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Projects shrink as firms battle for work

Research shows the average contract value has plummeted as competition to secure contracts intensifies

CONTRACTS
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The size of the average contract win for the UK's top contractors slipped by 15 per cent last year as larger contractors chased smaller projects to maintain workloads, *Construction News* can reveal.

Research by Glenigan and CN insight has quantified the extent to which the number of large projects has fallen, revealing a 34 per cent drop in the total value of projects worth £100 million or more in 2011.

It found the average value of contracts for the top 50 contractors during 2011 shrunk to £8.7m, a 15 per cent fall from the £10.3m average for 2010 and the lowest level since before the recession in 2008, when the average was almost £14m.

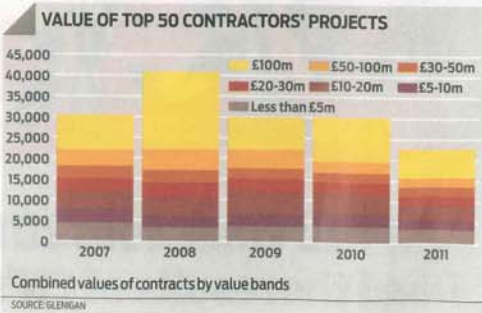
The research shows that the



Bam recently completed a £500k job for the John Rylands Library at the University of Manchester

£8.7m
Average contract won by top 50 contractors in 2011

combined value of contracts worth £100m or more won by the top 50 contractors fell by 34 per cent in 2011 to £7.2 billion. Those projects' contribution to total work has also slipped, with £100m-plus projects worth 31 per cent of total work in 2011 compared with 36 per cent in 2010. The market share held by the top 50 contractors is worth 75 per cent of 2011 contract wins, a small



Combined values of contracts by value bands

SOURCE: GLENIGAN

RESEARCH EXPLAINED

The research by Glenigan and CN insight identified the top 50 contractors based on the value of work won over the past five years. The performance of these firms was compared with that of the wider industry. Framework agreements were excluded, along with private housing projects, as the vast majority of these are developer/builder schemes.



downscale the larger end but upscale the smaller end."

He said smaller projects help fill gaps between larger jobs and offer opportunities to maintain skills and develop the workforce.

But Skanska is "selective" in its bids, he added. "We don't want to join a bid list for the sake of joining a bid list."

Smaller contractors are concerned they will be squeezed as competition for jobs intensifies.

Federation of Master Builders director of external affairs Brian Berry said: "Larger contractors have more flexibility to go in low for smaller jobs and make it up on larger work, but SMEs don't have that option."

Steven Hale, managing director of engineering services consultancy Crofton, said he was seeing larger contractors on jobs he wouldn't have seen before.

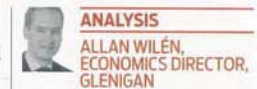
This can be positive, as those contractors will sometimes ask them to be on their design and build team.

But he added: "There is the danger that it may put some good smaller contractors out of business. Larger contractors can afford to price aggressively."

The National Federation of Builders chief executive Julia Evans said: "In cases where SMEs act as subcontractors and deliver on the ground, the framework operators or large companies would appear to act as project managers and arguably add an extra layer of cost."

"The NFB is certainly not against fair access to all jobs. But economic growth demands a space for SMEs."

But the largest contractors are not having it all their own way. While the top 50 accounted for 56 per cent of £250k-£5m contracts awarded in 2011, this was down from 60 per cent in 2010. This points to an extremely competitive market as the industry faces another challenging year.



Big boys cement positions ahead of challenging 2012

While the scale of Crossrail continues to catch the industry's imagination, the reality is it is one of a dwindling pool of major high-profile schemes. Since the onset of the downturn there has been a downward drift in the number of £100 million-plus projects.

The fall in large non-residential and social housing projects has been especially marked, at £3.3 billion the value of such contracts awarded in 2011 was around a third of the level seen in 2007. However, while major projects have dried up, the top 50 contractors have consolidated their dominance, winning work on four out of five £100m-plus non-civil schemes last year. In contrast, although the flow of major civils projects has held up relatively well, the specialist nature of projects such as offshore wind farms has seen a large slice of the work being placed with engineering firms such as Siemens.

The dwindling supply of major projects has prompted the top 50 firms to increasingly focus on winning smaller schemes, intensifying the competition faced by regional and local contractors. In addition, a growing proportion of smaller jobs are being delivered under long-term frameworks, an area the top firms again dominate. Schemes under £10m made up 35 per cent of work won by the top 50 last year compared with 21 per cent during 2008.

But the largest contractors are not having it all their own way. While the top 50 accounted for 56 per cent of £250k-£5m contracts awarded in 2011, this was down from 60 per cent in 2010. This points to an extremely competitive market as the industry faces another challenging year.

"There is life in the under-pressure construction market but the mix of schemes is changing to include a greater proportion of smaller projects. Contractors must be flexible to adapt to this."

Skanska chief executive Mike Putnam told CN its strategy to strike a balance between larger and smaller projects was devised five years ago.

"We're looking to create a better balance across the portfolio, not make a massive shift," he said.

"We're making sure we don't neglect the smaller end in favour of the larger end and we want to maintain and potentially grow that area."

"Four to five years ago, the balance of work was 60/40 in favour of larger projects. We want to effectively reverse that but on a larger revenue."

"Our company is not looking to

19%
Fall in average contract value for firms outside of the top 50

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