



Angus Maclean, Proudfoot



Consulting firm Proudfoot offers its five-point plan for cement producers in 2023, a year that begins with a high degree of uncertainty...



Below: Angus Maclean, Partner, Proudfoot.

Most global construction players closed 2021 with positive results, but then came 2022 and:

1. Supply chain crisis;
2. Price inflation;
3. Energy supply crunch;
4. New challenges, e.g war in Ukraine;
5. Increased environmental targets.

The uncertainty of 2022 led to a fall of 5-35% in construction sector share prices over the course of the year, but they are still a good bet over the longer term due to global population dynamics. However, it looks like 2023 will start with a lot of uncertainty.

During the second half of 2022 Proudfoot had numerous discussions with construction sector executives on the challenges for 2023. These, combined with its current consulting engagements and 77-year history of implementing best practice around the world, have allowed it to develop a five point plan for the construction sector in 2023.

ONE

Recession 'Proofing': Cement producers should have recession plans and scenarios to combat the economic slowdown. These can include pre-planned templates for downscaling operations, to 90%, 70%, 50% of normal size. It is clear that more agile companies that take big decisions quickly seem to do better. Two examples:

- A. Firms will need to continue to 'pass on the cost price increases' of energy, fuels, materials, transportation. There is no choice! In 2022 most markets could absorb the increases. However, ceilings have been reached and volumes are dropping. Scenario planning in advance will help combat this.
- B. Effective energy and raw material management will be key in 2023. Know where, when and how much is being consumed across your operations and look again at how to optimise even further. See if it is possible to operate at the lowest tolerance levels in the Bill of Materials. See if it is possible to carry out some 'shrinkflation,' often seen in the food and beverage sector.



requests on how companies can attract and retain employees at all levels. For example, it has clients in some regions that need work done 24/7/365 but where the culture is drifting towards a four day work week due to recruitment, inflation and salary challenges. Entire work patterns need to be updated.

THREE

Challenge Labour Productivity: This may be a controversial one, but one we think needs to be addressed. With the increase in the usage of video meetings the working week - for some - can be filled from 0800 to 1700 with video calls. Corporate and central functions are inadvertently pulling a *lot* of time from people directly interacting with clients in the field, which is never a good thing. There are analogies with 'e-mail overload' from 15-20 years ago. There is an unfortunate assumption that video meetings = productive work.

Let's be clear, Proudfoot is not against the advantages of working remotely, including less travel, improved collaboration and communication, but companies should review and analyse again their key staff's 'Perfect Day,' 'Perfect Week' and 'Perfect Month.' Are all of the activities actually adding value to the business? Proudfoot recently had a couple of engagements where clients returned to 'old school' tools like 'labour master schedules' and reworked 'organisation design' to combat low productivity and 'holes in the racquet' in their organisations. They successfully reorganised and reallocated resources.

Below: Breedon's Hope cement plant in the UK in the snow. Producers should prepare contingency plans for energy use in 2023, especially if cold weather is forecast.

TWO

Workforce Planning: The workforce of 2030 is just as important to consider now as decarbonisation targets. Look at your demographics by country and business and remind yourself what happened during the Covid-19 lockdowns. A lot of workers just dropped out of the market and never returned. Most companies are still trying to recruit transportation drivers and maintenance technicians. By looking at your demographic pyramid and ages, it may be possible to anticipate that, if the coming recession hits hard, another 'X%' of the remaining workforce will simply leave. There is also the wider consideration of attracting talent, a common theme in previous years. How will shrinking populations and migration affect staffing levels? The situation varies from country to country, but Proudfoot is receiving more and more





FOUR

Supply-chain Security: Companies need to have a supplier 'heat map' in order to de-risk their supply chains. This should look forward in time and scan the 'suppliers of suppliers' so that either shortages or over-supply can be anticipated. Automotive and Aerospace sectors have used this approach for some time. Proudfoot thinks that applying some similar techniques will help building materials firms anticipate challenges. This should help to protect their earnings before interest, tax, depreciation and amortisation (EBITDA) margins.

Sales, inventory and operations planning (SIOP) will be even more important than usual in 2023, as there are increasing numbers of uncertainty variables to predict: delays, strikes, steep inflation and oil price hikes. Finally, there should be laser focus on true profitability. Understand the products, services and customers that make the most profit...and ensure you service them first. Leverage data analytics to sharpen your focus.

FIVE

Innovate: Continue to accelerate innovation, green products, circular economics, environmental initiatives and digital investments, as it will only help upon the exit of the recession. All of these these programmes represent important levers in 2023. As in previous years, they can help the sector achieve many of its goals.


Unfortunately, these programs are not yet delivering the value they initially promised. Proudfoot recommends implementing next generation



operational and digital Target Operating Models (TOMs) at the same time. A TOM uses digital and operational solutions and tools to enhance each element / building block of an efficient building materials business. It is focused on the value chain and the value proposition of the business.

Remember, new technologies need to add to existing human capabilities, not necessarily replace them, and new products must actually be sold! This implies that commercial teams need to move from being 'order takers' to being much more proactive in terms of commercial excellence. Right now, the chemical sector is hiring more business intelligence analysts and programmers than mechanics. As the construction sector moves to the next generation of operating model, it will have to either train or recruit talent to support the modernisation of production.

CONCLUSION

These challenges and initiatives raise enormous operational and organisation transformation challenges for building materials firms in 2023. However, perhaps we should close on one final piece of advice Proudfoot received from a client in late 2022. The individual said that business is about people. Take your staff out to lunch or dinner, something a lot of companies have not done over the past 2-3 years, and see how happy they are, how they joke and jive together. This provides the kinds of insight that data analysis can't and might just play into how your company takes on its challenges in 2023. Whatever the year brings you, Proudfoot, of course, will be happy to help. 

Below: Supply chain management will become even more important in 2023.

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