CORPORATE PLANNING TRENDS FOR THE '90S

By Jerry Jackson and Lanny Harer
FMI

Nothing is the way it was. Everything changes: markets, customers, people, organizations, competition, technology, risk, regulation, ownership. Change causes stress. Getting ahead gives way to keeping up. Keeping up gives way to hanging on. One fix produces another need. Change can be frustrating, frightening, and unprofitable...or it can be exciting, rewarding, the key to increased profitability, and even fun.

In FMI’s annual study of trends affecting corporate planning in the construction industry, FMI’s Corporate Planning and Evaluations Group notes the following trends:

1. The industry is placing increased emphasis on cost control, pricing techniques, and bidding strategy. Industry capacity far outstrips current construction demand in most sectors. Excess capacity lowers margins. This buyers market has reduced the percentage of negotiated work.

2. The definition for success is moving from the top line on the income statement to the bottom line, as more contractors discover that growth without profit is a scenario for disaster. Profit thrills and volume kills. Planned downsizing and organizational restructuring continue.

3. Intense pressure on cash flow throughout the construction hierarchy will continue. This trend suggests that positive cash flow will be achieved only through though credit and collection policies, performing work under acceptable contract terms, being selective about customers, maintaining pressure on collections, and investing surplus cash wisely, no matter how temporary that surplus.

4. Banking pressures continue for undercapitalized firms. Construction-related businesses are no favorites of lenders. Sureties are also becoming more demanding regarding disclosure and future plans. Management audits plus detailed business plans will be required to maintain existing credit lines for many borrowers.

5. Use of business and strategic plans is increasing due to complexities and uncertainties faced by company management. Additional factors fueling this increase include lender demands, changing management styles, a demonstrated successful use of planning, and viewing participatory planning as a management development opportunity.

6. Salary and performance appraisal processes are becoming linked to more objective factors as
companies seek ways to improve output while holding the line on costs. Pay-for-performance is in, while annual increases and discretionary year-end bonuses are out.

7. Innovative contractors are adopting proactive measures to control costs. For labor-intensive organizations, the continual rise in workers compensation costs is being abated by safety incentive programs, increased training and self-insurance. In the industrial sector, owners are supporting the contractors’ drug-testing programs.

8. Decreasing margins and declining batting averages are putting intense pressure on estimating groups to handle the volume of bids. As proof, the only experienced construction human resources not readily available on the job market are skilled estimators. Some contractors are handling this estimating capacity shortage through increased job selectivity rather than increased overhead. Others continue to search for, and develop, a niche where others aren’t—at least for now.

9. Business failures continue as markets remain soft, and casualty rates will accelerate as markets recover. The increase will result from the inability of weakened contractors to finance increased backlogs.

10. The human resources function is getting more respect. Managers in construction are discovering that getting a job or collecting final payment is not the only key to long-term success. All construction-related businesses are a product of the quality of their people. Finding and keeping the right people is essential to prosperity. Demand for good people will accelerate, putting those companies with effective human resource functions in position to take the offense.

11. Decentralization of management authority continues, but only in healthy organizations. Companies teetering on the edge of disaster, appropriately, are centralizing decision making.

About the Authors:
Lanny Harer is vice president and Jerry Jackson is president of FMI, management consultants to the construction industry. FM produces an annual overview of the U.S. construction industry to which each practice group within the company contributes.

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