

IN A TIME OF UNCERTAINTY

How about Some Facts?



Many of our construction and engineering clients have asked us the same thing:

What do you think is going to happen?

How can we possibly plan for a future that is so uncertain? While we cannot claim to have a crystal ball, we can provide you with a summary of our research, what we believe is the most likely scenario over the next 18 months, and what you should do to prepare.

Summary of Facts

1.

Construction and Engineering will not only **RECOVER**, but will **GROW** in 2021

2.

No matter the outcome of the election, infrastructure and energy construction will be the key to U.S. economic recovery

3.

Those who invest in strategic preparation for this recovery will reap the greatest rewards

Our Industry and the Facts

The Recovery

According to [Deloitte's midyear construction and engineering industry outlook](https://www2.deloitte.com/content/dam/Deloitte/us/Documents/energy-resources/us-2020-engineering-construction-midyear-industry-outlook.pdf)¹, as the impact of the pandemic continues to play out, it is likely that spending growth in late 2020 will be led by “public institutional and infrastructure” investments. The



report concludes that the virus will reshape the types of projects that will be built for many years to come – hospitality, retail, and entertainment projects could be less attractive, while public utility, energy, transportation, and health care projects could see more activity.

Engineering and construction (E&C) firms will also benefit from opportunities such as the US transportation and infrastructure upgrade initiative and the rise of smart city mega-projects.

¹ Full Link:

<https://www2.deloitte.com/content/dam/Deloitte/us/Documents/energy-resources/us-2020-engineering-construction-midyear-industry-outlook.pdf>

Additionally, the [August 2020 Conference Board Economic Forecast for the US Economy](https://www.conference-board.org/research/us-forecast)² reports an overall rebound of 4.4% for the economy in 2021, with a 2% increase in Real GDP in the first half of the year and 6.7% in the latter half.

In a recent ENR webinar, Oxford Research and ConstructConnect presented their “Grand Total Construction Starts” forecast predicting a 20% construction rebound in 2021, with total starts reaching pre-pandemic levels 18 months later.



² Full Link: <https://www.conference-board.org/research/us-forecast>

The Election



Another cause of uncertainty is the election. Many clients wonder if a Republican or Democrat victory will dramatically alter the E&C industry landscape. Our short answer is no. It is our belief that no matter the outcome of the election, infrastructure stimulus spending will be the vehicle by which both parties seek to improve the economic outlook of the country.

If re-elected, the Trump Administration plans to release a [\\$1 Trillion infrastructure package](#)³ over ten years focused on surface transportation with 25% set aside for 5G wireless infrastructure and rural broadband.

If Biden is elected, he has committed to a [\\$2 Trillion accelerated investment](#)⁴ over his first four years in roads and bridges, green spaces, water systems, electrical grids and universal broadband with a focus on clean air and clean water technology.

³ Full Link: <https://www.reuters.com/article/us-usa-trump-idUSKBN23N0D7>

⁴ Full Link: <https://joebiden.com/clean-energy/#>

Both plans bode well for the E&C industry, and it is our opinion that despite both pandemic and election uncertainties, our industry is poised for future growth.

Many of our clients over the last six months, due to market contraction and uncertainty, have reduced overhead, protected cash positions and limited risk and exposure. While these are effective short-term strategies, they are only that: short-term. Whether you believe the market will contract or expand or just don't know, are risk averse or risk tolerant, we believe those companies that do not prepare for both scenarios will not reap the opportunities 2021 holds.

What do you Need to Do to Prepare?

In light of our summary of findings above, we recommend that businesses focus on three main areas in order to prepare for this pending market growth:

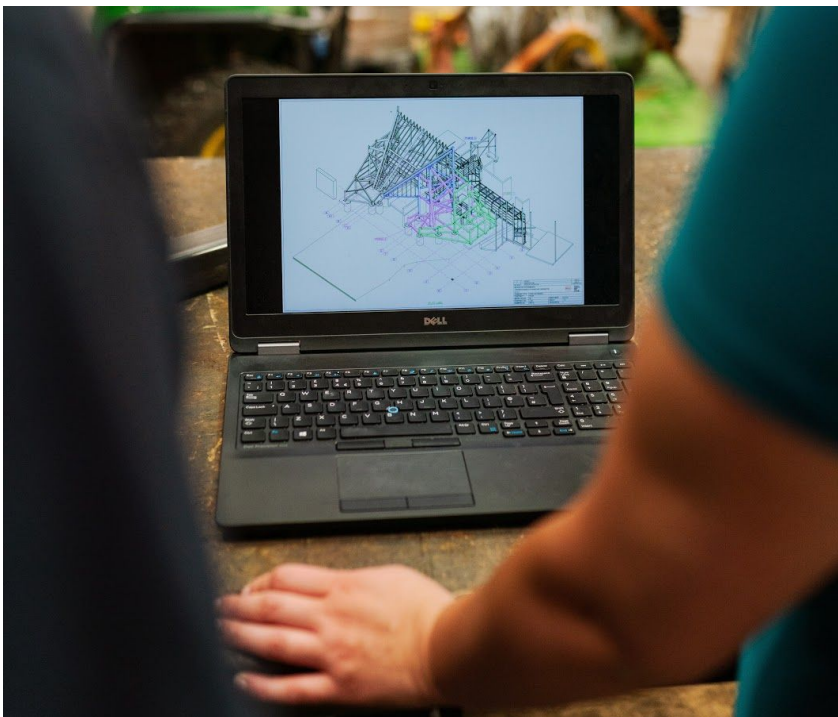
Planning | Training | Process.



Planning

Strategic planning should focus on three main elements that are most relevant to the current economic and market conditions:

1. A New Digital Footprint



To remain competitive, industry leaders will need to define a new vision and develop a comprehensive digital plan that realigns both their business and operational processes to reflect the opportunities that innovation and technology provide. Examples from Deloitte include an ability to facilitate safe design, engineering, and build environments and enabling technologies such as building

information modeling (BIM), augmented and virtual reality (AR/VR), and artificial intelligence to drive broader digital transformation. Additionally, firms need to be prepared to conduct business in some variation of the new virtual normal, which may last for some period and require changes to employee management and performance practices. These include some hybrid of at-home offices and office hours, socially distanced meeting spaces, sanitized work environments, and the software and virtual meeting platforms that go along with them.

2. Strategic Partnerships



The value of partnerships, whether project-based, joint ventures, or a merger / acquisition, cannot be underestimated in the current business climate. Partnerships can enable firms to lower overhead, leverage their own internal strengths, and find ways to creatively pursue future (and possibly larger) projects. Having a well-thought out strategic plan that identifies and targets both projects and partners will be essential.

3. Realistic Financial Projections

Now more than ever, financial projections that resemble reality is critical. It is our recommendation that financial projections span much shorter time frames (quarterly vs. annually) in order to-capture and reflect-currently (and rapidly) fluctuating market conditions. Understanding your “overhead efficiency” (overhead as a percentage of profit, as well as revenue) is more important than ever, and those firms that spend time collecting and understanding their internal financial trends will be ahead of the game as the economy regains momentum. On the BD side (and for projections) a focus on public entities and projects is prudent as well.



Training

When the workload is low, it is a very good time to invest in people. We all have experienced the ebbs and flows of our industry. While these times are unprecedented, at some point in the near term, things will shift back to growth mode. It is our experience that training employees during boom times is difficult for both the firm and for them, due to heavy workloads, pressure for job performance, and a lack of available time.



1. Close Skill Gaps

Use the next six months to build your employees' skill sets and to prepare your top performers for advancement to new roles, improved productivity and a focus on profitability. Training should also focus on methods to Increase productivity and efficiency through lean operations and SMART production goals. Investing in training during this time is an excellent way to build loyalty and prepare your people for the coming market growth.

2. Inclusivity and Equality

Just about every RFP/RFQ we've seen over the past three months - especially from public agencies - contains inclusivity and equality requirements, often with weighted points, and always with the requirement that the proposer's equality practices are real and demonstrated. We are seeing significant evidence of this trend and believe it will last. We recommend that E&C firms focus attention on concrete practices supported by training in this increasingly important area.

Process

Every organization we have worked with at one time or another has expressed a desire to improve their internal operational processes. Many recognize redundancies, inefficiencies, a lack of standardization - leaving lots of dollars on the table. From executive management to design teams to superintendents and craft, everyone recognizes this as an issue. But surprisingly, few companies invest in actually fixing it. It is our recommendation that the remainder of 2020 and first half of 2021 is an excellent opportunity to identify inefficiencies in internal processes and procedures, eliminate redundancy, rework and unnecessary overhead.

How outdated are your Standard Operating Procedures (SOP's)? Do you even have any? Are they written? Formally trained? Now is the time to extract institutional knowledge from your long-term employees (Subject Matter Experts), capture best practices, and lean out your organization. This is money that will go directly to your bottom line both now and in the future.

What Can we Do to Help?

Paradyne has expertise and supports our clients in all of the areas above. Please contact us to find out how we can help or if you simply want to have a discussion. We have provided straight answers to tough questions for over twenty years. info@paradyneconsulting.com



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