

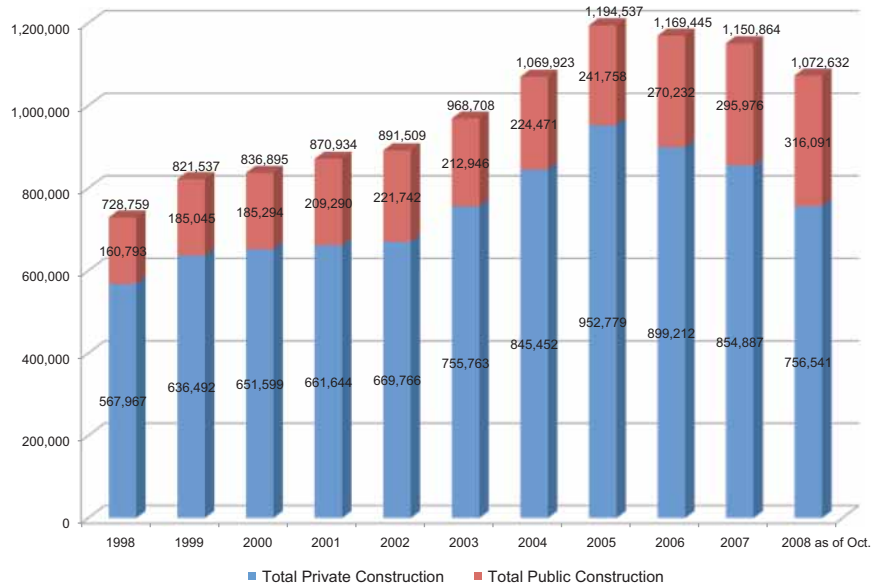
# State of the Industry

by Tandra McMerley

**W**hen we made the decision early last summer to publish a State of the Industry issue in January 2009, we knew the topic was relevant, but we had no idea of the tumultuous times ahead. Since 2006, monthly statistics had shown an increasing decline in the residential sector of the construction industry, and there were murmurs of an eventual effect on commercial construction. The U.S. economy was certainly in flux but had not yet experienced its rapid deterioration of recent months, nor the resulting decline of the world economy.

It's expected that our new administration's planned economic stimulus effort allocating funds to U.S. infrastructure and public works will help

**Value of Construction Put in Place—Total Construction**  
January 1998 - October 2008, Seasonally Adjusted Annual Rate  
(Millions of dollars. Details may not add to totals due to rounding.)



October 2008 figures are preliminary. Source: U.S. Census Bureau

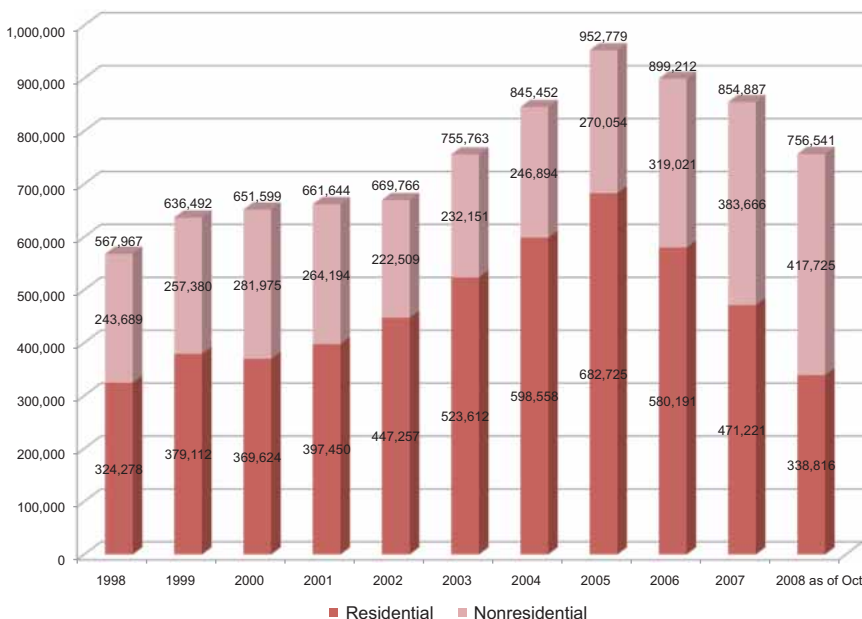
create jobs at state and local levels, maintain and create jobs for the construction industry and provide needed infrastructure improvements throughout the country.

CG/LA Infrastructure LLC, dedicated to building global competitiveness through infrastructure project creation, stated in November, "For each \$1 spent on infrastructure, \$1.59 is returned to the economy; in an economy the size of the U.S., a 1 percent [of gross national product (GDP)] stimulus would yield between five and six million jobs and would add 0.6 percent to GDP in the first year—of course, the effect is cumulative because infrastructure lasts for twenty to thirty years."

Most experts agree that the state of construction for 2009 depends on an economic stimulus bill enacted as early as possible in 2009. Building

## Value of Construction Put in Place—Total Private Construction

January 1998 - October 2008, Seasonally Adjusted Annual Rate  
(Millions of dollars. Details may not add to totals due to rounding.)



October 2008 figures are preliminary. Source: U.S. Census Bureau

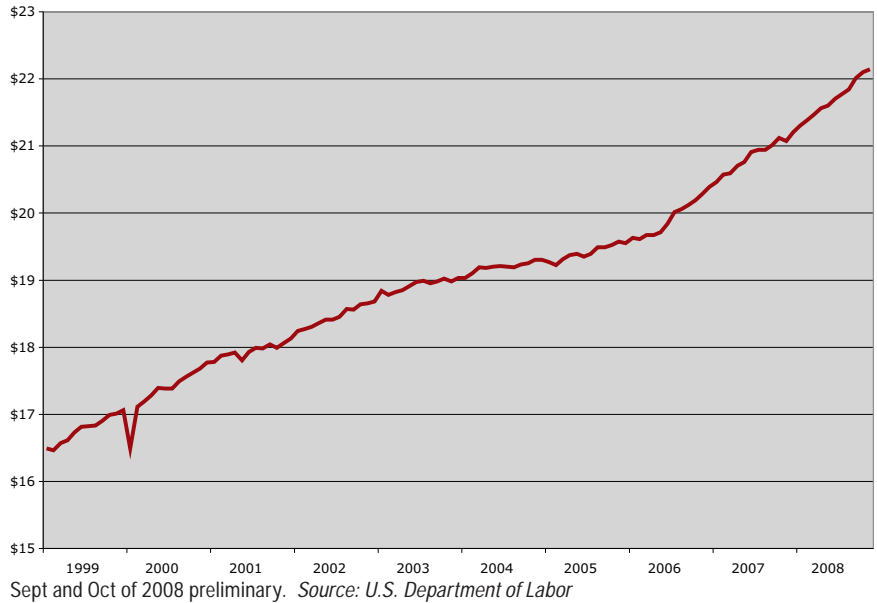
# 2009

America's Future (BAF), a bipartisan group who support increasing infrastructure investments and reforming national infrastructure policy, states, "Infrastructure investment would target the workers and the industries—heavy construction, building materials and durable goods manufacturing—among the hardest hit in the current economic downturn. For every billion dollars invested in infrastructure, as many as 47,500 jobs are created."

And the Laborers' International Union of North America (LIUNA) called for a \$100 billion investment in testimony before the Transportation and Infrastructure Committee of the U.S. House of Representatives. The investment will "stimulate our economy by building our nation's transportation, energy and education structures... which have fallen into disrepair due to years of neglect."

American Road & Transportation Builders Association (ARTBA) predicted in a November 20, 2008 forecast that "the U.S highway and bridge

## Average Hourly Earnings of Production Workers In Construction January 1999 - October 2008, Seasonally Adjusted



construction market is expected to flatten in 2009 as recent increases in federal highway investment will likely be offset by weakened state and local highway budgets." However, ARTBA forecasts that with the drop in oil prices and if the cost of construction materials level off in the coming year, construction volume should stabilize and possibly improve in 2009.

The statistics on these pages depict employment numbers, worker earnings and value of construction from

the past ten years. Public construction has shown steady growth over the entire period, while private construction, which peaked in 2005, has since shown a steady decline. Once an economic stimulus occurs in the construction industry in 2009, public construction should continue that growth.

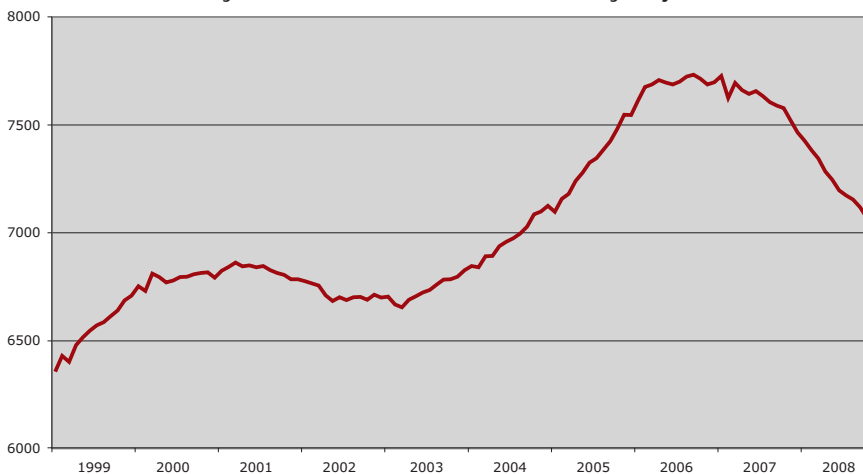
Employment numbers have shown a drop in recent months with earnings increasing—it remains harder and harder to find trained, capable, safety-conscious staff in construction.

With the increased challenges of immigration laws, risk management (especially in new areas like Building Information Modeling and green building) and other imposed regulations (emission controls, safety regulations, etc.), owners have enormous challenges to face in addition to the imposing economic climate.

What should business owners do to not only stay in business but also make a profit? We asked experts from various manufacturing, technology and professional service industries to give their perspectives about the challenges ahead for the construction industry.

## Construction Employees

January 1999 - October 2008, Seasonally Adjusted



# BOMAG AMERICAS, INC.

JERRY RANDECKER, PRESIDENT



## Critical Issues

The two most critical issues facing the industry now are the housing market and the credit crunch. As housing remains slow, and as credit is difficult to obtain, it impacts dealers and contractors. The construction industry will continue to suffer until credit problems are resolved and the housing market begins to recover.

The solution is simple, but difficult. Time and restored confidence will be the key factors. The economy will rebound in time, and that will help consumers and contractors gain confidence that the market is headed in a consistently positive direction. In the interim, businesses in the construction industry will remain in a survival mode.

## Current Trends

In our industry, and particularly in the compaction category, it is not really about new technology, but existing technology being used in new and more exciting ways. The best example of this is GPS technology, which has been around for some time. This technology is being applied in new ways that will help contractors keep costs down and productivity up. Whether preparing a jobsite or building a road, GPS technology is helping operators work faster and smarter and giving contractors an accurate view of the job's progress.

The more technology is implemented, the more it leads to innovative ideas that will only serve to help the contractor more.

## Looking Forward

We are firm believers in spending money on research and development, both in good times and bad. We consider ourselves to be a leader in compaction technology, and the only way to maintain that position is to continue our efforts to bring more innovation to the industry and offer leading-edge products.

We are also doing everything we can to control the cost of building our machines. Being a global manufacturer, we have the ability to match our production to the region where the demand resides.

**“Whether preparing a jobsite or building a road, GPS technology is helping operators work faster and smarter and giving contractors an accurate view of the job’s progress.”**

There is no doubt that 2009 will be tough. Commodity prices are volatile, currencies are fluctuating and the market is strained. But continuing to invest in our innovation leadership will allow us to be competitive when the financial picture improves.

## Government and Compliance

Federal and state emissions compliance requirements have necessitated changes in engines and related systems. This has increased the cost of building machines. We and our customers are also affected by the road transportation bill (the current law expires in September, 2009) and how it is funded.

## Best Practices

Like us, successful customers are learning about new technology and implementing new processes in ways that reduce their costs and allow them to become more efficient. This includes business management technology within their own operations as well as the innovations that we as manufacturers are providing.

The most successful contractors are using technology to stay ahead of the curve in terms of costs as well as government standards and regulation.

# COMPACT EQUIPMENT

MICK EDWARDS, COO OF COMPACT POWER AND  
DIVISION PRESIDENT OF BOXER



## Critical Issues

It's no secret that the construction industry has taken its fair share of lumps from current economic trends. Unemployment is rising, home values are plummeting and the general market consensus seems to be one of genuine uncertainty. Weary investors and consumer confidence being at an all time low further irritate the situation. Many of our customers have diversified and broadened their portfolio of services to accommodate the weakened demand for their core services.

We've noticed a trend towards diversity in our customer's portfolio of services. For example, residential landscape installation directly correlates with new home construction. Due to a lack of new home construction, our customers don't have the same sales pipeline maturity they did a year ago. To keep their equipment and human resources working, many have branched into commercial projects or picked up new services to offer their client base. This trend obviously heightens the competitive landscape, forcing companies to be more aggressive with price or value-add services.

Weary CFOs and equipment managers are nervous about equipment acquisition and keeping utilization high enough to cover the expense. Good equipment managers keep a sharp focus on maximum utilization. In other words, they buy the most versatile equipment and rent the specialty stuff. If you buy any mini-skid, you literally have one piece of equipment capable of running over fifty attachments, making it a more versatile tool than many lines of equipment.

## Current Trends

Contractors and fleet managers have clearly decreased business spend. However, these individuals cannot and will not tolerate any sort of reduction in equipment quality or service after the sale.

To mitigate margin loss, I keep an eye out towards channel diversification and a firm grasp on cost-out and lean initiatives, while retaining my core staff. When the market inevitably returns to previous conditions, I don't

**“Due to a lack of new home construction, our customers don't have the same sales pipeline maturity they did a year ago. To keep their equipment and human resources working, many have branched into commercial projects or picked up new services to offer their client base.”**

want to be competing against the best of my previous employees.

## Looking Forward

We've diversified our go-to-market strategies and expanded our product offering for some of our channels. In addition, we've made substantial human resources and monetary allocations into growing our international distribution channels.

Regarding domestic strategies, we've leveraged our financing partners to offer a variety of financing options to meet consumer needs during these trying times. We know that our customer base has to keep working to support their organization.

## Best Practices

Successful owners are marketing. Our most successful distribution partners are continuing to market despite the down economy. The truth of the matter is, people are still buying equipment. They are just harder to find and require more time and attention to make them comfortable with the acquisition.

# FINN CORPORATION

JAMES HIGGINS, CEO



## Critical Issues

I expect the housing industry is going to remain sluggish until the housing inventory is either sold off or demand catches up with supply. Infrastructure investment has also been reduced over the last couple of years. Much will depend on what the new government administration is planning to do in terms of infrastructure development and significant investment. On the commercial side, again, it has slowed down, but not as much as the housing market.

## Current Trends

An awful lot of the construction and infrastructure development is going to have a “green” label attached to it. We’re going to see a big trend towards green going forward. Whether that is associated with new buildings, the development of housing or infrastructure, there will be more specific environmental plans involved in future projects.

## Government Compliance

We expect environmental compliance and legislation to increase. We also expect certain building regulations to be enforced much more vigorously than has been the case in the past few years.

Also, immigration reform is becoming an issue. One of the issues the incumbent administration has focused on concerns H2B visas. If changes to the legislation proceed, it will be increasingly difficult hiring workers at relatively low labor rates. This plays into the hands of equipment manufacturers like us because people will turn to mechanizing more portions of their jobs in order to protect themselves from a labor shortage. Basically, they will maximize their available labor through technology.

## Additional Insights

Based on the projections we’re seeing, we expect the economy to significantly improve in the next twenty-four months. We expect there will be more work to be done, but by a smaller labor pool. When that happens, we expect our business to pick up, because we offer machines that improve productivity and take reliance away from labor.

Though nobody can say when the economy will turn around, we certainly expect a bounce once it does, because even if our customers can’t really control the number of available projects, the labor pool or the work season, they can control the tools they use to get the jobs done.

Finally, liquidity in the marketplace is a big factor. How are contractors to fund construction projects or equipment purchases if banks and financial institutions refuse to lend money at acceptable rates of interest? The construction industry is no different from any other industry that is dependant on capital equipment. If we don’t see liquidity coming back to the market, there’s going to be a big problem.

## Best Practices

Successful owners are also seeking revenue offered through grants. Contractors are finding federal and local government assistance with their investments in order to spread their costs. We’re seeing quite a big trend now with the Express Blower side of our business where a lot of operators are looking at what grants are available, be it from schools, local governments or the federal government.

We are also seeing contractors working together with greater significance. We’re seeing a trend of smaller operators linking up with the larger companies who are better suited to the bigger projects. Rather than the bigger companies pressuring smaller competitors out of business, we’re seeing more of a quid pro quo relationship between the larger and smaller companies. This is really based on the idea of how a company can be most profitable. Certainly, the smaller contractors can bid on larger jobs, but they’re going to struggle delivering the project on time and to budget with less resources to efficiently fulfill the job. On the other hand, the big companies don’t want to fragment their capacity across many smaller jobs as they dilute their profitability. So, we are seeing more partnerships.

# LIEBHERR CONSTRUCTION EQUIPMENT COMPANY

DUANE WILDER, PRESIDENT



## Critical Issues

Credit availability and general customer confidence are probably the two issues that cause me the most concern. Our customers require the availability of credit to fund operations and purchase needed equipment and supplies, so I see the loss of liquidity as a serious threat. Another concern is the general confidence in the economy. Even companies that are doing relatively well lack confidence about tomorrow, which causes them to delay and postpone activities that would benefit both the economy and their companies.

**Solutions:** First, we must restore confidence in the banking industry and ensure liquidity. Second, we need to invest in stimulus packages that go beyond sending a check to buy a new flat screen TV, and address long term needs that improve the competitiveness of the U.S. economy. The infrastructure in this country has deteriorated, which has damaged our competitiveness in the world economy. Address our serious infrastructure needs, and we not only provide good paying jobs but strengthen America.

## Current Trends

The advance of GPS, machine monitoring and computer aided machine operation has just begun to open our eyes to what may be possible in the future. I personally believe tomorrow's customer will expect manufacturers to provide expanded and easy-to-use information available on demand to improve productivity, efficiency and uptime availability. Fuel efficiency will become an even larger issue as long-term energy costs will continue to rise and total cost of ownership increasingly frames the purchase decision. For those manufacturers who choose to ignore these trends, plenty of disruption will ensue. Technology will drive what customers expect in a product and it will go beyond simply building good iron to providing a total ownership experience to assist customers in managing life cycle cost.

## Looking Forward

Liebherr has always invested a high percentage of our earnings into product development and capital expenditures to improve our competitive offerings to the market. As a family-owned private company, we have been fortunate to

have owners committed to long-range investments since we are isolated from the share price fluctuations of the stock market. We see 2009 as challenging on a worldwide basis. Although some of the sectors we serve have not been impacted and are continuing to enjoy strong demand, others are obviously suffering along with our customers. Fortunately our family-owners have always maintained a strong balance sheet which allows us to weather the business cycles and continue critical investment in research and development, even in downturns.

## Government Compliance

Let's take emissions just to focus on one aspect. Our industry can argue we are unfairly targeted, but the reality is that protecting the environment is something we should all support. As a manufacturer of both engines and equipment, we have invested heavily in technology to reduce fuel consumption and lessen our environmental footprint. Those dual goals are part of every new product definition; it is not how do we meet the regulation, it is how do we protect the environment and reduce cost for our customers. The bottom-line is business today cannot operate by ignoring these regulatory and environmental issues and expect to survive.

## Additional Insights

Times of adversity do more to shape the character of a company or an individual than times of prosperity. That doesn't make adversity something we seek, but it often has a dramatic impact. In these times, I find I have to remind my organization and myself that how we respond today is important to our future.

## Best Practices

Successful owners are embracing technology not resisting it, since they see it as a resource to improve their competitive position. They are concerned about fuel efficiency and total cost of ownership. They are investing in their people with increased training and leveraging their financial resources to position themselves to be stronger and well prepared for the future and a brighter tomorrow.

# COMPUTEREASE

JOHN MEIBERS, PRESIDENT



## Critical Issues

One of the most serious issues for contractors is the lack of credit available. Even in the best financial times, contractors struggle with cash flow. A typical project requires spending money on labor and materials up to ninety days before any money is received. During the current financial crisis, this timeframe could increase, making the availability of credit a key factor in a contractor's business.

Being able to provide accurate and timely financial and job cost information is critical to a contractor's success.

## Current Trends

The fastest growing technology in the construction industry is remote communication using new Tablet PC technology. This gives field supervisors an easy and proficient way to enter data with handwritten input.

Custom timesheets, prepared in the field daily and e-mailed back to the home office payroll system, eliminates dual entry in the accounting system and ensures timely payroll preparation. Work order processing is quicker, given the ability to handwrite work completed and automatically price the work order on the spot. Parts from inventory, billing rates, flat rate pricing codes and customer information are accessed from the interfaced accounting system at the home office. When the work order is complete, inventory is updated, accounts receivable is posted, site history is maintained and all accounting is updated through wireless connection. Best of all, the customer can sign the work order directly on the Tablet PC for electronic storage and transfer back to the office. The tech can include electronic notes, diagrams or special billing instructions to accompany the work order or invoice.

All of these changes will affect the contractor's business practices and make them more efficient and profitable.

## Looking Forward

Our company is on the leading edge with our FieldEase for Tablet PC application that allows contractors to remotely process time sheets and work orders. We also specialize in helping contractors analyze their jobs to identify and correct problems before it is too late. All of this will help our

**"A typical project requires spending money on labor and materials up to ninety days before any money is received. During the current financial crisis, this timeframe could increase, making the availability of credit a key factor in a contractor's business."**

customers become more profitable in today's construction market.

There may be tough times ahead in the construction industry, but the contractors that utilize these best practices and become more efficient in their businesses will not only survive, but will become more profitable.

## Government Compliance

Some of the legislation in today's litigious society has forced contractors to be better documented. A system like ours helps them meet these ever-changing requirements.

## Additional Insights

Even in these tough times, the contractor who has all the right tools and processes in place will be able to grow their business. The key to that growth is to analyze what they are doing now and use that information to increase their profits in the future.

## Best Practices

Our most successful customers are those that are able to analyze today's information and use it to project where there are going. By doing so, they are able to spot potential problems before they happen and make necessary adjustments to protect their profits.

# MAXWELL SYSTEMS

JIM FLYNN, PRESIDENT & CEO



## Critical Issues

To succeed in today's competitive marketplace, construction business owners need end-to-end visibility to see how jobs perform from start to finish, as well as be able to track costs on a line-item basis for tight control and oversight. Critical to that end is efficient communication and information access among estimating, job cost accounting and project management teams. Integrated construction software is a primary solution to the critical issues of competitiveness, strategic business management and visibility into profitability and performance.

## Current Trends

Construction businesses need to work more efficiently and analyze resources to identify where they are most profitable. Using software that delivers real-time information of material costs, labor rates, estimated versus actual budgets, productivity comparisons of crews and more, gives owners insight to maximize production rates. Optimal profitability is achieved by bidding the right jobs to fit what the company does best, knowing how to estimate on those jobs to bid low but with a profit margin and assigning the right crews to work the job efficiently.

## Looking Forward

We listen to our 10,000 customers and continually enhance and develop products to solve their critical business needs. Maxwell Systems Integrated Construction Software helps construction business owners see a day's profit potential at a glance; identify and prevent potential financial losses; spot discrepancies and errors; and manage projects with accurate information in real time. With end-to-end visibility of every project, owners can hone business strategy with informed decisions, improve control of cash flow and keep financials in the black with accurate return on investment (ROI).

## Additional Insights

Construction business owners should carefully evaluate the vendors for this software investment and consider:

- ▶ Industry savvy and experience—Investigate to see if the vendor is a member of accredited industry associations, look for a broad portfolio of customer success stories and review at least three references from current customers similar to your company.
- ▶ A proven cost benefit and return on investment—Inexpensive software that delivers no benefits and increases workload is overall a more costly investment than software that appears more expensive but outperforms the competition.
- ▶ Experience and commitment—Look for a proven track record of successfully deploying and supporting the software. How long have they been in the construction accounting and estimating software business? How many customers do they serve?
- ▶ Service personnel availability—Ask how they help customers during the lifespan of the relationship and how support is provided—online, over the phone or in person. Is installation and training provided to new users? Are they knowledgeable and pleasant to work with?

## Best Practices

Our most successful customers are maximizing their investment in our solutions by integrating for end-to-end visibility across digital takeoff and estimating, job cost accounting and project management. They have seen the value of integration and now realize their profit potential and compete for work on a much smarter level. They can leverage the speed and accuracy of our software to bid quickly and for profit; and gain detailed analysis of the work they do, what they do well and how to adjust strategies to exceed production rates and improve cash flow.



# CPS SECURITY SOLUTIONS

CHRIS COFFEY, CEO



## Critical Issues

Overall, the most critical issue facing the construction industry today is the continued decline and uncertainty in the economy. Home construction has been hit especially hard and the need for cutbacks and/or patience is evident. As the cost of materials and fuel continue to climb, more and more contractors and developers may opt to gamble with security or at least wait a while longer, deciding only to protect their sites if they become victims of theft. CPS Security Solutions is aware of these critical issues, and we offer cost-effective, technology-based solutions to monitor jobsites so builders and developers of all sizes can be proactive and protected.

## Current Trends

We are noticing a big gravitation towards bigger and better video surveillance monitoring on jobsites. This technology replaces or supplements people (guards) in the field and helps save money on several levels. We are not alarmed with the market changes—we welcome them by enhancing our own products with the latest technology and offering competitive pricing that fits any size budgets. What we do see is a better opportunity to educate our clients on the many options they have to satisfy their particular security needs. No matter what other trends develop in the industry, there will always be a need for security and site protection.

## Looking Forward

It is imperative to constantly evolve and advance our product offerings. To this end, we continue to expand our “green” solar product line. We are working diligently to reduce our carbon footprint in the world by adding on as many green product alternatives as possible. We are optimistic that many facets of the construction business will adapt and improve throughout 2009 and beyond.

## Government Compliance

We have always been government compliant and pride ourselves on being an innovator in the security industry.

“We are working diligently to reduce our carbon footprint in the world by adding on as many green product alternatives as possible. We are optimistic that many facets of the construction business will adapt and improve throughout 2009 and beyond.”

As an equal opportunity employer of over 2,500 diverse team members and leader in environmentally-friendly technology, we endeavor to stay ahead of the curve. We continuously strive to add to our security line-up, product offerings and customer service to bring a safer point of view to all our clients.

## Additional Insights

Don't leave the safety of your jobsites to chance. Consider the hidden costs that result from a theft, such as down time, which can lead to costly delays. Jobsite theft adds over 2 percent to the costs of construction! The penalties and liability issues are a headache you can virtually avoid. Protecting your business must be a priority and you should trust your security to professionals.

## Best Practices

Many successful builders are now incorporating security costs into their overall budgets ahead of time. They understand the importance of theft prevention and do not want to add any further costs or headaches to their projects down the line.

# MARSH INC.

MICHAEL FEIGIN, MANAGING DIRECTOR AND  
CONSTRUCTION PRACTICE LEADER

## Critical Issues

The number one issue is the economic crisis, which is starting to impact the construction industry. A number of projects have been put on hold due to financing issues and others that started have been stopped. Many states have projected budget gaps for 2009 and face challenges issuing bonds, restricting cash flow and preventing projects from moving forward. Contractors will face growing competition on a shrinking number of private jobs and are increasingly concerned over the financial health of their subcontractors.

In this environment, contractors need to manage risk and safety more closely, and resist the temptation to take on projects where the risk far exceeds the reward. This will require tough choices, but history has shown that companies that make these hard decisions will weather the financial storm and emerge stronger.

## Current Trends

*Building Information Modeling (BIM)* allows an exchange of electronic information among all project participants. It is a collaboration tool that can create greater efficiencies in the way companies manage data on a project. Interoperability is the ability of different software tools to transfer information to each other.

*Integrated Project Delivery Models (IPD)* utilizes collaboration between the owner, designer, construction manager and subcontractors to gain efficiencies in design, sequencing and construction. The results of this process are shared among project participants.

*Green Design and Construction* brings together techniques, resources and materials to create structures or spaces that are energy efficient and environmentally conscious.

All of these will change how business is being conducted, and, if done properly, will make construction faster, more efficient, less expensive, more collaborative, safer and more sustainable.

## Looking Forward

Marsh is focusing on key issues facing our clients, helping

**“In this environment, contractors need to manage risk and safety more closely, and resist the temptation to take on projects where the risk far exceeds the reward.”**

them manage risk and take advantage of opportunities to protect their bottom line. We are always looking at ways to innovate to enable our clients to take full advantage of new trends, new products and new technology or to revive existing ones.

## Government Compliance

New crane regulations have impacted the construction business, and we have been helping clients understand the regulations and improve their safety programs.

In addition, architects, contractors, subcontractors and owners have had to become smart on green design and construction in a short period to make sure their projects achieve required Leadership in Energy and Environmental Design (LEED) Certification. Marsh has been helping clients map and understand risks and opportunities in the Green Built Environment. Marsh's Green Building Team has colleagues from our construction, environmental and real estate practices and is led by two LEEDs accredited insurance brokers. We released the first ever U.S. Green Market Report, providing a comprehensive overview of key insurance and surety markets and their products and approaches to green design and construction.

## Best Practices

Our successful clients are embracing the new technology, new delivery methods and are focusing on green and sustainable design, construction and ownership. In the economic downturn, they are focusing on market sectors that will be impacted the least, and where the most money will be spent.

# GE CAPITAL SOLUTIONS, CONSTRUCTION FINANCE

TOM MEREDITH, GENERAL MANAGER



## Critical Issues

To compound a challenging construction market, today's financing environment has become one even the most credit-worthy contractors may have never experienced. The scarcity of capital has made financing far more expensive and difficult to obtain. Simply put, there is significant volatility in the financial markets and the guidelines for extending credit is evolving.

## Current Trends

Contractors should expect increased scrutiny in the credit process, even with lenders where you have long-term relationships.

## Additional Insights

Lenders understand that limited availability of credit is just one of the factors simultaneously squeezing your business. I have some suggestions on how to manage your balance sheet, improve cash flow and increase liquidity and operating efficiency. These recommendations can help you weather the storm and position your business for expansion when the turnaround occurs, but they require a high level of discipline, a careful examination of every aspect of your business, and the willingness to adapt as the market changes.

1. Create an immediate strategy to get you through 2009. It should account for fluctuating fuel and raw material costs, margin compression and fewer bid opportunities. Be more selective and perform extensive due diligence on projects you engage in.
2. Know every detail of your current job costs, including what's in the pipeline and what's being bid on. Be sure to factor in higher financing rates.
3. Map out your cash-flow streams and when payout requirements will occur, being sure to consider both early buyout and end-of-lease options. Some lenders automatically notify you of these options, while you may have to request it of others.
4. Look for ways to raise cash currently locked up on your balance sheet. Excessive liquidity in the marketplace and favorable financing rates during the

"boom" years of 2004-2007 drove an unprecedented buildup of construction assets. As the market has declined, much of this equipment is no longer working a full shift or is sitting idle. Consider leveraging the equity in those assets through a sale-leaseback to generate additional working capital and improve balance sheet ratios. You may also be able to establish a revolving line of credit backed by your equipment.

5. One decision many contractors made during the boom times was to finance equipment for very short terms, typically twenty-four to thirty-six months, fully amortized. We also see contractors paying on as many as thirty different notes every month, which is time-consuming, costly and inefficient. Consolidate that short-term debt into fewer, longer terms. A reliable financial lender may be able to consolidate all your equipment into one note and stretch the amortization.
6. Be very selective from whom you seek capital. Look for a solid, established source with a strong balance sheet, one who has been committed to the market long term.
7. Consider leasing as an alternative to outright purchases or bank loans, for which a sizeable down payment may be required. Leases do not typically require a down payment.
8. Look for opportunities to streamline your business processes to lower costs and increase productivity. Much of the time spent completing process steps—whether on the jobsite or in the office—is waste. Removing steps that don't add value to customers and drive profitable growth for your enterprise could substantially improve your bottom line.
9. Have an ongoing dialogue with your finance partners, accountants and key advisors to get a better perspective on cost control/management opportunities. Determine the potential availability of financing in advance of liquidity needs.
10. Plan a conservative course for the near term. Today's reality is that the softness in the market may continue for an extended period of time.

# GRANT THORNTON LLP

TODD F. TAGGART, NATIONAL CONSTRUCTION PRACTICE LEADER



## Critical Issues

The lack of access to credit markets by project owners will reverberate through the commercial building sector in the upcoming months, resulting in delayed or cancelled projects. Contractors will need to address this by taking immediate steps to right-size their workforce and equipment as well as paying close attention to receivables and cash.

## Current Trends

Contractors have always been cost-conscious and will become only more so over the next few years. Advisors to the construction industry will need to be able to continually prove that they are adding value, whether it is streamlining their own business practices or coming up with money-saving ideas for their clients.

## Looking Forward

Grant Thornton is continuing to refine our market focus for construction companies to ensure that we are bringing the right team and skill sets to our clients. We foresee opportunities in 2009 due to contractors looking to move to service providers that fully understand the construction industry and provide additional value or reduced fees through more efficient processes.

## Government Compliance

We have only felt this additional compliance burden through our clients and our value-add in this area is to assist our clients by sharing industry best practices.

## Additional Insights

We look for additional consolidation in the construction industry in 2009 as marginal contractors fail, lose their bonding capacity or are forced to sell to or merge with their competitors. Ultimately, we see this resulting in a healthier bidding environment.

## Best Practices

Successful owners are aggressively managing and cutting costs. Industry leaders are way ahead of the curve in their

**“We look for additional consolidation in the construction industry in 2009 as marginal contractors fail, lose their bonding capacity or are forced to sell to or merge with their competitors. Ultimately, we see this resulting in a healthier bidding environment.”**

ability to identify potential cost overruns and commit resources to stop the bleeding. They are looking at every aspect of their overhead costs for immediate savings.

In addition, the most successful contractors do an excellent job of reporting to and managing credit sources, such as banks or bonding companies. They understand that full and open communication is completely necessary.

# WELLS FARGO CONSTRUCTION

RON RIECK, GENERAL MANAGER



## Critical Issues

The most critical concern we see contractors facing for the foreseeable future is knowing how to deal with an uncertain economy and the resulting softening of projects. Non-residential construction tends to follow residential growth by about eighteen months. We've been in the residential construction downturn for about that long and are now beginning to see non-residential projects follow suit.

Contractors must have a fleet that will fit their contracts pipeline for the next eighteen to twenty-four months. They could benefit by trading in older pieces of equipment for something newer. The resulting improvement in efficiency and lower maintenance cost is worth considering. It may also make sense to tap a line of credit based on the equity in your current equipment fleet. We call this a Contractor's Revolving Credit Line (CRC), and it can be a relatively inexpensive way to get access to a cash infusion when you need it.

## Looking Forward

We are doing what we have always done—providing consistent, reliable capital and industry expertise to the manufacturers, distributors and contractors we serve. We have maintained consistent credit processes. Long ago, we adopted principles and practices that direct the way we build relationships and that work in all business cycles. It's that consistency that allows us to be competitive today.

I don't think there is any doubt that 2009 is going to be a difficult year in many respects for the construction industry. Preliminary results from our 2009 Wells Fargo Construction Industry Forecast tell us that many more

**"Our successful customers kept their eye on the ball when things were good, and right-sized their equipment fleet and staff with a view on future projects."**

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contractors and distributors believe local construction activity will decrease than believe it will increase. But we see great opportunities as well.

## Government Compliance

We watch carefully and work to understand the implications that state and federal legislation have on the construction industry. For instance, the 2008 Economic Stimulus Act that gives a depreciation bonus for capital equipment acquired and put into service before the end of the year has been a boon to contractors, and we do our best to offer products that will help enable our customers to obtain the benefits that the government has made available. We hope to see those benefits extended through 2009.

## Best Practices

Our successful customers kept their eye on the ball when things were good, and right-sized their equipment fleet and staff with a view on future projects. They are financing long-term capital equipment with long-term financing solutions and short-term equipment with short-term financing solutions. They are paying down debt, understand the benefits of leasing and take advantage of that option when appropriate. They are also taking advantage of the 2008 Stimulus Act provisions.

# NATIONAL ASSOCIATION OF SURETY BOND PRODUCERS

WILLIAM MARONEY, PRESIDENT

## Critical Issues

The construction industry will experience the harsh effects of this economic turbulence within the next eighteen to twenty-four months. Historically, construction lags behind downturns in the financial marketplace. The current backlog of work to be completed will deter any immediate direct financial stress.

In the coming eighteen to twenty-four months, the construction industry will be subject to fierce competition in the procurement of work. Lack of work in the private sector will compel new entrants into the public works marketplace. More contractors pursuing fewer projects will place undue pressure on margins. Caution needs to be taken when entering the public works marketplace, though. It has its own unique characteristics.

Along with the pressure of increased competition, the costs of basic construction materials such as asphalt, steel and concrete will continue to strain the contracting environment. The need to be sensitive to the volatility of the marketplace will require more attention and strategic planning.

Care needs to be taken to confirm that project financing is in place and guaranteed in both the private and public sector construction markets.

The current banking crisis causes no small amount of concern. At a time when the need for possible cash flow financing is needed, the big concern is whether the banking community will continue to support construction. Contractors need to be certain their bank sufficiently supports their financial needs over the next three years or longer. Contractors who have banking relationships built over time tend to be able to weather difficult financial times.

## Current Trends

There are some new and innovative trends that will affect construction in the near- and long-term. Business Information Modeling (BIM) will continue to help streamline and improve the construction planning process. It behooves all parties to review, understand and embrace this form of modern communication.

Strong efforts are being made to improve and simplify the construction documents and processes. Further improvement in the wording and streamlining of construction contracts and bond forms such as ConsensusDOCS

([www.consensusdocs.org](http://www.consensusdocs.org)) will continue to improve efficiencies and profits.

The bundling of public projects is a disturbing trend. Super-sized public projects demand consortiums of contractors to bid on them, resulting in fewer bidders and less competition. Prosecuting work in the public sector in a balanced and equitable manner will result in better projects completed by numerous construction entities.

## Looking Forward

We continue to counsel our customers on the prattles and pitfalls facing them in this difficult financial environment.

All indicators point to there being sufficient work in the pipeline in 2009.

## Government Compliance

The federal government can adversely affect construction if budgets continue to be reduced and the work available continues to decline. If an economic stimulus is needed anywhere, it is in the construction marketplace.

## Additional Insights

In the current economic environment, the surety product is more valuable than ever. Contractors who already have a surety relationship need to take full advantage of these advisers. For those who do not yet have a working surety relationship, now is the time to get started. Work with a professional surety bond producer who is willing and able to handle your needs. A list of professional surety bond agencies is available from the National Association of Surety Bond Producers ([www.nasbp.org](http://www.nasbp.org)).

## Best Practices

The more sophisticated contractors are planning far ahead, keeping tight control on projects from job estimation to final completion and acceptance. Smart contractors are sticking to their basic disciplines and not pushing the envelope with their operations. They are also keeping a close control on costs. Savvy contractors are reviewing their levels of general and administrative expenses on an ongoing basis, as these can be areas where net worth and liquidity can be decimated.

# THE SURETY & FIDELITY ASSOCIATION OF AMERICA

RICK KINNAIRD, CHAIR OF THE BOARD OF DIRECTORS

## Critical Issues

There are two critical issues at the top of my list. First, and foremost, is the current financial crisis and how it will affect our contractor customers. We have weathered downturns in the construction industry in the form of reduced work available in the past, but in my thirty-one year surety career, I have never witnessed a distressed economy driven by the market's unwillingness to lend. It's unlike the more common problem of the past when high interest rates stymied growth.

Credit availability affects every aspect of the construction industry—from project financing for the owner to project cash flow for the contractor. Contractors who have credit must question their financial institution's commitment to construction lending. Will working lines of credit be renewed? If so, at what terms? Will outstanding loans be called in, or not renewed, by banks pulling back?

It is important for contractors to establish a knowledgeable working relationship with their financial institution. Contractors need to analyze their banks similar to the way their banks analyze them. The importance for the surety company to understand the contractor's banking relationship also has risen to a new level. Owners and contractors should expect more underwriting questions in this area.

The other critical issue is the reduction in available work. Projects are being delayed or pulled off the table. Contractors are bidding more aggressively for 2009 work. Bids are "skinnied" to the point there is no room for error once a project has commenced. A standard line from sureties is "bid the work, not the competition." This is easier said than done during these trying economic times. Contractors need to choose their battles and take care of customers with whom they have built strong relationships. These are the project owners that will get them through these difficult economic times.

## Current Trends

Building Information Modeling (BIM) and green construction are two trends that are evolving within the industry that may not change the nature in which we work, but will demand new and improved skill sets by the contractor and the surety. Contractors will need to keep systems up to speed and be educated and certified to remain competitive,

while sureties will need to understand potential new guarantees and contract documents to avoid unintended guarantees.

An important role of the underwriter and producer is to advise the contractor regarding requirements in contracts that go beyond his or her scope of work. Often these requirements belong in contracts of other construction parties such as architects and engineers.

## Looking Forward

We stay competitive in the market by being physically engaged with our business partners (insurance agents/producers) and our customers (contractors). We work hard to develop a local presence and working knowledge in all of our operating territories. It starts with the people we select to represent and underwrite our product.

## Government Compliance

As an industry, we are constantly monitoring federal and state legislation. Adverse legislation can jeopardize the overall construction environment and the well-being of our contractor clients. When contractors are adversely affected, so are their sureties, project owners and ultimately the taxpayer.

## Additional Insights

Communication between contractors and project owners is critical from the planning stage on.

## Best Practices

Successful contractors are managing their overhead, sharpening their pencils on projects where they have a distinct advantage (bidding the projects, not the competition), focusing on improving construction efficiencies, avoiding unnecessary debt (not buying/leasing equipment unless there is a specific need with a reasonable payback period and forgoing any building/facility debt they can live without), not working for the bank (bank lines are paid down annually and are used for short-term project cash flow as needed), continuing good safety programs and owner/contractor communication practices and maintaining reasonably liquid financial positions by leaving profits in their companies (building their company balance sheet).