

## We can work it out

### A client perspective on tackling the post-COVID-19 construction challenge

Most construction sites have reopened following the initial disruption of COVID-19. As recovery accelerates, the pressure is on to find a balance between securing the best deal on new projects and strengthening trust and resilience within the supply chain. Following a series of interviews with clients across the public and private sector, we look at how to navigate this new landscape. What are the long-term implications of the challenges they are facing and what will be the consequences of lockdown on investment decisions?

#### Immediate lessons from disruption

##### *Remobilising sites, remobilising clients*

The imposed lockdown and introduction of safety measures had an immediate and visible effect on construction sites, many of which saw significantly reduced activity or were temporarily closed. The closure of offices also had varying impacts on operational and organisational productivity. While the accelerated uptake of remote working technologies such as Zoom and Microsoft Teams is a great success story, emphasizing adaptability to challenging conditions, these new ways of working can also have downsides, such as reduced opportunities for collaboration. Clients did however recognise the benefits of time saved on travel and commuting, thereby increasing their own productivity.

Ways of working are changing, with a hybrid home-office work pattern emerging that appears to be here to stay. Although there is no evidence to say for sure that offices will become redundant, it seems increasingly likely they will become more focused on being a place for enhanced collaboration rather than a place for work.

#### Client Perspective



Approximately 50% of clients managed to either maintain or increase productivity (Figure 1). But for some, the move to digital working was more challenging and some operations were suspended completely, where working from home is simply not possible.

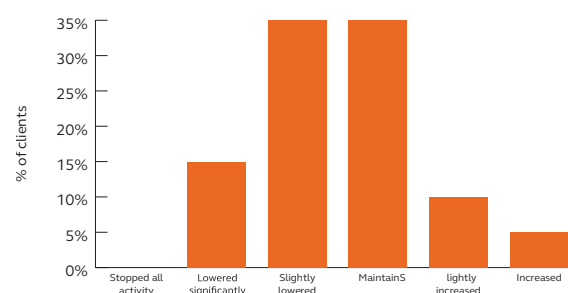


Figure 1: How has COVID-19 impacted the productivity of your own business?

### Reimagining the “watercooler moment”

Many clients, especially those engaged in larger developments, believed that online meetings were not working as well for larger negotiations. In particular, ‘hybrid’ meetings, where some people are co-located in a meeting room and others access remotely were reported to be flawed, with virtual rooms being difficult to read.

“Key approval meetings and major negotiations have proven difficult remotely - these will be prioritised for face-to-face in future.”

Interviewees also expressed concern about removing opportunities for face-to-face meetings and the impact this would have on networking, building relationships and welcoming new employees to the organisation. The office maximises chances for bonding with new colleagues, and provides opportunities for informal learning and knowledge transfer – those so-called ‘water-cooler’ moments.

The concept of presenteeism no longer applies and some employers pointed out the risks associated with blurring work and private lives, including negative impacts on health and well-being. According to a study by Virginia Tech University Professor William Becker, even when employees do not spend time on work at home, the presence of work in the background can still be damaging. Being electronically tied to the office during non-work hours creates anxiety, sometimes causing conflict with partners and/or family members. When employees should be engaged in home activities during off-duty hours, the study showed that work expectations can still distract them.

### Impact of new working practises

As we shift towards new working practices, some of the long-term impacts on client operations remain unknown. For example, in some cases decision-making processes can be accelerated, in others delayed. Digital technologies enabled business continuity for many clients, but are they sufficient to create a trusted supply chain based on strong relationships?

Once again, we are reminded about the crucial role of human connection in a successful business environment. That said, many people who worked remotely prior to lockdown have reported increased engagement, now that we have a more level playing field. If practices developed during COVID-19 are here to stay, then we will need to work out how to reimagine the “watercooler moment” digitally to bring about new connections and relationships internally and perhaps more challenging, externally to the organisation.

“Technology is now being used as it should have been before. But it needs to be used in combination with human interaction, not instead of it.”

### The productivity conundrum

The way projects are procured and delivered is likely to change. While all clients experienced a productivity drop in the delivery of their projects (Figure 2), almost three quarters continued to progress with more than half of previously planned work, despite the unfavourable circumstances. One-third of clients reported having all sites operational at the time of interview (see Figure 3).

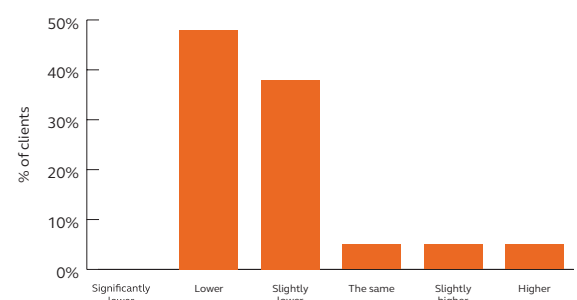


Figure 2: At the sites that reopened, how has productivity been affected compared to productivity pre-crisis

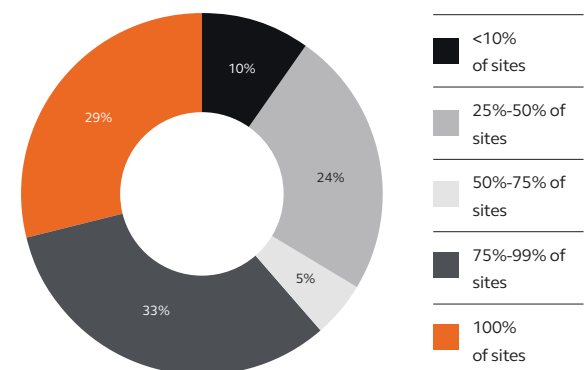


Figure 3: What proportion of construction sites are currently operating?

We found a recognition of variable performance by main contractors and that necessary adjustments to create safe working conditions would lead to delays, and in some cases additional costs. Yet we have seen many examples of collaboration, combined with concrete actions targeted at overcoming the challenges arising from the temporary suspension of activity. Our interviewees acknowledged the role of advisors as facilitators and sources of best practice throughout the first phase of the crisis.

Clients were open, where possible, to the concept of early payments and increased valuations. Innovative measures are being taken such as the use of video conferencing for viewing and valuing offsite materials where ability to travel was hampered by restrictions.

#### Client Perspective



“Clients see the implementation of the Site Operating Procedures as being mainly the contractor’s responsibility, but are being proactive in health and safety reviews and monitoring to prevent reputational risk and to assure that safe working conditions are maintained.”

“We are speeding through payments ahead of the agreed period and encouraging the same within the supply chain.”

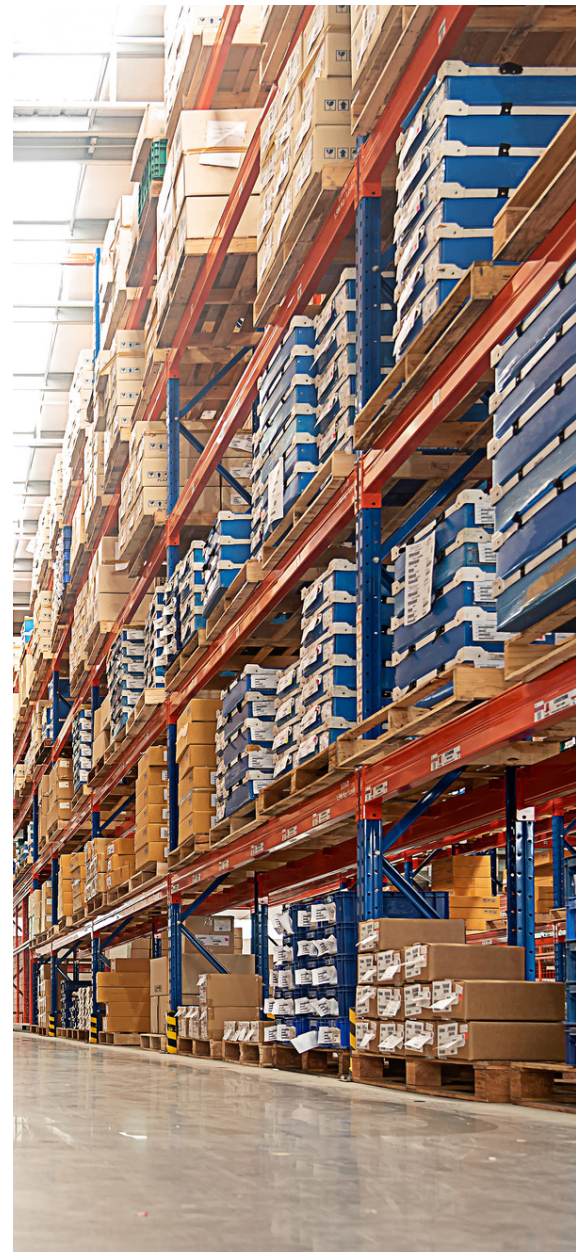
However, some clients indicated that challenges around delivery were wholly within the contractor’s remit. Such an approach, while correct in the view of contractual agreements, may prove to be short-sighted.

It has been reassuring to learn that clients are looking to turn short-term interventions such as early payments and more frequent valuations into best practice to drive improved relationships. A resilient and flexible supply chain was cited as a must for the majority of those surveyed, and they acknowledged the long-term benefits and value associated with collaborative contract management.

This finding is in line with the view of contractors, who highlighted client flexibility and willingness to go the extra mile as fundamental to their near-term survival. Clients should use these collaboration opportunities to strengthen the relationship with the supply chain, and secure a better, more resilient position for the future.

“Liquidity of supply chain partners will be key. A tried and trusted supply chain will be the preference.”

The ability to successfully deliver projects that had already commenced pre-COVID-19 was the top priority for both clients and contractors. Both groups agree that future contracts need to reconsider the allocation of risk to enable the industry to turn some of the “emergency measures” into best practice. Most clients expressed a readiness to bear the time impact, while seeing the cost impact as the contractors’ share of risk. Resolving COVID-19 related issues such as ‘relevant events’ vs ‘relevant matters’ on live projects is one thing. Having the confidence to bring forward future investment, given the high level of risk, involves a more complex set of considerations, which we will explore in the next section.





## Mid-term: impactful investment

Conditions are challenging for both clients and contractors, with a 40% drop in construction output in April (ONS data), the potential for UK GDP to fall by over 10% in 2020, and the looming consequences of a disruptive Brexit. The key question is whether clients will stick to their pre-COVID-19 investment plans or will we see a fall in construction demand?

### *The shape of recovery*

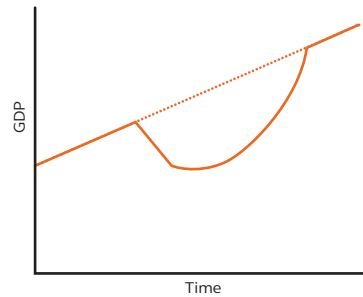
In recent weeks, we have seen a plethora of scenarios illustrated with various economic recovery “shapes” (Figure 4). Economic commentators are trying to come up with models that consider a variety of factors, including the probability of a second COVID-19 wave, the recovery in job markets, and the resurrection of consumer demand.



### *Recovery Shapes*

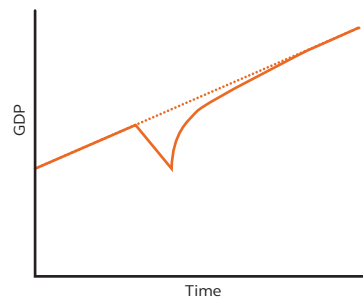
**U-shape** – Clients take more time reviewing projects and potentially decide to delay some of them. Some industry capacity could be at risk.

U-Shaped Recovery Pre-Corona baseline



**Nike ‘Swoosh’** – Clients decide to continue with their investments. Both public and private sector drive demand.

Nike Swoosh-Shaped Recovery Pre-Corona baseline



**W-shaped** – A double-dip may happen if the easing of lockdown restrictions initially boosts activity, but then effects of unemployment, business failure and public spending cuts combine with a second shock e.g. higher risk of re-emergence of COVID-19.

W-Shaped Recovery Pre-Corona baseline

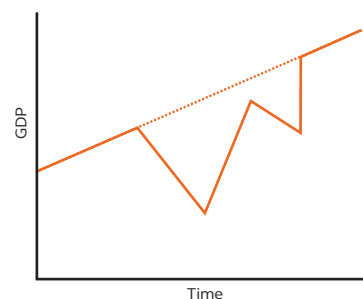


Figure 4, Source: Hutchins Centre on Fiscal and Monetary Policy at Brookings.

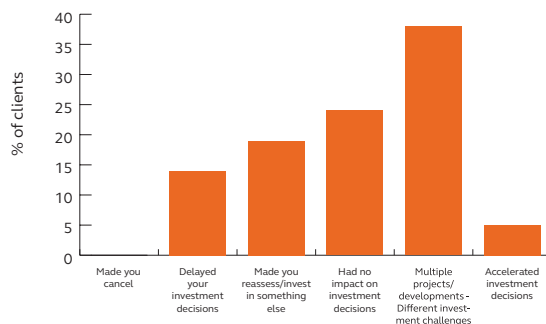
Our survey indicated that clients are not presently considering cancelling projects altogether, which is a good sign. But equally, concerns about viability and a willingness to delay spending decisions suggest that a rapid bounce back is less likely.

This leaves us with three potential recovery shapes outlined in figure 4, the likelihood of which depends on the timing of investment decisions, the readiness of the supply chain and the successful implementation of lessons learned during the initial stages of disruption (safety procedures, contractual arrangements). The most optimistic scenario is the “Nike Swoosh”. Regrettably, the more that investment gets postponed, the greater will be the odds for a U-shaped recovery in our sector.

### *The agile investor*

Our survey indicated that while clients are not reporting an immediate cessation of activity, one third will most likely delay investment decisions (Figure 5) – either to revisit commercial objectives or get a better understanding of the market and see how values and prices (including land prices, house prices, or construction costs) will play out in the long term. On the other hand, there are also clients, especially in the digital services markets, for whom the current situation has provided a stimulus to accelerate investment.

“We have accelerated our investment decisions, as we are in a strong position and are keen to drive opportunities forward.”



▲ **Figure 5: Impact on investment decisions**

Some clients are being opportunistic and are looking to leverage buying opportunities arising from the crisis, such as tactical deal-making with contractors requiring cashflow. This approach is allowing AAA-rated organisations to leverage their status in the market to accelerate investment activity, maximising both spend and value. But timing is everything, and these opportunities are transient; if clients wait too long and construction capacity reduces, they may find they have to pay more for a reduced service.

There was widespread recognition of the key role of a robust supply chain. Clients need to consider that their actions and investment decisions will collectively impact the shape of the sector’s recovery.

“We will ensure that we have a robust supply chain in place to meet our future project demands.”

### Client Perspective



64% of clients surveyed said that the current situation had not changed their approach to planned market activity e.g. RFPs/Tenders.

“We need to understand more around how contractors will be pricing moving forward i.e. is the market tightening or are costs increasing due to a slowdown in productivity?”

### *The road to recovery: public and private sector*

It is important to distinguish between the unique circumstances of private and public sector clients. Both are likely to be faced with the long-term consequences of the pandemic, but more acutely in the private sector with the postponement of consumer spending and investor activity. Future access to credit and the increased cost of debt was also a concern, highlighted in the survey by the impact of rising loan to value ratios in the residential sector. That said, any asset generating a sustainable positive revenue stream remains attractive and most clients are taking a long-term view on investment decisions.

The situation is different for public sector clients, especially in areas such as infrastructure, which is likely to be a potential enabler of economic recovery. The Government’s commitments to infrastructure spending, underlined by the go-ahead for HS2 and the announcement of the Road Investment Strategy 2 in March 2020, will drive activity. Nevertheless, the wider costs of dealing with COVID-19 may force the Government to modify some of its generous promises.

## Client Perspective



None of the clients surveyed indicated an immediate cessation of construction activity but we should expect that future investment decisions will be scrutinised in much more detail and there will be a preference for lower-risk projects.

Clients from both the private and public sector are facing different challenges in the face of the new economic reality and are likely to respond differently.

### *Building resilience for the future*

The events of the last few months have uncovered some of the weaknesses of the sector and highlighted previously unconsidered risks. Yet despite this, clients have not largely altered their risk profile. Many are waiting to see what the remainder of 2020 brings before making significant changes to either risk profile or contractual risk transfer. Those with a healthy pipeline of activity are confident in their ability to maintain the status quo, whereby contractors will continue to assume risk as they have done traditionally.

However, this does not necessarily mean that a lack of client appetite to assume greater risk will threaten future collaborative working and long-term transformation. Firstly, not all clients will be able to be so bullish. Secondly, whilst clients are commercially focused, they all agreed that developing relationships and creating an environment of trust throughout the project ecosystem will underpin future success. Finding a balance between partnering strategies with contractors, while remaining sufficiently agile to take advantage of commercial opportunities, will enable clients to benefit from better levels of service at lower costs, and create incentives for the supply chain to improve productivity.

“With a strong programme of work, we would not expect to see a different approach to risk transfer other than for mutual benefit or appropriateness.”

Of the clients surveyed, those who held strong partnership-based relationships could see the benefits first-hand and were less likely to face contractual challenges. The need to create resilient supply chains is also widely recognised, with many clients agreeing that the long-term financial health and stability of contractors are as important to collaborative contracting as open conversations and a transparent approach to commercial negotiation.

“We should use this ‘COVID opportunity’ to rethink the art of the possible.”

There is no more time to waste. The moment of truth will come at the end of October 2020 when the Coronavirus Job Retention Scheme is currently planned to end. If both contractors and clients commit and begin joint efforts on finding solutions to post-COVID-19 challenges, then work pipelines will be secured, and contractors will be able to bring people back to work and increase investment in skills, innovation and technology. This in turn will drive greater value for money for clients.

## Client Perspective



Clients agreed that implementing new technologies will help address market capacity issues and limitations resulting from COVID-19 work restrictions. They acknowledged that digitalisation needs to happen both within their own organisations and across the supply chain.

## Client Perspective



Clients with a clear and stable pipeline are aware of their commercial advantage and do not expect significant changes to risk transfer. Others acknowledged that they will probably need to accept more risk. All clients agreed, however, that pandemic mitigation strategies will become a compulsory element of any business plan and a prerequisite to securing financing.





### *Six priorities for success*

The following six recommendations will help clients to ensure they play a role in industry transformation.

- 1. Achieve a balance between remote and office-based working.** Embrace digital technologies and create flexibility, but do not underestimate the value of face-to-face interactions. Consider how to use office space and other settings to better facilitate networking and connectivity at all levels.
- 2. Cement commitment to some of the productivity innovations introduced in lockdown,** e.g. Common Data Environments with clients and chat functionality via the use of platforms such as Microsoft Teams.
- 3. View support interventions, such as facilitating cashflow, as being medium-term,** not short-term, and use them to deepen the business-to-business relationship with the supply chain.
- 4. Use commercial leverage sensibly.** Consider the long-term resilience of the supply chain as well as the short-term gain on a project. Plan for the contractual strategy; what is the best balance of risk and reward to get a deliverable proposal in the current market?
- 5. No project is an island.** Invest in relationships and due diligence to access multiple sources of knowledge and best practice, recognise that contractor failure may be caused by other projects – not yours.
- 6. Use the collective brainpower of all members of the team,** including designers, contractors and advisors when addressing challenges. Challenge them to come up with solutions that are future-proof and consider emerging risks. As an example, professional services organisations such as Arcadis have been at the forefront of helping clients to plan and rebase business cases in light of COVID-19.

## We can work it out



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