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# Construction Beyond Capacity: Risks, Opportunities, and Solutions

**TRAVELERS** 

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Webinar

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# Disclaimer

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This material is for general informational purposes only and is not legal advice. It is not designed to be comprehensive and it may not apply to your particular facts and circumstances. Consult as needed with your own attorney or advisers.

# Construction Beyond Capacity: Risks, Opportunities, and Solutions

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## What You'll Learn

1. The primary factors causing strain within the commercial construction industry
2. The signs that will indicate to you that your company is feeling the pressure
3. The seven keys to project success in the current environment

# What is Happening?

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- Industry growth
- Imbalance of people and skills leaving and entering the industry
- Supply chain disruption and failure
- Increasing job losses, claims and cost of those losses and claims

# Industry Growth

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- As of October, 2018 construction put in place was 9% above its 2006 Peak
- Private non-residential spending was 11% above its 2008 peak
- 78% of construction firms expect additional growth in projects available in 2019, consistent across all four regions of the country

<https://www.accordantco.com/wp-content/uploads/2019/01/2019-Construction-Hiring-and-Business-Outlook-Report.pdf>

# Employee Scarcity

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- Despite industry growth, employment in construction through October was down 5% from its April 2006 peak
- Current job seekers with construction experience number 588,000 – down from 732,000 a year ago
- These were the lowest figures in the 20 year history. It was already the lowest figure a year ago!
- Average weekly hours in the industry increased to 39.9 hours in January, the highest since the series began in 2006

<https://www.agc.org/sites/default/files/Files/Communications/Construction%20trends%20%26%20outlook.pdf>  
<http://constructioncitizen.com/blog/agcs-data-digest-march-4-8-2019/1903111>

# Employee Scarcity

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- Average weekly hours of production and nonsupervisory employees, a series that dates back to 1947 and covers construction trades, set a record of 40.6 hours
- The number of unemployed construction workers has been setting new 20 year lows for the past three years, while the number of openings for construction workers have been hitting 20 year highs for the past three years
- Ratio of unemployed workers to job openings has fallen from 24 to 1 to 1.3 to 1 over the past eight years and is still falling!

<https://www.agc.org/news/2019/02/01/construction-employment-climbs-52000-january-11-year-peak-industry-workweek-hits-all>

# And .... It's Not Just the Numbers!

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- Many of the most capable and experienced people have retired or are retiring, leaving a less skilled or experienced group in its wake
- The lack of sufficient experienced and qualified people is being felt at all levels from the design profession down to field helpers – at every position in virtually every construction firm
- **79% of construction firms expect to increase headcount in 2019. 78% are having trouble filling those positions**

<https://www.agc.org/news/2019/01/02/seventy-nine-percent-construction-firms-plan-expand-headcount-2019-most-are-also>



# Extenuating Circumstances – Job Pushing

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- *This is the new normal!*
- PM/superintendent scheduling, loading
- Subcontractor stacking
- Lack of any slack in the system to account for changes
- Nobody to blame!

# What Could Go Wrong?

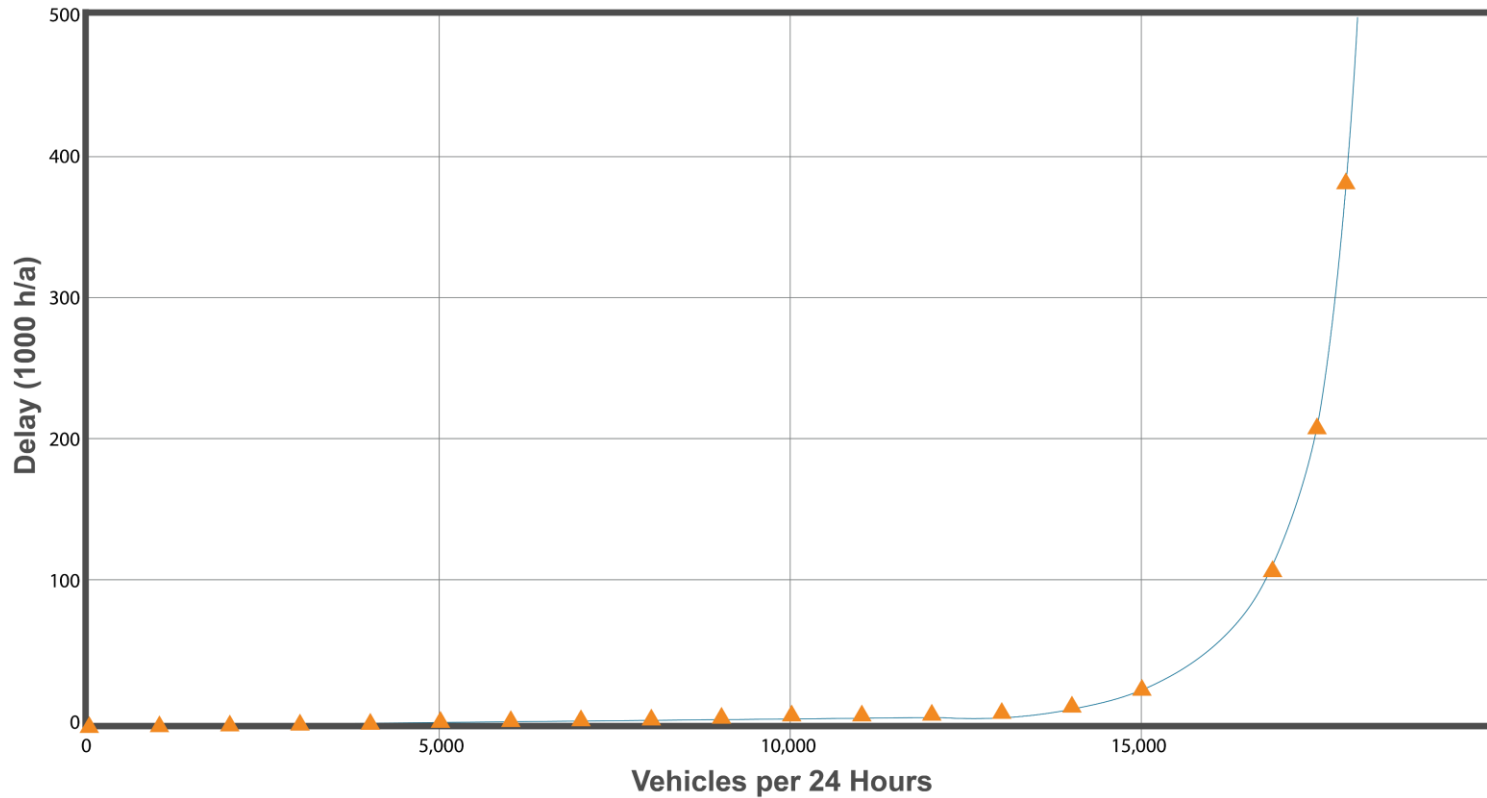
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*Declining and late design performance, increased difficulty getting permits/inspections, rising prices, overtaxed PMs and Supers, lack of redundancy in management, lack of sufficiently skilled workforce, tight budgets/increasing costs, increasing pressure on schedules, unique team, unique site, unique design, trade stacking*

– ***what could possibly go wrong?***

# Gridlock?

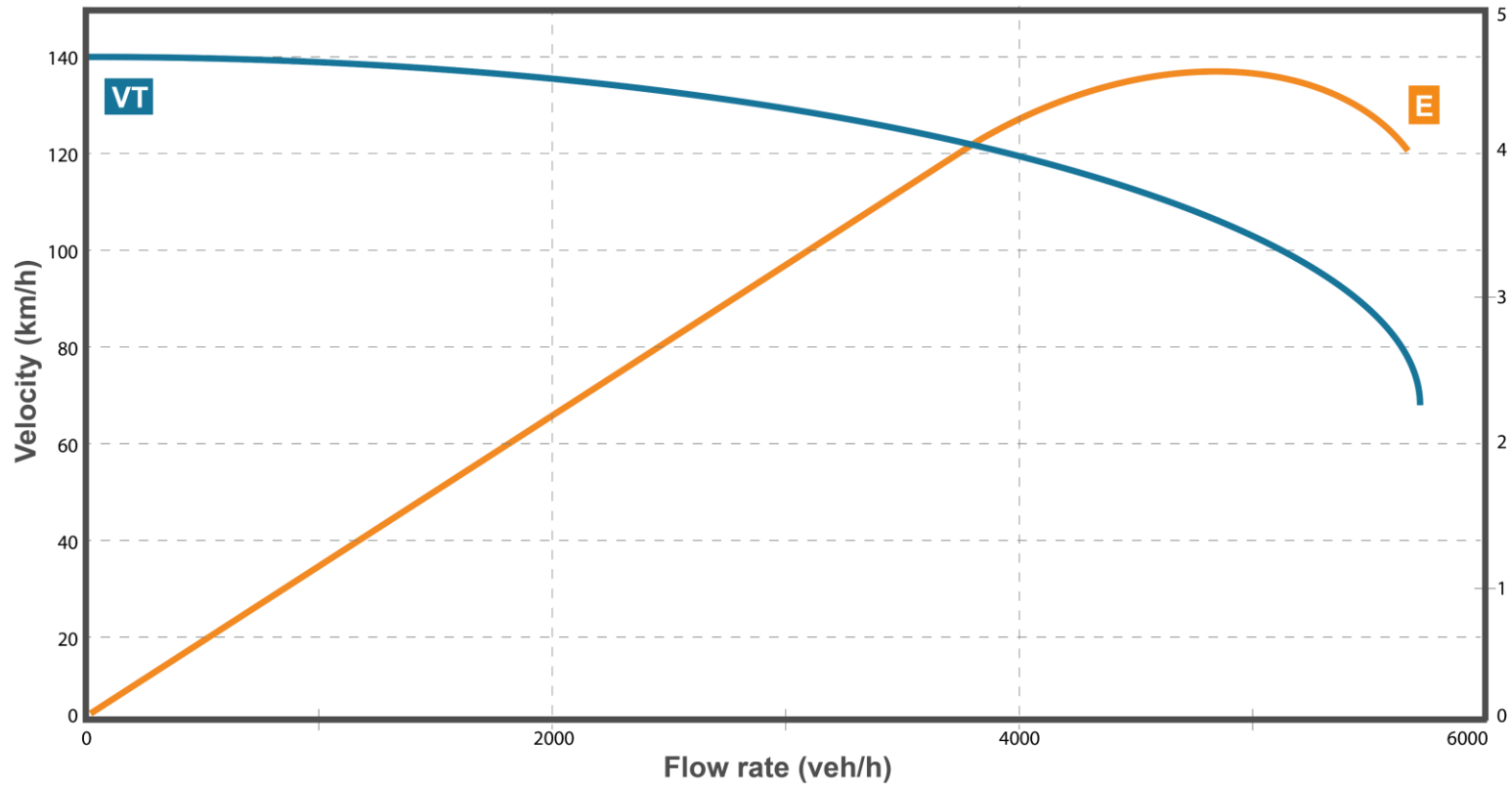
Sum of Delays at Different Volumes



Source: Family Business Institute, Inc.

# Gridlock?

Efficiency and Speed as a Function of Volume



Unless otherwise specified, the figures and statistics contained herein are produced by FBI using data compiled from the Performance Roundtable Program or other proprietary sources. Source: Family Business Institute, Inc.

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# Lust for Growth

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- Simple math: Adding gross profit to a relatively fixed overhead improves the bottom line – until things go wrong!
- Growth has never been easier to get – your own best customers are begging you to do more! And, pricing is generally good!
- Someone is going to do the work – it might as well be you!
- He who has the work will get the people?!?

# Early Signs of Stress on the System

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- Not meeting schedules as consistently as in the past
- Job gain to job fade trending down both as a percentage and in \$
- Surprising loss of talent due to lifestyle choice (signs of staff stress)

# Early Signs of Stress on the System

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- Process milestone dates not being met consistently for:
  - ✓ Buyout
  - ✓ Submittals, submittal response
  - ✓ Change order execution
  - ✓ Meeting regimens not being met
  - ✓ Difficulty with close out
  - ✓ Management not getting to the jobs as frequently as they should
- Growth can mask a lot of problems

# Macro Problem, Micro Effects

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- Nobody is immune:
  - ✓ Even a small company with a single job is going to be affected by problems of over-capacity. And they may lack the market power, loyalty, and leverage to solve them
  - ✓ Even a right-sized company can suffer when jobs move or outsiders fail to deliver on their responsibilities
  - ✓ Even the big and powerful can't create skills and people that don't exist
    - More work, more problems
    - Bigger work, bigger problems
- No individual company can solve the problem, or prevent it's effects
  - they can only prepare, plan, and react





# Seven Keys to Winning in this Environment

## 1. Put an emphasis on measuring performance and trends

- A. Do a deep dive analysis on where you stand with the previous list of stress signs
  - i. Be sure to not just get the data, but see if you are trending negatively in each area
- B. Don't just measure results: Measure process consistency
  - i. The processes go negative before the results!
  - ii. It is the process creep that causes the negative results!



# Seven Keys to Winning in this Environment

## 2. Right size your organization – don't "outkick your coverage"

- A. Measure your revenue/gross profit per employee in each key category – are you overloading them?
- B. Has your management/oversight growth kept pace with your employee growth?
- C. Has administrative support kept pace with your growth?
- D. Are you under-manning your jobs for success?
- E. Have you run out of "A" teams? Do you have to put a "C" team into work requiring an "A" or "B" team?
- F. Manage the work loads of your people for maximum effectiveness
- G. Always look forward – build your organization for the company you want to be in the future



# Seven Keys to Winning in this Environment

## 3. Redundancy is good! Be sure you can “run to” your problems

- A. Don't let a cheap mindset be your demise
- B. Stress test your organization by playing a game of WHAT IF:
  - i. one of your top three Supers or PMs dropped out immediately? How would you replace them? How would you replace the replacement? How would you replace the replacement's replacement?
  - ii. senior managers were called on to step back into a direct role, how would this effect your oversight and support?
  - iii. one job turns really bad and requires intense senior management attention? Who is left to keep their fingers in the dike to stop the other (profit) leaks? What happens when you run out of fingers to put in the dike?



# Seven Keys to Winning in this Environment

## 4. Thematic goal: CONTROLLING TIME

- A. Hyper schedule focus
- B. Measure days gained and lost from the start – publicize it internally
  - i. Publicize subcontractor/supplier issues to the team and strategize solutions
- C. Most time is lost in the first third of the project
  - i. Document, document, document
- D. Control all elements, all people in the system
  - i. Go deep to leave nothing to chance
  - ii. When jobs push or trades are stacked, over communicate!



# Seven Keys to Winning in this Environment

## 5. Leverage your top construction professionals!

- A. With limited talent and resources, put your best people in position to have the most impact on your system
- B. Three key moments for high impact
  - i. Pre-construction – setting each job up for success
    - Recognizing risks and opportunities
    - Assuring contingency plans are in place to account for them
  - ii. Job launch/turnover/plan – assure every job has a great plan
  - iii. Job review – early problem recognition, system integrity
- C. Planning – it takes time to make time!



# Seven Keys to Winning in this Environment

## 6. Focus on growing your team FIRST! The work will come

- A. Always be growing your team by adding talent when available
- B. Assure you are a magnet for the best talent by:
  - i. Great collaborative culture
  - ii. Great systems for rewards and employee growth potential
  - iii. Eliminating bad teammates
- C. Always maintain a program to grow from within for the future
- D. The best team will give you the best opportunity to develop loyal clients and repeat business – don't take shortcuts!



# Seven Keys to Winning in this Environment

## 7. Plan for bad job avoidance and mitigation

- A. Have a strong Go/No Go criteria and follow it!
  - i. Every wrong choice has a rationalization behind it
  - ii. Have a willingness to walk away
- B. Set criteria for when a job is going bad
  - i. Green light, yellow light, red light system
- C. Pre-set a plan for how you will deal with problem jobs
  - i. Senior management involvement
  - ii. Intervention steps
- D. Go bold early – a losing job site is like a cancer. It spreads silently and fast. Cheap, partial solutions usually turn into expensive ones

# What If You're Already In Over Your Head?

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- Stay disciplined with your processes and systems – they are there to create consistent results in stressful times
- Avoid applying your overall management to a single job if you can!
- Plan! Don't let urgency become your paradigm. Military crisis approach: Observe, Re-deploy, Communicate, Daily
- When all else fails and the challenges outpace the talent, knowledge, and judgement of your team, pull yourself up by your bootstraps, and micromanage your way through it!



**The Family Business Institute's mission is to help contractors make more money in less time with fewer headaches and a higher quality of life**

**We welcome your questions and feedback –  
please call or email us at**

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