

# **Submission from Oracle Corporation UK to Barker Housing Industry Review**

## **Introduction to Oracle Corporation**

Oracle is the world's largest enterprise software company. Oracle's products span from financial systems through to operational planning and purchasing systems. In the past few years we have specifically targeted the UK construction industry where we have specifically developed solutions to help them deliver the business benefits and improvements gained by other industries through the use of IT.

## **UK Construction Industry**

The construction industry in the UK is long established, which has some positive and negative overtones. Positive in that the expertise and experience the UK construction industry can bring to the world wide stage is second to none; many world leading construction businesses are headquartered in the UK. Negative in that the construction industry has a natural tendency to be slow to adopt new technology and is suspicious of the benefits of IT. It is typically regarded as an expensive luxury. Whilst it is true that there have been some well publicised failures of IT projects in the construction industry, (bad news travels fast), by contrast there have been a number of customers, including ones we have worked with, who have started to make significant improvements to the way they do business.

## **House Building**

The house building industry is a microcosm of the construction industry as a whole with its own set of issues, some similar to the wider construction community but with many unique challenges.

House builders are typically run as locally based units; even in large enterprises with sales over £1Bn the 'divisions' are run as autonomous profit responsible units, many of which started life as small local builders and were acquired into a larger group. This form of evolution tends to bias management style and opinions against the usefulness of IT as an enabler for efficient exchange of information. (In the small business unit this was always done by personal contact and control). In recent years at some house builders there has been a quiet introduction of managers and directors from outside the industry who bring with them positive experience of IT and appreciate that to achieve the economies of scale in the business they must share information and experience across the whole enterprise.

## **Observations**

There can be no doubt that the most significant business issue facing the industry is the existing planning process. Most of the processes house builders have to follow are designed to cope with the vagaries of UK planning legislation.

However, that said, most house builders do not have any cohesive systems in place to manage what is a fairly complex process, the stages can be identified as:

1. Land appraisal
2. Land purchase
3. Tendering and procurement
4. Build and close out.

## 5. Sales

In our experience each of the above is managed by a different IT system that involves a considerable amount of re-keying as data is passed from one team to another. This is extremely inefficient and resource hungry not to mention highly vulnerable to error creation.

Their procurement processes typically follow a resource hungry model. For each development, tenders are painstakingly created, sent out to many suppliers, responses logged and maintained on file awaiting comparison and the ultimate approval of the development.

### **Improvements**

The opportunities for improvement are probably greater in house building than many other parts of the construction industry. House building is to a great extent a repeatable build process where economies of scale can be gained (as in automotive assembly). Improvements such as modular assembly and the streamlining of the above processes, for example having one set of data that is passed between each of the areas/departments would result in a considerable reduction in their operational costs, which in turn could translate into lower build costs.

In addition, the adoption of modern purchasing strategies, using IT to provide e-commerce style collaboration facilities with their suppliers would also provide cost savings in their supply chain, ie. through internal operational improvements and increased visibility of the material requirement for their suppliers.

### **Land Prices**

An interesting dichotomy may arise if the above improvements are implemented. What would the house builder do with the cost saving? The obvious thought is that it would reduce the price charged for houses, but house prices are largely determined by the majority of house sales which are of 'previously occupied' houses. Therefore our impression is that most house builders would use the cost saving to increase their land bank. In other words they would have extra latitude to enhance their bid price for their raw material, ie land. Hence, the result from business improvements within the house building industry could be a subsequent increase in land prices.