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Benefits and challenges of mature construction cycle - by Drew Colby

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Construction may be the most cyclical of all the major industries. Each cycle (i.e., recessionary, emerging, prime, and mature) presents benefits and challenges. We are currently in a “mature” construction cycle. Construction success hinges on identifying the current cycle and leveraging the benefits of that cycle. This article details tools to leverage those benefits.

To understand the benefits and challenges of a mature cycle from an owner’s perspective, it is necessary to understand the benefits and challenges from the contractor’s perspective. The greatest benefit of a mature construction cycle is a highly skilled and talented workforce seasoned by years of experience. By way of comparison, contractors were forced to select price over talent during a recessionary period simply to stay competitive. This phenomenon manifests most acutely in the quality (or lack thereof) of subcontractors retained. During a mature cycle, however, most contractors receive premium pay so the value proposition shifts from saving money to competency and ability to achieve deadlines.

By the time contractors reach a mature construction cycle, they have established systems for project delivery that have been tested, refined, and (almost) perfected. In short, they know how to build. The highly skilled workforce coupled with great institutional knowledge define the beneficial characteristics of a mature construction cycle.

No cycle, however, is without challenges and a mature construction cycle is no exception. From the contractor’s perspective, the challenges are availability of talent, rising subcontractor costs, and ability to deliver projects on time. The Great Recession of 2008 forced hundreds of thousands of workers to change industries. This talent loss created a void in the worker pipeline that remains unfilled. For example, the construction industry has a critical shortage of project managers and superintendents; the exact positions the displaced workers would have filled. That void is getting worse because Baby Boomers are retiring and millennials have shown no interest in performing construction work. A recent survey of 18-25 year olds from the National Association of Home Builders revealed most young people wanted a “less physically demanding job” (only superhuman self-restraint prevented this Baby Boomer from making a snarky comment here).

The lack of workers, in turn, has led (among other factors) to increased subcontractor costs. By this stage in the cycle, Contractors are conditioned to accepting premium subcontractor prices. However, these prices have escalated more quickly than most contractors have budgeted. Indeed, even if contractors are willing to pay a super-premium, many subcontractors simply are not available. All of which leads to the next challenge; namely, timely project delivery.

How can owners leverage the benefits of the mature construction cycle without suffering the challenges? Although no process is perfect, the process most likely to yield success focuses on two key stages: contractor vetting and contract language. With respect to contractor vetting, key questions to ask during the process can be found at www.psh.com/keyfactors. These questions include (1) how many other projects will the contractor have on-going, (2) identify the contractor's "A-Team" project manager and superintendent" and condition contract award on their participation on your project, and (3) identify key subcontractors (e.g., electrical, plumbing, etc.).

The other process to leverage reward while managing risk is through contract drafting. For example, (1) ensure the contractor locks up its key subcontractors before project commencement, (2) include liquidated damages for late delivery, (3) include language saying a lack of workforce is a risk owned by contractor, and (4) provide a clause that allows the owner to force contractor to increase workforce, work overtime, or supplement the workforce at its cost if the project schedule is in jeopardy.

Every construction cycle has its benefits and challenges. Understanding and leveraging the current environment should tilt the balance toward successful project completion.

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