



Don't Wait: Craft a Winning Strategy Now

This isn't the time to ignore the operating environment and hope everything gets better soon. Instead, start strategizing now for the future.

by Rick Tison

As the world continues to deal with the COVID-19 pandemic and the far-reaching economic aftermath, executives across the construction and engineering (E&C) space rightly feel anxious about the future. The best-laid plans for 2020 were put aside to get through the initial stages of the pandemic, and many companies are struggling to revisit and revise their strategies.

Even in stable market conditions, strategic planning is complicated. It's even more so now, given the volatility, uncertainty, complexity and ambiguity (VUCA) influencing today's E&C sectors, which is prompting many executives to take a wait-and-see approach to strategic planning for the next few years. Ironically, this behavior can put companies at risk. In speaking with more than 150 engineering and construction executives, one of the things FMI heard was that the strategic decisions companies made during the last recession were mostly the right ones — they just weren't implemented fast enough.¹

Companies that *aren't* thinking critically about their operations, markets, customers, differentiation, sectors and other decisions will find themselves left behind. Firms that push forward with their planning and strategizing

now, despite the current constraints, will be best positioned to gain market share in the post-COVID world.

Waiting for Clarity Won't Work

In talking with clients, many say they're too overwhelmed and lack the necessary insights into how their sectors and geographies will recover from the economic impact of the pandemic. While it's true that the outlook for U.S. construction and engineering markets² varies by sector, with some expected to improve while others decline, that uncertainty doesn't negate the need for planning.

In fact, the current uncertainty is exactly why leaders need to look at market dynamics, determine strengths and set priorities. The point of having a strategy in the first place is to be prepared for what might come and then position the company for success.

Even though the market drivers are shifting right now, there are ways to capitalize on these changes to strengthen the business, expand service offerings or move into a new geography. The first step is to examine the current business and determine the differentiation points. What does the company offer that competitors don't? And how can teams capitalize

on these differentiation points now and in the future?

Next, review project teams, personnel and other operations to evaluate whether a new market opportunity is right for the company. This is an important exercise because firms often believe that moving into an adjacent sector will be easy, only to be confronted with unexpected challenges. Entering a new market without preceding relationships or in-depth knowledge of local business dynamics is a surefire way to get into trouble. However, diversification is not necessarily always the right answer for boosting your business.

Gregg Schoppman, principal with FMI, added, "I think people always think the grass is greener on the other side. I see many companies that will expand geographically to a new niche without ever changing their toolbox. They don't really evaluate how they keep score, how they estimate and do projects, how they work with clients. Working on your existing toolbox isn't as cool as opening up a new office, which gives the impression of growth and expansion; and I think that is a fundamental problem with many contractors. They think they are expanding and growing instead of reevaluating the company and fixing what is wrong."

For example, we've seen several private contractors decide to enter federal markets in anticipation of increased government capital spending. But just because there is money in a certain market doesn't mean that market is necessarily the right fit. Having a strategy for how to evaluate market opportunities and current capabilities can keep companies from making hasty decisions and losing track of the big picture.

Emerging from past recessions, many companies chased all manner of work or slashed bids to win business. They wound up unable to deliver on projects or specifications, with many companies experiencing drops in profitability and cash flow right at a time when they could least afford it.

Creating a Winning Strategy

In the broadly defined construction industry, we frequently observe roughly half of local markets (MSAs) moving in the opposite direction of the other half in terms of construction spending put in place (growth/decline). Likewise, on average, one-third of segments are typically witnessing an increase in construction spending while the other two-thirds are witnessing a decrease in construction spending. The Great Recession is a good example. Overall construction put in place fell approximately 40 percent from peak to trough (2006 to 2011); however, nine of the 19 sectors grew over the same period. Countercyclical markets and segments do not remain the same. The groupings are fluid.

Following the recession that began in 2008, strategic planning correlated directly with the profitability of E&C firms, according to FMI's research.³ Construction companies with higher profit margins during the recession prioritized deep, authentic client relationships; diversification of geographies, segments or services as a hedge against risk; and streamlined operations. Those that put these and other strategies into practice came out ahead of their competitors. Others faced steep challenges.

This is one of many reasons why it's important for leaders to evaluate their five-year plans and priorities to create a framework for setting current strategy. By objectively evaluating the company's current state and then assessing where it's going and how it will get there, leaders can align their teams around achieving specific goals and milestones.

For example, if a contractor wants to diversify into a new area, it's important to understand the demand outlook, who the buyers are and

how they procure services, and how final purchasing decisions are made. E&C leaders must evaluate the competitive landscape and how their company fits into that mix.

Many E&C executives underestimate the value of this initial development step only to find themselves struggling to win business. For example, if they primarily work in a sector where work is negotiated and relationships matter, moving into a sector that typically prioritizes costs requires a completely different bidding process.

Asking Yourself the Tough Questions

Napoleon Bonaparte equated genius to "the person who can do the average thing when everyone else is losing their minds." To say 2021 will remain volatile and uncertain is an understatement, and figuring out where to compete this year (and beyond) will go a long way to determining success. The good news is that the basic questions still apply:

- **Customers** – How do the customers within the chosen markets and sectors buy? What are their preferences, and how are they likely to change? Who are the leading buyers of our services? What are their procurement practices and preferences?
- **Competitors** – What is the competitive landscape? Among the list of target customers, who are the incumbent competitors that must be displaced to win work? How entrenched are their relationships? Are there five incumbents, or are there 15 competitors that make up the majority of the addressable spend? And what impact will this fact have on margin potential?
- **Company** – Based on the above, what is the firm's state of readiness to compete and win? How well-positioned are you with key customers based on their preferences? If the markets/sectors are growing, what is the impact on the competition and margin in the near term, and what is the response? If the markets/sectors are likely to suffer, what is the company's competitive advantage, and how transferable are these attributes to adjacent types of work?

Never Stop Setting Goals

With 2020 firmly in the rearview mirror and 2021 promising an almost equal amount of volatility and uncertainty, this is not the time to stop setting goals, prioritizing, strategizing and forging ahead. While it may be tempting to put off planning and hope the current environment normalizes, we all know this business strategy doesn't work. Instead, get clarity on how your firm operates and how it fits into the market sector or geography. Analyze why it will be successful and how to

The Most Common Mistakes We See During Downturns

- Leadership that is slow to react and respond.
- An inadequate knowledge of progress with regard to cash flow, profitability, losses, etc.
- Battling it out in a hard-bid environment with no competitive edge.
- Not adapting to external market changes quickly enough. Continuing to do things the way they've always been done.
- Complacency around understanding current markets. Not conducting thorough research on external market forces (competition, climate, clients).
- Being a market follower, especially if leaders are following into markets where the company has little or no expertise.
- Thinking the "grass is greener" when looking to potential new markets, without reevaluating the company first.
- Lack of willingness to confront the tough issues. Not making the distinction between market symptoms and bad (company) behavior.
- Managing down — being in constant firefighter mode and not focusing on the big picture. Living in a reactive mode constantly, not being proactive and not shaping the firm's destiny and future.

beat the competition. Have a clear goal and a valid reason for diversifying.

There's no excuse not to think about company strategy. Strategy is all about maximizing opportunity in any market, and so it's important to take this opportunity to prepare for what the market looks like. View strategy in terms of where the demand is now and where it will be in the future. Then find the realistic opportunities to fill that demand and stay competitive.

Source:

¹ "Leading Through Business Cycles: Lessons Learned From E&C Executives/2020 Leadership and Strategy Survey." FMI Corporation. 2020.

² <https://www.fminet.com/outlook/us-outlook-first-quarter-2021-report>

³ <https://www.fminet.com/reports/leading-through-business-cycles-lessons-learned-from-ec-executives>

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