

Message to Industry

Supply Chain Disruptions and Price Escalation Issues

The Saskatchewan Construction Association (SKCA) Advisory Council held an emergency meeting in May 2021 to discuss current challenges in material supply and price escalation in the construction industry. This is a global issue, and the SKCA will monitor and respond on an ongoing basis.

At this time, SKCA is communicating the issues below, as well as providing some best practices for owners, designers, and contractors.

What's the problem?

In short, there are an increasing number of delays in construction materials.

Demand has sky-rocketed, and for a multitude of reasons – from catastrophic storms, to COVID-19 related closures, to governments using infrastructure spending to fix their economy – there is simply not enough to go around in a timely manner. Material shortage and delays are resulting in price escalation.

Common materials affected include:

- Foundational products (wood, steel, etc.)
- Electrical materials
- Plumbing / HVAC materials
- Insulation
- Roofing materials
- Finishing materials

Cancellation of projects would be detrimental to everyone.

Instead, we implore everyone to address these issues early in the tender process.

How to mitigate the problem

Everyone

Share the risk.

- It is unreasonable and unfair to place all of the risk with the contractor when they have just as little control over the situation as a designer or owner does.
- Consider a material payment adjustment clause in tender documents to allow for fluctuations.
- Owners should be understanding of sudden price increases, and likewise if the price decreases, contractors should be willing to adjust their pricing accordingly.

Buyers

Avoid starting a bidding war on supplies.

- This achieves nothing but skewing the market.
- Even the players with the most money are not guaranteed products. Many overseas material supply contracts are not being honored, and Canada is behind in the pecking order for shipment container space.

Owners & Designers

Remove extensive negotiation periods (i.e. 30-day awards) from proposals and consider awarding within 7-10 days.

- You will have a much better chance of securing materials at (or as near to) the price at the time of tender.

Engage with contractors early.

- Collaborate with your contractors to address price and material supply issues early in the tender process.
- Identify which critical components in the project will have a scheduling impact if delayed.

Be open to alternatives.

- Keep an open mind to alternative methods and products.

Beware the under-bidders.

- Awarding based on lowest price is riskier now more than ever.
- Responses to tenders that are drastically different from where most bids appear to be hovering are probably not realistic. If it seems too good to be true, it probably is.

Contractors

Identify which supplies are not replaceable.

- Owners need to have an open mind to alternative products, sourcing methods, or building processes, but they must also be aware of what cannot be adapted.

Keep an eye on which materials are 'hot'.

- It may be worthwhile to track the costs of certain materials over time, to best estimate the trends.

Consider advising Owners to either award earlier (see above) or request that they allow contractors to provide alternate price on bid forms for shorter award periods.

- This allows the Owner to decide to go with the price now, or later.
- This also helps to reduce over-bidding, though we recognize that this is not a perfect solution.

Avoid 'panic-purchasing'.

- It is important to order materials as soon as you know you will need them, but do not hoard materials 'just in case' as this will only worsen the situation.

Avoid under-bidding.

- You will pay the price later for underbidding today.
- In some cases, supplies are increasing as much as 50+%, and owners are unlikely to cover the increased material costs if its not in your contract.

Communicate early and often.

Feel free to [reach out to the SKCA](#) at anytime for assistance with broadcasting information to industry.

We are all in this together!