

Good morning, everybody. Dennis Engelbrecht with The Family Business Institute Digging Deeper.

In the last couple of days, there are articles in both Construction Dive and ENR talking about how the pandemic era has changed construction. Certainly, it's been an area that I've talked about before. In particular, the biggest thing that seems to have changed is the emphasis and importance on preconstruction, that contractors are getting involved in the jobs earlier, and it seems to be much more collaborative. All of this, by the way, may be a very good thing, so long as your organization is in a position to do it well and compete well with the new changes in requirements. With this new landscape, perhaps it requires some new thinking on the part of leaders, and some different skills and possibly even slightly different organizational structure than you may have had, or at least more people in some places than you perhaps had in others.

The biggest thing that came out of these two articles is that the pandemic era had an enormous impact on how construction is accomplished, the traditional design, bid, build model just simply was inadequate for all of the challenges that had come along. As I mentioned already, earlier contractor involvement really was key to that and seems to now really be occurring. It's almost a staged letting of construction, if you will, through the process. By the way, that hasn't just affected the general contractors. That has flowed right down through the trades where they're involved at an earlier point as well, so I think, in general, really a very positive thing, but preconstruction has certainly become much more important in the industry. The term estimating... In most cases it used to be called the estimating department. Estimating may no longer be descriptive of the main portion of the job. While it's still, of course, pricing and estimating still going on, there's so much more to it, and so much more beyond that.

Here are some of the issues that were cited in these articles that sort of requires us to take a new look at how we approach construction. Number one, construction takes longer. I recently wrote about how multifamily construction again is, on average, taking a couple of months longer than it took last year, which was a couple of months longer than the year before, and so on and so forth, now going on for about 10 years of growth of the timeline of a typical multifamily building, but it's not just multifamily, of course.

The other thing that's going on is backlogs are bigger, but the work seems to be, then if things take longer, is working off more slowly. One of the interesting statistics... The ENR article was the ENR 400 release article, and they talked about the amount of growth in construction, but backlogs grew at a much faster pace than revenues grew. This actually has been occurring now for several years.

What's happening is backlogs, especially in relationship to your revenues, backlogs now represent a higher percentage of your revenues or a higher multiple of your revenues, in the case of a lot of larger companies, than they used to. That's a bit different. Obviously, construction is being done at a much higher cost than it was two-and-a-half, three years ago. It has certainly leveled out here recently, but still we had that 40% jump that occurred over a couple of years. That's a lot for a couple of years, and it's still up there. It has not come back down to where it was, so the cost of building being high, of course, puts more pressure on investors and the people purchasing construction, because they need the budget money to be able to accomplish construction.

We've had supply chain disruption and challenges, which all of you have dealt with and everybody has talked about. One of the recent quotes, though, lead times for material orders basically have doubled from what they used to be, so again, a big factor in how construction may have to be conducted. Workforce skills and experience are in increasing shortage in the industry. Now, that's one thing that's not new from the pandemic era. That was going on before then, but it continues to go on, and it continues to be a major factor in trying to run your construction company, trying to find good people.

Economic uncertainty is something that we're dealing with right now. In the pandemic era, the government, in their infinite wisdom, we hope, poured \$5 billion plus dollars into the economy. Now, we've had to raise interest rates to try to slow the engine, and everybody predicted a recession would already have happened. Of course, it hasn't happened, so

one of the things, since all of this pouring money into the economy hasn't happened before, we're a little bit uncertain about our leading indicators, what they actually mean. Are they still valid to tell us what's going to happen in the economy? There's a lot of uncertainty. Will we hit a recession? Will construction hit a recession? Or will we keep cooking, like we've been here for the last couple of years? As leaders, it's hard to decide what to do with your organization in the face of all of that uncertainty.

Of course, the other uncertainty there is with the changing life patterns that occurred from the pandemic, which adds to changing sector spending and now we're sort of having I guess you would call it a normalizing, but a continued changing pattern and with high interest rates, which is another factor that we're attacking right now. With high interest rates, that's changing investment patterns in construction, as well.

The next thing that most of these companies are having to deal with is fatigue, and fatigue from the difficulty of construction over the last couple of years because of all the supply chain and the lack of people, in a lot of cases, the constraint on resources. All of that has put a lot of pressure on a lot of people, and on certain people, and certainly on preconstruction departments, which may have been undermanned going into all of this. There's a lot of fatigue going on in a lot of companies, and people are having to try to figure out how to deal with that.

Lastly, many companies are citing increased competition. As companies move from sectors that are slowing into other sectors, we're finding new and increased competition. That's just sort of par for the course, I guess.

As leaders, what do you do about this? How do we react to the pandemic era changes that are going on in the industry? Well, my first suggestion is certainly renewed strategic planning. This strategic planning you may need now may need a greater focus on the organizational and process changes that are necessary to handle construction as it exists today.

Certainly, because you have changing dynamics in sector spending, you still need some external focus there, as well, but maybe a greater internal organizational focus. Number two, definitely keep building your precon department. This is not going backwards. The importance of preconstruction has just grown, and again, that's both at the GC and trade level. Building those precon skills even beyond the department, it's really all employees. There's a greater need for collaboration, teamwork, advanced planning, problem-solving, and this has to be across your board. In fact, you may need a different hiring profile, a different sort of person who comes with a better package of those skills required for collaboration and teamwork and relationships, all of which seem to be more important.

There's a question whether the traditional, very much fact-based, I'm going to call it black-and-white, no-gray-in-their-life kind of folks that maybe fit the profile for your project managers and superintendents in the past, it could be that that profile doesn't really fit as often or as well anymore. Certainly, we still have some of the traditional design, bid, build construction out there, but a lot of it is back in this collaborative model and just takes, in some cases, a different personality, a different personality type, and different skills, so it could be a different hiring profile that you have for those. I also want to make the point, as leaders, culture just continues to be certainly as critical or more critical than it's ever been. If you want to attract and retain these team-oriented people and collaborative people, it may take just an overall more collaborative culture within your company, so hopefully you're aiming in that direction, as well.

Finally, I'd say everybody, because of these new skills, probably needs an increased commitment to training and development. You certainly don't want to throw out all of your people and start anew. Your folks are very likely more than capable of growing into these new roles and these new skills, but it does take an effort and does take time and a commitment by you. There you have it.

Dennis Engelbrecht, Digging Deeper.