

8 March, 2010

## **Roading Competition Still Strong and Healthy**

*By Chris Olsen, Chief Executive, Roothing New Zealand*

Fifteen years after the mandatory tendering out of all roading work competition is still strong in the sector with 189 different contractors actively winning work in the sector during 2008/09. This is a slight increase over the 2004/05 figure of 180 contractors according to NZ Transport Agency's (NZTA) Annual Competition Monitoring Survey.

This high number of contractors in the roading sector contrasts sharply with the low number of 35 bus operators in the passenger transport area. This lack of competition of bus operators has often resulted in an average 1.1 tenderers per contract. The Government has recently reacted to this by changing legislation to encourage more competition. The roading industry is also quite different from the New Zealand food industry where a TV One documentary last year revealed that two main players had 100% of the market. In roading the two main players jointly have only 50 to 60% of the market.

Competition monitoring of the road maintenance and construction market was set up in 1995 as a requirement by the then Transport Minister, Hon Maurice Williamson, in response to some local authority concerns that there would not be sufficient competition in rural areas if the Government forced the tendering out of all roading work. It's interesting that this fear has never materialized and that markets developed in many, many places around New Zealand where no contractors had previously been.

Other competition concerns voiced in the late 1990s warned that the move to PSMC contracts and other forms of performance based contracts would put some contractors out of business and reduce competition. In the early 2000s other concerns were raised that the bundling of contracts into bigger packages in both maintenance and construction would also limit competition.

Looking at NZTA's survey results it's very clear that none of these concerns have eventuated even though the average size of contracts has increased dramatically over the last fifteen years from \$371,000 in 1995/96 to \$781,000 in 2000/01, \$2,050,000 in 2004/05 and \$1,375,000 in 2008/09. The high value in 2004/05 was due to the \$360M Northern Gateway Alliance.

These surveys show that the contracting industry is entrepreneurial, very dynamic and has risen to the opportunity and challenges placed before it. That's why the average number of tenderers per contract over the past 15 years has ranged from a low of 2.9 during the boom time of 2004/05 to a high of 4.7 in 1998/99. For 2008/09 it was 4.2. Clearly competition has been maintained despite the concerns.

Perhaps one of the most important aspects of a healthy competitive industry is the ability for contractors to grow and take on bigger contracts. In that respect the market is working well with the number of contractors now competing successfully

for bundled maintenance contracts having increased from 2 in 2000 to at least 6 in 2008/09.

Looking at the other parts of the sector I believe the way contractors can grow is changing.

Twenty years ago when I was the engineer to many contracts a lot of contractors grew by working closely with the local authority engineer. I should add that a lot of young local authority and Ministry of Works engineers also gained experience by working closely with the contractor. These days that model no longer exists, because that expertise no longer exists within the principal's staff to the same extent.

In today's market one of the key distinctions between small, medium and large contractors is their management systems and not surprisingly local authorities are not strong in this area. To move up the ladder today contractors need to develop and implement sound management systems in their companies. Often the quickest and best ways to do this are to work with other experienced contractors through joint ventures, alliances or as a sub-contractor, or alternatively by using management systems such as the NZ Contractors' Federation QEST.

It's been said before that change is the only certainty we have. Those contractors that see the changes required by our clients in future as opportunities and embrace them will be the contractors of the future in this highly competitive market.