



TO BUY OR NOT

TO BUY

An internal report into Cymru Construction's regional plant procurement policy

ABSTRACT

This report will analyse Cymru Construction's (South and North) procurement policy regarding plant purchase and hire to formulate a unified policy for both regional divisions

Curtis Richards (2309713)

Table of Contents

1. Introduction.....	1
2. Analysis of Effectiveness	2
2.1 Financial – Purchase	2
2.2 Financial – Hire	3
2.3 Logistics – Purchase.....	4
2.4 Logistics – Hire	4
2.5 Environmental – Purchase and Hire	5
3. Summary of the Status Quo.....	6
4. Recommended Approach	7
4.1 Hybrid Approach.....	7
4.2 Plant Procurement Department	7
4.3 Cost Transparency	8
4.4 Plant Share	8
5. References	10

1. Introduction

Cymru Construction is a Tier 1 Contractor operating in Wales and is split regionally with Cymru Construction South (CCS) in Swansea and Cymru Construction North (CCN) in Wrexham. Both regions operate autonomously, albeit the company is centrally governed by the board, consisting of representatives from the South and North.

It has become evident that the regions' autonomy in procurement and operations has created diverse strategies, especially regarding its attitude to operational plant and equipment. CCN favours a predominant hire policy whilst CCS prefers a purchase strategy exception includes the requirement for any specialist plant.

The board has commissioned this internal report to holistically assess both strategies on their effectiveness and to advise on the most appropriate solution. The conclusion of this report will aim to summarise the strategies and table a unified policy to align the company nationally.

2. Analysis of Effectiveness

The status quo offers many regional benefits to its locality and operation. Their ability to respond to their local clients, sites, and contractors nurtures strong local relationships. One could argue that the regional autonomy enables quicker mobilisation and responsiveness to their respective sites and in addition creates a clear line for communication and accountability.

Nevertheless, the current system does not exist without its drawbacks. The regional autonomy has generated a juxtaposition under one company which can lead to unclear power structures. The diverse strategies can have financial and social effects on the company via inflated overhead costs and cause a divide of 'us and them'. This section will evaluate both systems.

2.1 Financial – Purchase

Purchasing plant can be viewed as a long-term investment, however the quality of the investment is only beneficial if the goods are frequently used and maintained. That said, equipment requires up-front capital to purchase and additionally it ties up capital that could be dispensed elsewhere and ultimately restrict cash-flow (*Benton and McHenry, 2010; Agoos, 2011*). In addition, the indirect costs such as the maintenance, storage, transportation, downtime, and operating staff must be accounted for as well as insurance premiums to cover loss, theft, and damage.

It may be more advantageous long-term to establish an in-house maintenance team (*Agoos, 2011*) to ensure plant is inspected, repaired, and serviced but again there are associated up-front costs. Although the costs could outweigh the outsourcing and

potential external delays should a piece of equipment require attention and consequently halt progress on-site.

Importantly, plant will depreciate over time and the capital invested will never be recoverable from the plant itself. Plant can of course be sold on, and if used frequently can return the investment on-site therefore the depreciation can be mitigated although to calculate the exact return on purchase is highly complex. However, it is very plausible that without a detailed strategy to account for depreciation that companies can be tied down to outdated equipment.

Positively, purchasing new equipment can facilitate expansion to new markets and sectors of construction (*Benton and McHenry 2010*), which drives enhanced productivity. Although should the expansion fail then the company will be chained to unrequired plant (*Agoos, 2011*) to which the full cost of purchase will never be fully recoverable due to depreciation – in the same sense that purchasing for unique construction projects will have similar risks if the scope of works is few and far between.

2.2 Financial – Hire

A hire system requires no up-front capital investment and short-term costs, usually paid monthly plus a delivery and pick-up fee. Despite the monthly fee there are no maintenance or storage costs as these are normally undertaken by the supplier, however the ownership of theft and damage may be placed on the contractor with hidden charges but typically the natural risks associated with the plant are kept with the supplier (*Benton and McHenry, 2010*).

Depending on the duration of hire, the monthly costs could outweigh the price of a purchase. *Agoos (2011)* argues that the buying power of a rental company can create competitive rates that can challenge the long-term benefits of purchasing although this report throws caution to this argument as these rates are not always guaranteed and the

contractor is at the mercy of the rates at the time of hire. Although a commercially savvy contractor may utilise multiple quotes to decrease the hire rates which cannot be done when purchasing equipment.

Naturally the contractors do not suffer depreciation from the plant, as they do not own the equipment. Therefore, a hire system cannot be viewed as an investment in asset terms which could be a missed opportunity.

2.3 Logistics – Purchase

The ownership of equipment enables the contractor greater control over availability and condition of plant. Thereby the efficiency and predictability can be maximised and not subject to delayed or cancelled delivery of plant. Nevertheless, the contractor still requires fully competent operators and transport system to ensure plant arrives on time. If neither of these conditions are in-house, then the contractor must rely on agency for labour and transport which could extinguish all benefits of in-house equipment should delays occur. Furthermore, should the project(s) needs exceed the availability of stock the contractor may require additional purchase or temporary hire.

Logistically, if project requirements are stable and consistent purchasing plant offers the greatest reliability and predictability.

2.4 Logistics – Hire

Hiring lends itself well to short-term, specialist and/or flexible scaling where project demands are evolving or rapidly increasing. Crucially, if the project requires a mixed fleet of specialist plant that is not worth the purchase a hired fleet tends to be the most effective method. Moreover, flexible and sharing models have been proven to meet

demands with less plant (*Behrend, 2020*), which is ideal if multiple sites require identical plant over a given time. Evidently, Behrend's argument is plausible but can be subject to restricted lead-on and delivery times with applicable charges.

Nevertheless, as previously alluded to if the plant is required frequently, hiring can be an ineffective method subject to in-house capacities and external forces such as reliability of hire company and price. Again, despite hiring lending itself well to short-term periods it must be noted that short-term interval requirements can diverge from this narrative as this can include multiple delivery and pick-up charges and increased reliance on the hire company to comply with programme dates. In this case, it could be necessary to hire for a set duration to capture the intervals in one delivery however charges will apply for the downtime of the plant.

2.5 Environmental – Purchase and Hire

Agoos (2011) suggests that there are significant environmental incentives from hiring plant. Typically, a hired company will possess a younger fleet, with improved optimisation and greener technology, ultimately this would suggest that the plant is more durable and environmentally beneficial. In addition to these points, the task of managing and reporting of environmental factors in relation to the plant is on the hired company, unless internal or public policies dictate that the contractor is also required to report on these.

Opposingly, it is plausible to argue that a shared/hired fleet will undergo more transportation miles (*Behren, 2020*) than if the plant was occupied by one region. Despite purchased plant required to travel to new sites, hired plant can be shipped to all corners of the country. Nevertheless, travel is a single aspect and does not account for the manufacturing of the plant therefore one could argue that a shared fleet between a few local contractors is more sustainable than each contractor owning their fleet.

3. Summary of the Status Quo

The status quo presents a disconnected and inconsistent plant strategy, creating uneven operating costs, complex performance comparisons, and missed economic opportunities i.e., economies of scale. The duplication of management and unclear parallel power structures generates conflicting priorities and restrictive collaboration across two regions of the same company.

The logistical inefficiencies may lead to under-utilisation of plant in South Wales and over-utilisation of hire plant in North Wales. It will be considered a missed opportunity should such action continue, and the recommended approach to follow will unify strategies to maximise efficiencies. However, a significant change to large scale investment of plant requires significant human and financial resources to coordinate such a scheme (*Mullins 2022*).

Evidently there are clear arguments to be made in favour of hire and purchase, but equally against. The following recommendations will synthesise the arguments to establish a balanced procedure to enhance capital expenditure but allow flexibility to meet ever-changing project requirements.

4. Recommended Approach

4.1 Hybrid Approach

Cymru Construction must establish a hybrid approach. Plant that is required frequently (>1 in 3 projects) must be purchased whereas plant that falls outside of the stated frequency must be hired. Usage, performance, and cost will be recorded to ensure maximisation of company finances. The company will enter formal supplier agreements to reduce the rates and cost of acquisitions (i.e., buying gain). Importantly the supplier agreements will be reviewed bi-annually to ensure financial competitiveness and allow Cymru Construction to alternate should quality or price deteriorate. Importantly, when purchasing plant it will be possible to buy used equipment when low cost outweighs maintenance risk, however it will be essential to check for maintenance records and warranties regardless of plant age (*Benton and McHenry, 2010*).

Agoos (2011) suggests that purchasing plant that is mobilised for >60% of its time is cost effective, and even 40-60% mobilisation is effective however this range becomes financially risky. However, purchasing plant that is mobilised for <40% of its time is not cost effective and hiring is deemed the suitable strategy. Therefore the reporting will also account for time management as well as frequency of use per project for more accurate data.

4.2 Plant Procurement Department

The establishment of a plant procurement department in Swansea and Wrexham will enable fast and easy procurement. This represents a significant investment to stabilise the company's strategy as each department will adhere to the new company's standards.

Importantly the decision for both regions to receive a department is to allow local responsiveness to local clients, teams, and projects and to maintain and develop relationships. The company's strategy will be reviewed bi-annually and governed by the board and headed by the chief operations manager whose duty will be to oversee both regions and will not be located in a sole region.

4.3 Cost Transparency

As previously stated, the plant procurement department will house a unified cost reporting system to compare plant usage and project performance. This will collect information on maintenance and cost frequencies, as it is possible that a particular plant of frequent use may have drawbacks that require consistent maintenance and therefore hiring may be more effective. Additionally, it will track the type of plant that is in frequent use, any plant that is not often required, and potential patterns in terms of plant that is becoming more or less popular.

For this system to work, the operational team on-site will be required to fill out monthly reporting on active plant such as fuel consumption, performance, maintenance, cost and the like. The procurement department will standardise a form to capture the relevant information. This form will become a central function in determining our future purchase and hire strategy by identifying inefficiencies and opportunities.

4.4 Plant Share

Regardless of purchase or hire, it is essential that both regions are collaborative and share resources where applicable. As discussed, it is easier to predict and manage resource allocation for owned plant rather than hired plant. Meaning that the regions will

adopt a share before buy-hire policy where the plant procurement department will assess the possibility of regionally lending plant before opting to purchase or hire.

In addition, the chief operations manager will oversee the purchase and hire trends to minimise duplication of plant. It will be possible to enhance the stock flexibly with hire options if necessary. This system could also facilitate the purchase of more specialist plant that may be required frequently throughout the year between both regions but independently would not make financial sense. Furthermore, this closely mirrors the sharing matrix that *Behren (2020)* described which could have not only economic advantages but also environmental gains to meet environmental targets and regulations.

5. References

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