

# Big versus small: consolidation in the road surfacing industry

The challenge for many ambitious small businesses is how to cross the threshold from being a niche player restricted to managing smaller, lower value projects to a much larger organisation, capable of winning sizeable contracts on commercially viable terms. Nowhere is this transition harder to achieve than the highway construction industry. Matthew Pryor, CEO and founder of Toppesfield, discusses the reasons why

**The UK government's pledge to commit £15 billion to a 'roads revolution' by investing in 100 schemes over the next decade will make the industry ripe with opportunities for growth. While the road surfacing sector will be a key beneficiary of this, chances are we're unlikely to see many new entrants competing for new mandates as the barriers to entry are just too high.**

Limited competition is of course good news for the incumbents, including Toppesfield, which in recent years has successfully crossed the scale threshold and competes alongside much larger rivals. But over the longer term the industry will be at a disadvantage by shutting the door on smaller, leaner firms and championing scale over all other factors.

## Barriers to entry

The overriding perception in the road surfacing industry is that only the larger scale operators are capable of delivering on major projects. Independent firms that are not directly attached to a quarry have been wrongly viewed as being sub-scale. This is a curious perspective on the road surfacing supply chain which, fortunately, is not applied to other areas of construction. A contractor building a flyover would not be expected to have their own manufacturing facility for steel rebar or cement. The mind-set of the market needs to change so smaller players are given the opportunity to display talent and promote more competition in terms of fair value and price.

Another significant barrier to entry is the cost of bidding for major projects, the costs of bidding for a government tender can be up to £500,000. Smaller companies would struggle to justify this level of outlay especially given the knowledge that their scale would likely deem them unacceptable in the final

analysis. Even if they submit a high quality tender, there is little guarantee of success for smaller firms with limited track records.

## Consolidation

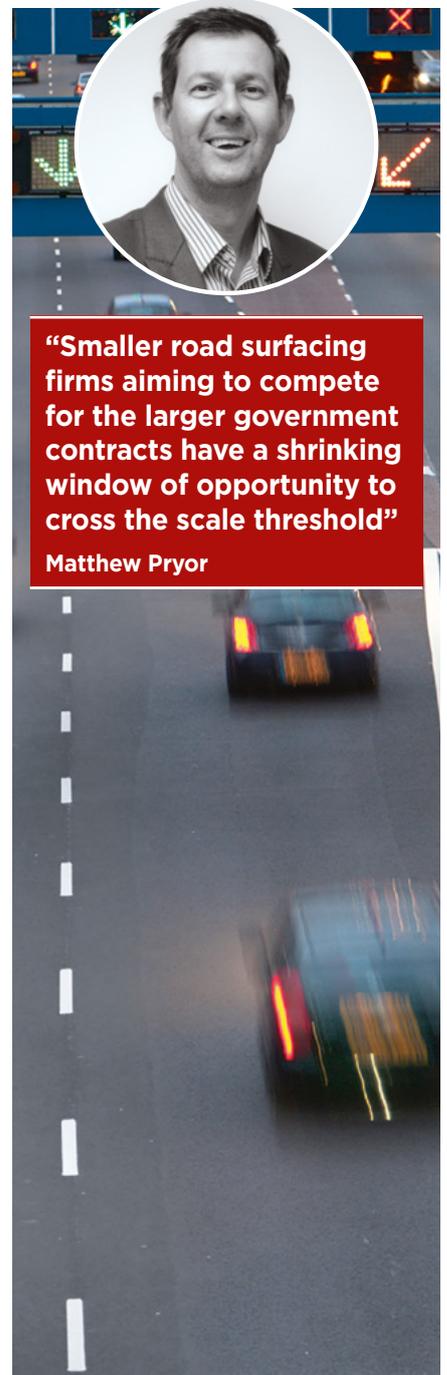
As with many parts of the construction industry, the road surfacing sector has been characterised by consolidation. In February we saw the latest instalment of the consolidation play with Lafarge Tarmac's sale to Ireland's CRH as part of the £5 billion sale of assets by merger partners Lafarge and Holcim.

## Big does not equal best

While the industry has moved inexorably towards a smaller number of large players, there are significant opportunities for smaller independent operators to compete fiercely across a number of areas, notably service, price and flexibility.

The larger firms can often find themselves constrained in resourcing projects and find it difficult to match the smaller players in terms of acting swiftly in response to changing customer requirements. Service quality is key and having a flexible 'can do' attitude is often easier to cultivate in a smaller company where the decision-making process can be quicker and more straightforward. When it comes to execution and service delivery, there is no reason for independent firms to feel intimidated by their larger competitors. However, "can do" excellence in the areas of execution and service delivery is very dependent on having the best talent within the business. This coupled with service, price and flexibility are the key facets of Toppesfield's model which has enabled the business to successfully deliver in this market.

Despite this being the case, further consolidation is inevitable as the industry is driven largely by securing greater supply chain efficiencies and economies of scale. We only have to look at other sectors such as rail



**"Smaller road surfacing firms aiming to compete for the larger government contracts have a shrinking window of opportunity to cross the scale threshold"**

**Matthew Pryor**

and energy to see how they become monopolised by a small number of players. Smaller road surfacing firms aiming to compete for the larger government contracts have a shrinking window of opportunity to cross the scale threshold. If an opportunity can be created to ease progression into this market for smaller companies to grow and develop, then it follows that the construction industry would benefit from the increased competition and indeed a higher number of capable service providers. —