



**CIVIL
CONNECT**
PLC®

THE PROCUREMENT PENALTY

How Fragmented Supply Chains Inflate Infrastructure Costs by
Passing Risk Down the Line

The Profitability Crisis

The UK construction and infrastructure sector is currently operating in a highly volatile commercial environment. While overall project values for major frameworks continue to soar, the profit margins retained by the Principal Contractors executing them remain staggeringly low. In 2024, the average pre-tax profit margin for the Top 100 Main Contractors in the UK was measured at just 1.7% to 2.4%.^[1]

The primary driver of this squeezed profitability is not a lack of revenue, but rather an outdated procurement methodology. The heavy reliance on Joint Venture "mega-consortiums" and multi-layered sub-contracting models—the "Russian Doll" effect—is creating compounding financial inefficiencies. Each layer of the supply chain adds its own profit margin, overhead recovery, and risk allowance, creating a cumulative "Procurement Penalty" that inflates the total cost of subsurface packages without adding any physical value to the asset.

This whitepaper dissects the exact financial burden of fractured supply chains and outlines how Tier 1 contractors can protect and expand their slim margins by procuring directly from self-delivering specialist operators like Civil Connect, effectively cutting out the intermediary markups.

1.7%

AVERAGE TIER 1 CONSTRUCTION MARGIN (2024
UK)

20%

TYPICAL CUMULATIVE SUPPLY CHAIN "ON-
COSTS"

Strategic Imperative

To survive in a low-margin sector plagued by rising material costs, Commercial Directors must eliminate the "ticket clipping" culture of multi-tiered procurement. Consolidating work packages to direct, self-delivering experts reclaims the compounded margins previously lost down the supply chain.

01. The "Russian Doll" Effect

In traditional infrastructure procurement, the Tier 1 Principal Contractor rarely executes the physical work, particularly in complex domains like subsurface drainage and rehabilitation. Instead, they operate as aggregators of risk, taking the central government or client contract and dividing it into smaller work packages.

These packages are often awarded to Tier 2 "Integrators" or management contractors, who in turn procure Tier 3 specialists to execute the labour, who may then rely on labour-only agencies and external plant hire companies. This is the "Russian Doll" theory of procurement.

02. Compounding Allowances

The fundamental issue with this model is the compounding nature of risk and profit. According to UK government supply chain assessments, specialist Tier 2 and Tier 3 sub-contractors typically operate with target margins of between 12% and 13% to account for their physical execution risks. Furthermore, the total "on-costs" (encompassing profit margin, central overhead application, and risk allowances across the tiers) can account for up to 18-20% of a total contract's price.^[2]

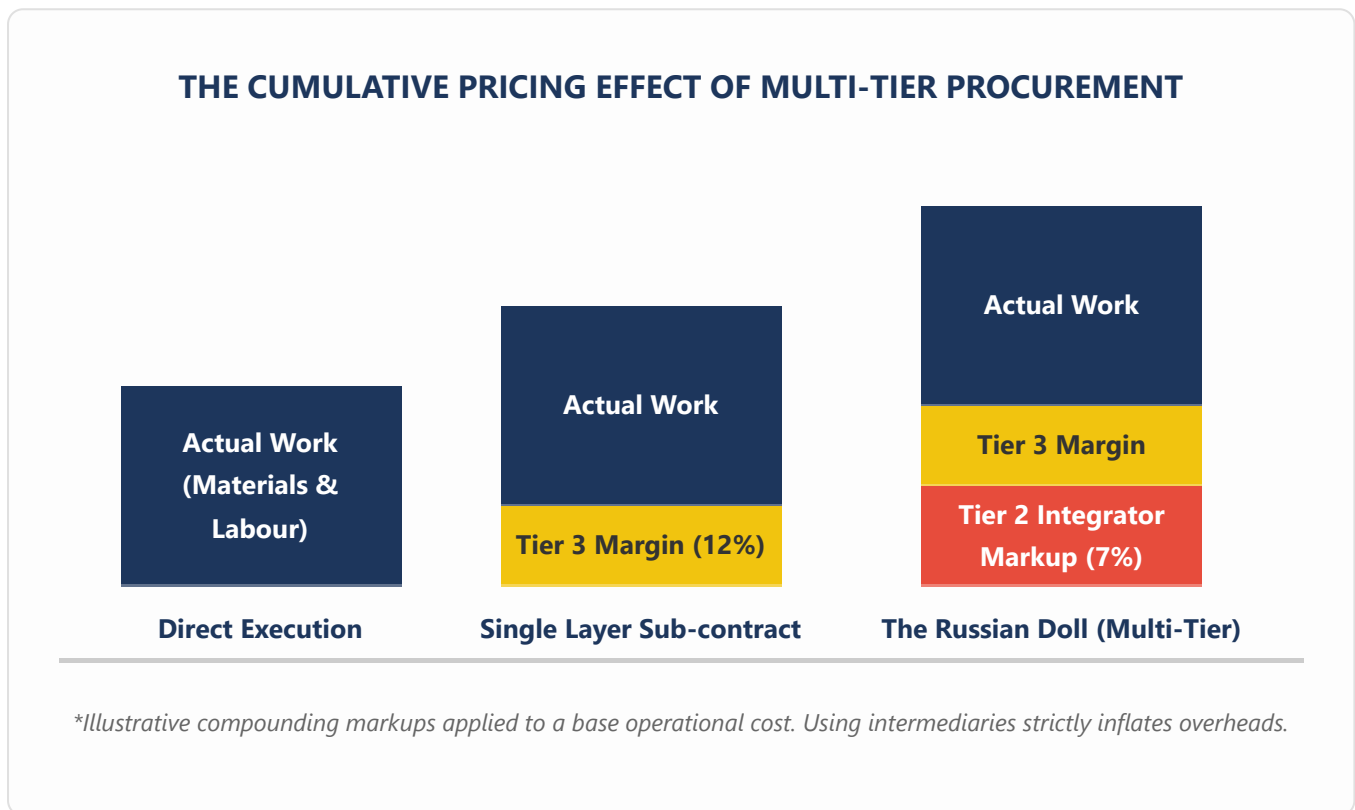
When a Tier 1 contractor procures through a Tier 2 integrator instead of going directly to the specialist executing the works, they are paying the Tier 2's overheads and margin (typically 6-7%) simply to act as a postbox for the sub-tier's invoices.

The Illusion of Risk Transfer

A common justification for using Tier 2 integrators is the assumption that the Principal Contractor is effectively transferring commercial and operational risk down the chain. However, under the stringent new requirements of the Building Safety Act 2022, ultimate liability for asset integrity firmly remains with the Tier 1 Principal Contractor. You cannot mathematically distance yourself from legislative liability, but the Russian Doll model demands that you pay a margin to attempt to do so.

03. Visualising the Penalty

The chart below illustrates the inflationary effect of multi-tier procurement. By routing a £100,000 physical drainage package through multiple layers of management, the final cost presented to the client inflates dramatically due to "ticket clipping," eroding the Tier 1's ability to price competitively while retaining an acceptable margin.



In a commercial landscape where standard contractor margins are circling 2%, deliberately routing packages through non-delivering integrators is an unacceptable drain on profitability.

04. Reclaiming the Margin

The antidote to the Procurement Penalty is supply chain consolidation. By procuring directly from **self-delivering specialists**, Tier 1 contractors immediately reclaim the margins lost to integrators and intermediaries.

When you procure Civil Connect for drainage, civils, and rehabilitation packages, you are dealing directly with the entity that owns the plant, directly employs the WINCAN-certified engineers, and holds the ultimate accountability. We do not aggregate your risk and pass it to someone else; we execute the risk.

05. The Agility Advantage

Beyond the pure financial savings of avoiding Tier 2 markups, direct procurement guarantees operational agility. Fragmented supply chains inherently suffer from "data dilution"—information regarding site constraints, design changes, and utility strikes takes days to filter up from the Tier 3 operator through the Tier 2 integrator to the Principal client.

Direct

COMMUNICATION

Zero

INTERMEDIARY MARKUPS

Civil Connect provides the Principal Contractor with a single point of accountability. Our data structure ensures that when our UV CIPP lining rig completes a cure, the digital telemetry and CCTV validation is provided directly to the Tier 1 QS, ensuring rapid, indisputable valuations and payments.

06. Evolution of Strategy

The era of the sprawling execution consortium is ending. The financial metrics of the modern UK infrastructure sector—characterised by inflation, fixed-price contracts, and 2% target margins—can no longer support the bloated overheads of the "Russian Doll" procurement model.

Commercial Directors face a clear choice: continue to pay the "Procurement Penalty" by feeding multiple layers of non-delivering management, or consolidate the supply chain to protect their own balance sheets.

By engaging directly with Civil Connect, Tier 1 contractors secure a Tier-1-ready partner capable of executing complex subsurface works with the health and safety rigour, compliance data, and technical excellence expected, but without the ticket-clipping markup of the middleman.

The Data Dividend

DIRECT INTEGRATION ACCELERATES HANDOVER

Furthermore, by removing non-delivering intermediaries, Tier 1 Commercial Directors acquire the "Data Dividend"—direct, unfiltered access to WINCAN CCTV analytics, live UV curing telemetry, and algorithmic defect grading. This unimpeded data flow accelerates monthly valuations, eliminates payment disputes, and ultimately secures your project margin.

Sources & Citations:

- [1] The Access Group (2024). *Construction profit margin averages in the UK*. (Top 100 UK main contractors averaged 1.7% to 2.4% recently).
- [2] HM Government Service Manual. *Supply chain markup percentages*. (Evaluating Tier 2 margins at 6-7%, Tier 3 specialists at 12-13%, and combined supply chain on-costs at 18-20%).
- [3] The Construction Index (2023-2025). *Top 100 Construction Companies Profitability Analysis*.
- [4] Bentley Systems (2022). *Construction profit margins over the last decade*.



Eliminate The Middleman.

Stop paying the procurement penalty. Consolidate your supply chain with a self-delivering, Tier-1-ready specialist and protect your project margins.

Contact Our Commercial Team

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