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ASM and AGC collaborate on industry white paper to address material price volatility

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Supply chains in the construction industry have been disrupted by the COVID-19 pandemic and most economists are predicting that this volatility will continue for the foreseeable future. As we move into the middle of 2022, it is the number one issue facing most subcontractors (the availability of labor is a close second). No construction trade or sector is immune from the current conditions although some are impacted more than others. Everyone in the industry is now well aware of the financial and logistical impact that this issue is presenting to the industry. The question is how to respond moving forward.

Ron Ciotti with Hinckley Allen addresses ASM members on May 4th on the topic of material price volatility

This was the question recently tackled by a working group that included members of ASM, members of the Associated General Contractors of Massachusetts, owners, owner's project managers from public and institutional owners, and construction counsel. After a series of meetings and discussions, facilitated by Ronald Ciotti with Hinckley Allen, the group produced a White Paper entitled "Project Stakeholder Best Practices for Material Volatility Mitigation." This paper, available on the ASM website, is intended to provide owners, design professionals, contractors, subcontractors, and suppliers with specific best practices to mitigate the risk of material price and availability fluctuations on a project.

The White Paper is filled with recommendations for owners, design professionals, contractors, subcontractors, and suppliers. Although each would take a different approach to address the issue, two themes run throughout the paper- communication, and sharing of risk. Clear and open communication among all stakeholders is critical to resolving problems. Communication early will lead to a more collaborative approach to problem-solving and avoid costly delays and a disastrous financial loss pinned to one company.

Equally important as communication, is the willingness of all parties in the chain to accept a sharing of risk. For subcontractors that is critically important because it is typically the subcontractor who bears the cost of building materials. The subcontractor and general contractor must be willing to identify the volatile materials at an early stage and be willing to negotiate language that balances interests. For example, the paper discusses the 'threshold escalation clause' which allows for risk sharing by requiring the upstream party to pay for price increases above a defined threshold.

Price volatility is certainly an issue for all contractors. But what this White Paper shows is when all stakeholders communicate early and share a willingness to collaborate on risk, the result will be a more productive and successful construction industry. Visit www.associatedsubs.com to download a copy of the White Paper.

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