail time and cost overruns. The beauty of BIM is that there is a single version of the truth
- **Whole-life procurement** – all too often, procurement decisions are being driven by price, not quality. If you fit single glazing rather than double, for example, it'll be cheaper to build, but the owner's heating costs will be horrific. This short-term approach to procurement is not sustainable.

We've had two watershed moments in the industry: the collapse of Carillion and the human tragedy at Grenfell. Both disasters illustrate that if you focus on short-term gain and compromise on value against cost, you may well compromise the quality of the outcome of the process and the finish.

The answer lies in a whole-life (totex) approach to procurement, and forging strategic, long-term, collaborative relationships between client and supply chain. The public sector accounts for 35-40% of demand in construction, so it can act as a catalyst for change – specifically when it owns the assets throughout their operational life.

DIGITISATION PROTECTS THE CASH

We're still a very paper-based industry: McKinsey ranks construction third from bottom in terms of digitisation, so we are ripe for change. But we are a sector of 300,000 businesses, 99% of which are SMEs in supply

chains averaging four to five levels deep – convincing the market to change therefore requires greater effort, more time and prolonged investment.

The construction industry is operating with margins of 2-3% at best, so some companies risk losing an entire year's worth of profits on just one bad job. It's a tough, cash-strapped operating environment.

In a flat economy, one of the best ways to increase profitability is to review your internal processes and ask: "Can we centralise, digitise and automate these?"

Don't look at it in terms of having to go and buy a software module; instead, view it as making an investment that will enhance your business. Digitisation provides a means of protecting the cash in an organisation, by introducing economies of scale and cost-efficiencies. Whether you're a client, a Tier 1 supplier or an SME subcontractor, the important thing is to take those vital first steps towards digitisation.

Back in 2003, I joined a team of solicitors. I said to my new boss: "Can we get rid of all the books? They are just a comfort blanket." We were regularly purchasing the latest volume of a legal tome that cost £450 each time and effectively was out of date as soon as it had been printed. Back then I was the next generation and didn't intend to stay more than 24 months in the job, but being given the freedom to innovate and transform empowered me and engendered the loyalty to stay.

We stopped purchasing traditional books and took out a digital subscription to a multi-faceted searchable knowledge portal instead. It was a cheaper, static cost that meant we could always rely on the information being up-to-date and never mislaid. As blind people, we engineer solutions to problems as part of daily life – my business case for digital within the wider team was therefore based on the selfish need to access the inaccessible.

Although it was obvious why I would welcome the new digital approach, the wider team also saw immediate efficiencies because it gave them instant access to higher amounts of reliable, real-time, accurate information from which to draw their expertise and productivity, and from which I had previously been excluded.

It was a similar story in my last organisation. Back in 2015 they finally replaced the person whose job it was to administer the manual holiday record system in one location. The costs associated with that task dropped from a circa £30,000 human cost to a £3,000 annual software subscription to an online HR management system that covered multiple locations. It was a small step on the journey towards digital transformation, but a very important one in terms of advocating digital transformation to our community.

Digitisation isn't all about reducing headcount, though. It's also about freeing people from mundane and often frustrating, manual tasks, so that they can focus instead on more productive activities instead, which in turn can boost job satisfaction and wellbeing.

And that's something worth bearing in mind. Let's face it, an environment that wouldn't allow me the tools to succeed and fulfil my ambition was never going to be able to keep me. And the same is true of today's talented, diverse, tech-savvy young professionals – they will expect a certain level of inclusion and digitisation wherever they work. We take it for granted that they will just come in and fill the slots, but if we fail to digitise our processes, they will turn and walk away from the construction sector.

FAIR PAYMENT TERMS

We live in a challenging economic climate, where cashflow windows are being lengthened. It's putting businesses at risk.

We must learn the lessons from previous economic downturns. Look at Carillion. When the cash and lending dried up, it started insisting on extending its payment terms to 126 days to borrow money from its suppliers instead of the finance sector.

That late-payment approach asphyxiated the suppliers. It was unfair and unsustainable. Carillion went bust and took many others down with it.

If the UK economy goes into a downturn, we will see major clients trying to elongate payment periods. My advice is to resist these changes, because they are a high-risk strategy. Instead, I recommend cultivating good client-supplier relationships, throughout the length of the supply chain. Collaborate, find better, mutually acceptable solutions and spread the risk.

A raft of Government initiatives exists to address payment abuse, including BEIS Payment Reporting, Public Contracts Regulations, the Prompt Payment Code, the CSFP Charter, PPRS (Payment Procurement

Review Service), Late Payment Regulations and Project Bank Accounts, to name but a few. Each of these initiatives tackles a slightly different aspect of the problem, but the answer won't be found in any single solution. It's all of them, underpinned by digital integration.

What I've been saying to Government is this: you've got some great key initiatives that are creating a commercial imperative through legislation to monitor and report on payment performance. But they aren't interconnected. Companies House needs to link them all digitally, to get the base reporting statistics. As Aristotle said, the whole is greater than the sum of its parts.

IN CONCLUSION...

In the UK construction sector, we have many innovators and early adopters who are leading the way in digitising their processes and changing their working methods to achieve new efficiencies, maintain their competitive edge and drive up productivity and profitability. It's clear that the gap is widening between these innovators and the laggards who are increasingly struggling to remain relevant and maintain market share.

All players in the construction industry should incorporate digital transformation as a project within their three-year strategic plan. The project should involve managers from across the business; responsibility shouldn't sit squarely on the shoulders of one person. Drip-feed it slowly, so that change becomes the norm.

What the UK construction sector needs is evolution, not revolution.

About the author:

Rob Driscoll is Director of Legal & Business at ECA, Excellence in Electrotechnical and Engineering Services. He's a qualified solicitor and mediator with extensive experience of working within the construction and facilities management arenas. He's also an SME adviser to the Cabinet Office.

In 2019 he won two Construction News Talent Awards: Equality, Diversity and Inclusion Leader of the Year; and Mentor of the Year. He was also a 2018 UK Construction Week Role Model.

About RedSky:

RedSky's award-winning software enables its clients to achieve competitive advantage by implementing scalable, innovative commercial, operational and financial solutions. The software manages all aspects of the construction and information management process, providing a single-source solution that incorporates project and commercial control, mobile field working and document management, all underpinned with powerful dashboards and business analytics.

Established more than 40 years ago, RedSky supports more than a thousand organisations that use its specialist industry applications every day. Its clients include main contractors, subcontractors, professional services, civil engineers, electrical/mechanical, maintenance, demolition, interior fit-outs, painting and decorating, maintenance and highways.

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