

WHITE PAPER

Choosing the Right Approach for Construction Material Procurement: A Comparison of Dual Supplier Models

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Over the last decade, more of our multi-unit brand clients have come to recognize the value brought by consolidating procurement of various categories of construction materials. For growing brands, or brands already with national scale, many determined that consolidating suppliers when possible, also simplified and streamlined operations by reducing the number of fail points in the supply chain and centralizing accountability in the selected vendors.

Then the COVID-19 pandemic hit, creating substantial supply chain disruptions for construction materials and leading to dramatic overall increases in both the cost of construction as well as project completion time. During the pandemic's height in 2020 and into 2021, a sizable portion of construction projects faced delays. Some industry reports suggested that upwards of 50% or more of construction projects experienced delays or disruptions due to the pandemic's impact on supply chains, labor availability, and safety protocols.

To combat these challenges, multi-unit brands began expanding their approved supplier base in an attempt to provide redundancy in their supplier chains. Many brands moved to a dual supplier (or even multi-supplier) model within each category of materials. The intent of the dual supplier model was to ensure material availability even if one supplier ran into supply chain issues, thereby preventing critical bottlenecks in the construction process.

While some of our clients moved to implement dual supplier models, structures varied. There were two main variations used: (1) the regional exclusivity model and (2) the non-exclusivity model. In this white paper, we will briefly describe each model, their pros and cons, and include our opinions on which model is preferred.

Objective of Dual Suppliers

Before we review each of the above-mentioned models, it is important to keep in mind the key objectives that led to the adoption of dual suppliers. Speaking with our clients, we found those key objectives (in order of importance) to be:

- Objective 1 - Material availability
- Objective 2 - Supply chain redundancy; and
- Objective 3 - Cost control

With these in mind, let us discuss each of the models and if they achieve these objectives.

Regional Exclusivity Model

The regional exclusivity model involves specifically identifying one vendor to supply a defined region. For example, Company A is the dedicated supplier for the Eastern United States and Company B is the dedicated supplier for the Western United States.

Key components of this model are:

- **Objective 1:** Suppliers are better able to manage production and availability of material by having a defined forecast from which to plan.
- **Objective 2:** Despite defined regional coverage, should one supplier fail, another supplier exists with approved products to pick up the shortfall.
- **Objective 3:** Ensuring volume for each supplier results in securing improved costs because each supplier can leverage economies of scale to provide preferred pricing for guaranteed volume.

Non-Exclusivity Model

The non-exclusivity model involves listing both suppliers as approved in all regions and letting the supplier be selected location by location. Key components of this model are:

- **Objective 1:** No volume is ensured for each supplier thereby hindering their ability to plan production of materials leading to either over-production or under-production of required materials.
- **Objective 2:** Should one supplier fail, another supplier exists with approved products to pick up the shortfall.
- **Objective 3:** Providing multiple supplier options for each location is intended to build competition between suppliers and control cost, but with no volume ensured, the ability to plan production effectively is lost.

Weighing the Options

In our experience, the regional exclusivity model is far preferred to the non-exclusivity model. The key structural components of this model serve to achieve the three main objectives of multi-unit brands in moving to a dual-supplier model. The non-exclusivity model often fails to achieve the most important objective, material availability, in that it causes each supplier to guess as to the amount of material that should be produced. In the face of uncertainty about how much volume will be utilized, we see most suppliers in the non-exclusivity model under-produce material for fear of being overstocked with material, thereby losing money. Since all suppliers typically adopt this mentality, in the non-exclusivity model, many brands often still face material availability challenges. This is because suppliers either under-produce or do not specifically allocate stock for the brand (and allow such materials to be sold to other channels) since there is no guarantee of material being used. For these reasons, we believe the regional exclusivity model is preferred to the non-exclusivity model in that it better achieves all of the stated key objectives of having dual suppliers.

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As the landscape of multi-unit brand operations has evolved, the consolidation of procurement emerged as a strategic imperative. The disruptive impact of the COVID-19 pandemic heightened the urgency for resilient supply chains, prompting the adoption of dual supplier models.

Amidst these strategies, two predominant variations emerged: the regional exclusivity model and the non-exclusivity model. Through close examination, it becomes evident that the regional exclusivity model stands as the preferred choice. This model's ability to provide predictable material forecasts, ensure redundancy in critical situations, and leverage volume for cost efficiencies addresses the multi-faceted goals of multi-unit brands. In contrast, the non-exclusivity model's unpredictability in material planning exposes vulnerabilities that hinder its effectiveness in attaining the crucial objective of material availability. As a partner in forging effective procurement strategies, we stand ready to assist you in establishing a robust national supply program tailored to your brand's unique needs.

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