

Strategy, Execution, and Planning for 2009



Construction Executive Leadership Seminar

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Agenda

1. Historical Analysis & Forecasts (Ed Callahan)

- How did we get here?
- When will we hit bottom?

2. Reengineering the Sales Cycle (Justin Amico)

- Commitment to business development
 - Time
 - Dollars
- Pricing Changes/Risk Premium
- Opportunities

3. Facing Reality (Ed Callahan)

- Tough Decisions
- Back to the Future/Key Metrics
- Expect more for less
- What have you done for me lately?
- Risk Management

4. Winning in Challenging Times (Justin Amico)



1. Historical Analysis & Forecasts

“In the business world, the rearview mirror is always clearer than the windshield.”

Warren Buffet





How Did We Get Here?

How Did We Get Here?

- Lack of Regulation (and Common Sense) in Home Mortgage Market
- Creation of mortgage instruments that required no income and limited employment verification under the banner of “nondiscriminatory lending practices”
- Fannie Mae and Freddie Mac –Quasi governmental enterprises guaranteed \$1 trillion of sub-prime mortgages and kept \$100 billion on their balance sheets
- Rating agencies backed these securities with AAA ratings and Wall Street sold them



How Did We Get Here?

- **Over Leveraged Consumers**

- Approximately 70% of the GDP growth that has occurred has been the result of increased consumer spending
- The primary source of that spending has been Home Equity loans and consumer credit card debt
- Commercial bank, outstanding credit card balances soared by \$7.1 billion in the week ending October 15th



Parallels to Prior Recessions Should We Have Seen it Coming?

- Errors in Monetary and fiscal policy
- Oil shocks
- Financial crisis

Parallels - Economy

Metric	1/1/90	12/31/02	12/31/07	3/1/09
Rate of Inflation	5.4%	1.2%	4.08%	3%
Prime Interest Rate	10.11%	4.75%	5.25%	3.25%
Stock Market				
DJIA	2,633.66	10,453.92	13,264.82	6,290.68
S&P 500	367.07	855.70	1,468.36	719.82
NASDAQ	373.80	1,335.51	2,652.28	1,368.47
Office Vacancy Rate - Boston	17+%	16%	7.4%	11.4%
Unemployment Rate – MA	9.5%	6.1%	5.1%	7.4%
Bust Event 3 Years Prior/Bubble Burst	Tax Reform Act of 1986/Elimination of Tax Shelter	April 2000 Technology Crash	?	Sub Prime Crisis
Financial Crisis	S&L	Dot-com	?	Sub Prime Crisis AIG, Bear Stearns, Lehmann, etc.

Source: *Boston.com



Recession Comparisons

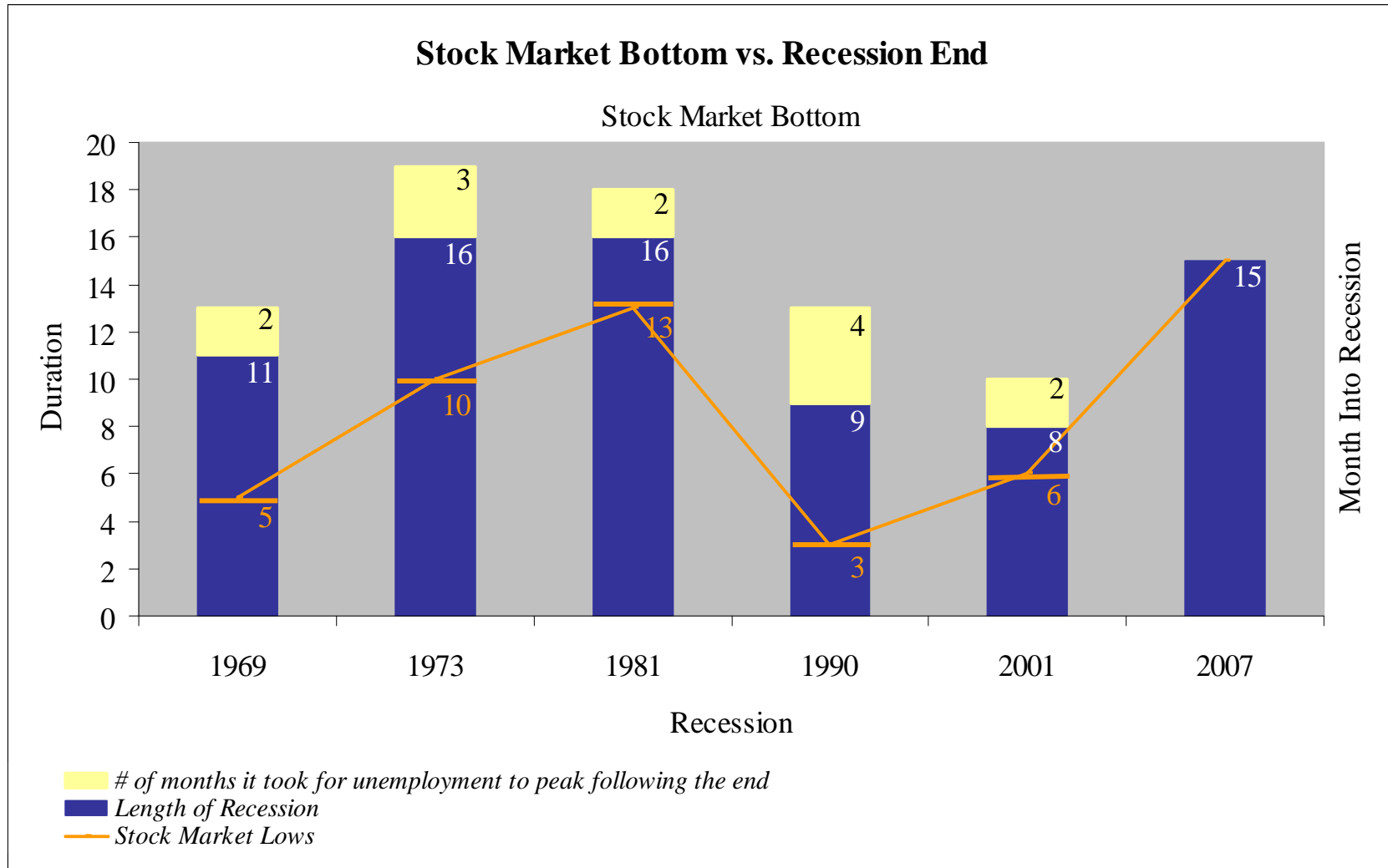
Year	Recession	Start-End	Duration in Months	Contraction of GDP	Maximum Unemployment Rate	Anti-Recession Legislation Enacted	Stock Market Low	Oil Shock
1929	Great Depression (1929 to late 1930s)	Aug 29-Mar 33	43	27.0%	25.0%			
1937	Recession of 1937		13					
1945	Recession of (1945)		8					
1948	Recession of (1948 - 1949)	Nov 48-Oct 49	11	1.7%	7.9%	October-49	Jun 49	
1953	Post-Korean War Recession (1953 - 1954)		10	2.7%	6.1%		Sep 53	
1957	Recession of (1957 - 1958)	Aug 57-Apr 58	8	3.7%	7.5%	April 58, Jul 58	Oct 57	
1960	Recession of (1960 - 1961)	Apr 60 - Feb 61	10	1.6%	7.1%	May 61, Sep 62	Oct 60	
1969	Recession of (1969 - 1970)	Dec 69-Nov 70	11	0.60%	6.1%	August-71	May 70	Mar69-\$3 Nov70-\$4
1973	1973 oil crisis (1973 - 1975)	Nov 73-Mar 75	16	3.0%	9.0%	Mar 75, Jul 76, May 77	Oct 74	Sept 73-\$5 Feb75-\$12
1981	Recession of (1981 - 1982)	Jul 81-Nov 82	16	2.9%	10.8%	Jan 83, Mar 83	Aug 82	Jan78-\$14 Nov81-\$35
1990	Recession of (1990 - 1991)	July 90-Mar 91	9	1.5%	9.5%		Oct 90	Jan89-\$17 Oct90-\$35
2001	Recession of 2001	Mar 01-Nov 01	8	0.62%	6.4%	n/a	Sep 01	Jan99-\$24 Nov00-\$32
2007	Current	Dec 07 to date	15+	6.2%	7.6%	February-09		Jan07 -\$51 Nov07-\$99



**Are we at the bottom
yet?**



Stock Market Bottoms, Unemployment, Recession Lengths



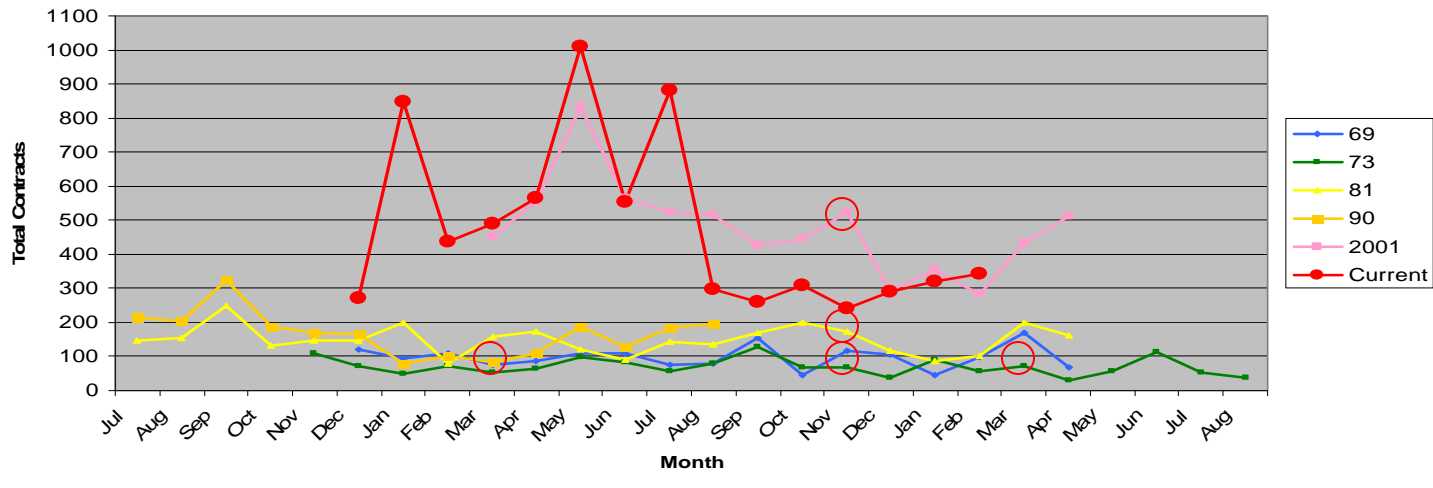
After the Recession
Ends when will
Construction Demand
Begin to Turn?



Non-Residential Construction Contract Awards - MA

<i>Recession</i>	<i>The time between the end of the recession and when contracts picked back up.</i>
Dec 69 – Nov 70	3 Months after the end
Nov 73 – Mar 75	2 Months after the end
Jul 81 – Nov 82	3 Months after the end
Jul 90 – Mar 91	1 Month after the end
Mar 01 – Nov 01	2-4 Months after the end
Dec 07 – Current	TBD

Non-Residential Construction Contracts in MA Throughout Historical Recessions (+ 5 Months After)



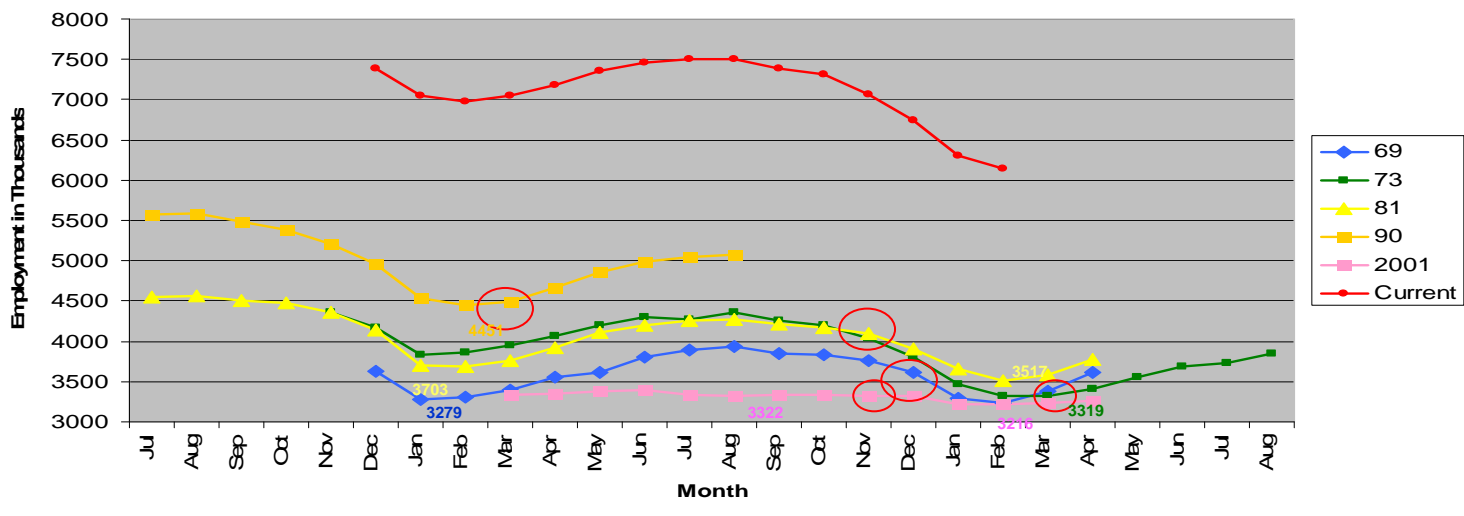
○ = End of Recession
Please find a larger view of this graph in the back of your booklet.

Source: Federal Reserve Bank of Boston

US Construction Employment

<i>Recession</i>	<i>The time between the end of the recession and construction employment rose.</i>
Dec 69 – Nov 70	3 Months after the end
Nov 73 – Mar 75	1 month prior to the end
Jul 81 – Nov 82	4 Months after the end
Jul 90 – Mar 91	1 Month prior to the end
Mar 01 – Nov 01	N/A
Dec 07 – Current	TBD

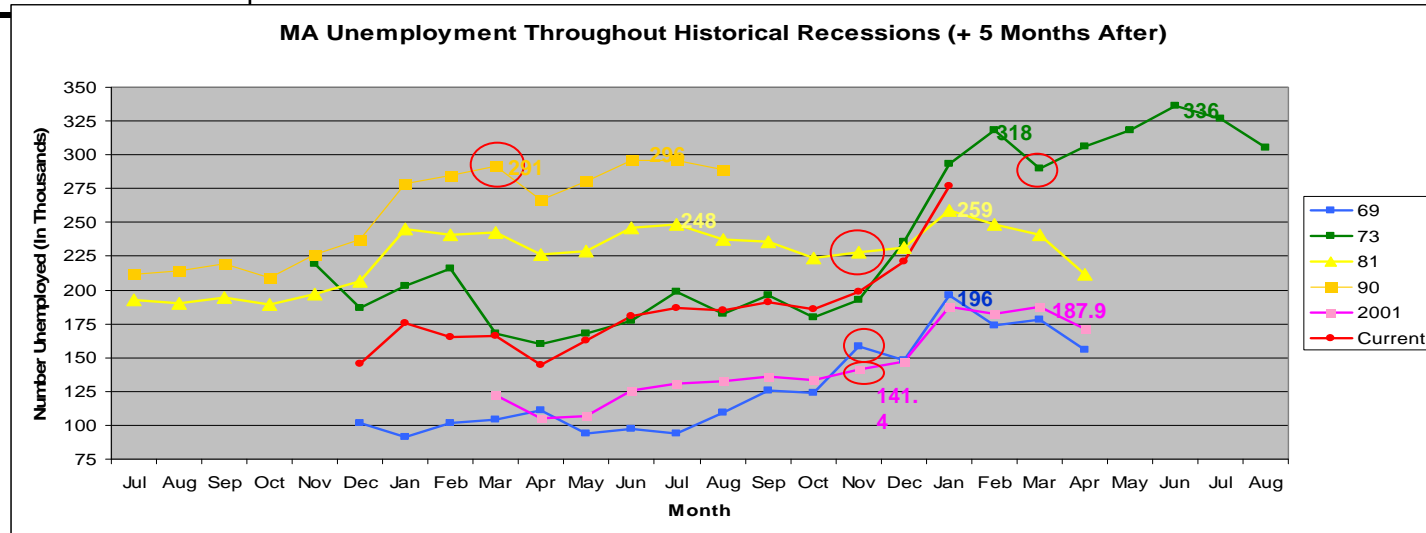
US Construction Employment per Recession (+ 5 Months After)



Source: Federal Reserve Bank of Boston

MA Unemployment

Recession	The duration between end of recession and unemployment max
Dec 69 – Nov 70	2 Months after the end
Nov 73 – Mar 75	3 Months after the end
Jul 81 – Nov 82	2 Months after the end
Jul 90 – Mar 91	4 Months
Mar 01 – Nov 01	2 Months after the end
Dec 07 – Current	TBD



○ = End of Recession

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When will it End?

Recessions	Dec. 1969 – Nov. 1970	Nov. 1973 – March 1975	July 1981 – Nov. 1982	July 1990 – March 1991	March 2001 – Nov. 2001	Dec. 2007- Present Day
Total Duration	11 Months	16 Months	16 Months	9 Months	8 Months	15 Months +
S&P 500 low	May 26, 1970 (5 Months in)	Oct. 3, 1974 (10 Months in)	August 12, 1982 (13 Months in)	Oct. 11, 1990 (3 Months in)	Sep. 21, 2001 (6 Months in)	March 2009 (15 Months in)
MA Unemployment Rate Max	January 1971 6.1%	May 1975 9.0%	January 1983 10.8%	June 1991 9.5%	January 2002 6.4%	? 7.4%
Vacancy Highs				19.4%	8.5%	11.1%
Hotel Occupancy				74%	69%	67%

Have We Hit Bottom?

- Three markets to watch “the pessimist view”
 - Housing
 - “Experts” think that the national median prices could fall 18-29% more by the end of 2010
 - Nonresidential construction typically lags residential by 12-18 months
 - Jobs
 - “Experts” think the economy will shed 2.4 million more jobs this year, unemployment of 9%
 - Stocks
 - “Experts” think the bottom of the stock market might not come until the 2nd or 3rd Quarter of this year.



Historical/Forecast Conclusions

1. Why didn't we see it coming?
2. ALL RECESSIONS DO END.
3. When will the stock market bottom out?
4. When will the recession end?
5. When will construction demand turn around?

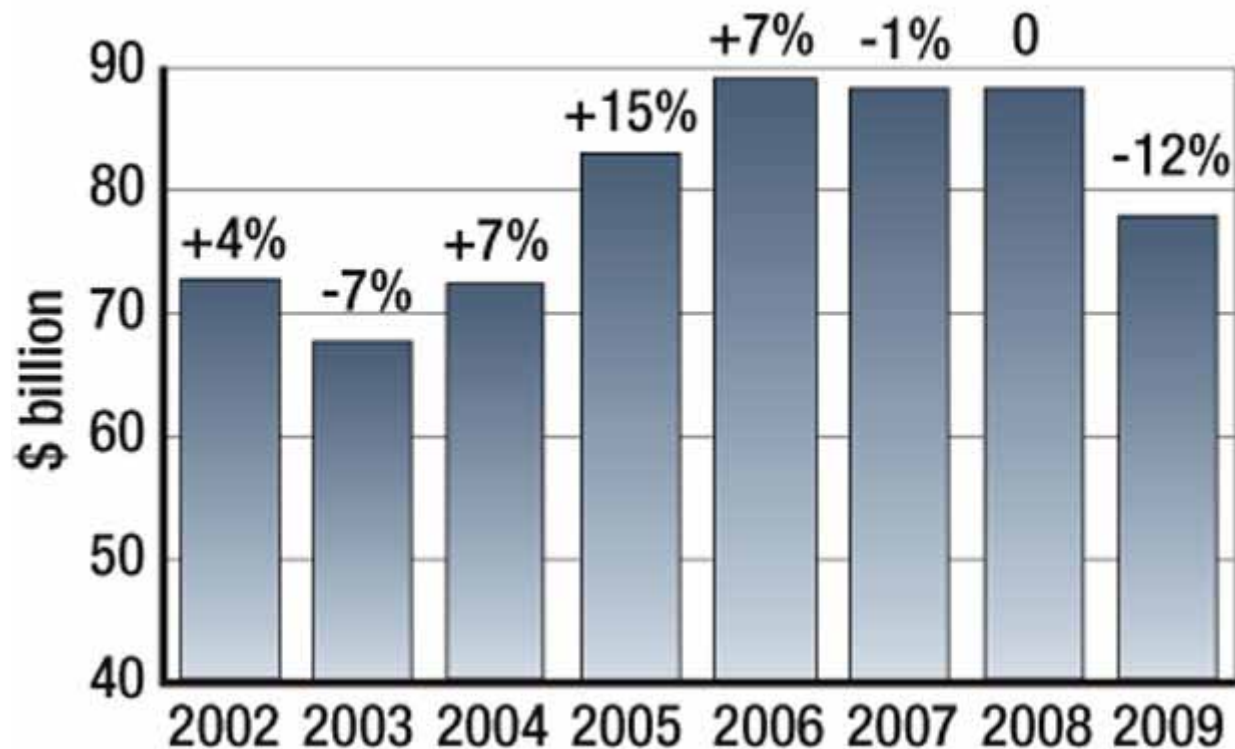


2. Reengineering the Sales Cycle

- Commitment to Business Development
- Pricing/Risk Premium
- Opportunities

ENR Construction Historical

Northeast



Source: ENR December 2008

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Commitment to Business Development

- Time Commitment
- Who should participate?
- Dollars – Good \$/Bad \$
- Measurement/Focus/Team Effort
- Commodity



Customer/Market Focus

- Identify which customers/markets will still be strong and buy in a downturn
- Which have strong cash positions and good access to credit
- Identify which customers should be your best customers (even if they never bought your services before)
- Opportunities will arise to steal market share from a distracted competitor
- Need to know who your best customers are now and will be in the future



Pricing / Risk Premium

- KNOW YOUR COSTS!!!!!!/Sharpen the Pencil!
 - Burden Rate
 - Overhead Costs
- Know when to Cut your price to get the job
 - Niche/good customer/secure financing ONLY
 - Outside our niche with a bad customer or insecure financing, RUN
- Risk Premium-Different Customers and Different Circumstances deserve a RISK Premium.
- Can't jeopardize your capital in this economy to get work because it will erode the equity/cash life line

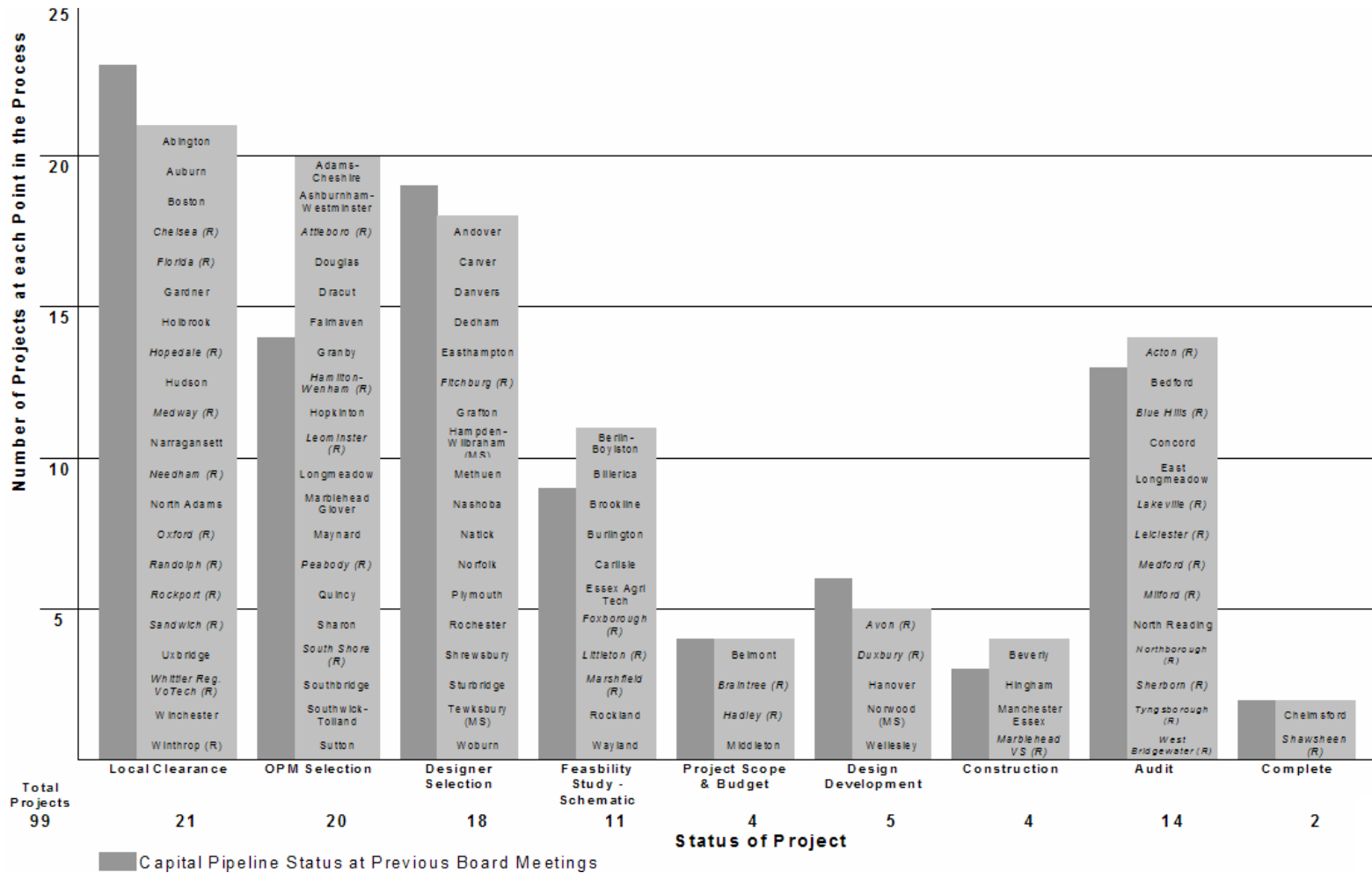


Opportunities

- Public vs. Private
 - Prevailing rate, Bid Process, Payment Process, Paperwork, Prequalification-----Be Prepared
- Size jobs and Markets (Patch and Paint)
- Geographical diversification



Capital Pipeline Status



Source: Mass School Building Authority

Finding Opportunities

- **Massport**
 - www.massport.com/business/capit.html
 - Lists contract opportunities
 - Advertised Construction Projects – 8
 - Approximately 95 projects anticipated through 2012
- **Massachusetts State College Building Authority**
 - www.mscba.org
 - Link out to solicitations/bid page
 - Recent listings, bid documents and forms
- **Massachusetts Highway Department**
 - <http://www.mhd.state.ma.us/>
 - Link out to project info, projects under design and construction



Finding Opportunities

- **MSBA**
 - Sales Tax Financed-Concerns with downward consumption
 - Massachusetts School Building Authority (public schools)
 - www.massschoolbuildings.org
 - Stimulus Fund – Shovel Ready
 - 4 new construction - \$300M
 - Various repair projects - \$300M
 - Essex Agricultural High School - \$125M
 - Putnam Vocational High School - \$125M
- **University of Massachusetts Building Authority**
 - www.massachusetts.edu/buildingauthority/bahome.html
 - Projects posted with RFPs on the web site by campus
 - Currently 15 projects posted system wide
 - Stimulus Funds – Shovel Ready
 - 68 Projects
 - \$300M
- **Bids Online:**
 - www.fwdodge.com
 - www.reedconstructiondata.com



National Stimulus Dollars

Type	2009	2010	2011	2012	2013
Buildings	3,787	6,077	4,450	1,750	1,000
Residential	985	2,341	1,500	-	-
Water/Environmental	2,690	5,861	4,693	3,445	2,715
Hwy/Transportation	16,192	26,550	4,950	100	-
Power	620	1,110	1,000	1,000	1,000
Total	24,274	41,939	16,593	6,295	4,715

(in millions)

Federal Stimulus Dollars - MA

- Preliminary List of 180-Day Starts for Federal Stimulus Funding:

– Energy	\$548,254,339
– Economic Development	\$390,000,000
– Transportation	\$782,637,512
– Information Technology	\$425,228,562
– State Facilities:	\$618,724,076
– Schools:	\$1,275,248,000
– Municipal and Other	\$702,136,150
– TOTAL	\$4,742,228,639



Breakout Session

- At what point did you recognize your business needed to address the changes in the economy?
- How was the planning process for 2009 different than previous years and what changes have been implemented as a result?
- How have outside influences affected your company post September 2008
 - Bank, bond, stock market etc?



3. Facing Reality

- Tough Decisions
- Back to the Future/Key Metrics
- Expect more for less
- What have you done for me lately?
- Risk Management



Reality

- Current Market Situation
 - Dwindling availability of projects
 - Steep competition among bidders
 - Significant delays in mobilization
 - Lack of financing

Reality

Lack of Available Credit

- Banks pulling credit lines
 - Community Banks and Credit Unions still lending as they were less affected by the subprime mess
- Reduce existing company debt
- Prioritize cash generation
- Loan covenants



Tough Decisions

- Remember your Strategy before cutting costs - all decisions must be fact-based
 - Personnel
 - Market/Customer focus
 - Efficiency initiatives
 - Strategic relationships/dependencies
- The more quickly you can identify cost saving opportunities, the faster it can drop to the bottom line.

Tough Decisions

Personnel

- Establish organizational staffing plan
 - Immediate needs
 - 1 year plan
 - 5 year plan
- Determine mission critical positions
- Assess current staff qualifications/ performance levels
 - Develop/revise job descriptions
 - Feedback from trusted advisors
- Review field to office ratio's

Back to the Future

Contractor			
	2002	2008	shrinking 40%
	2002	2008	2009
	\$25,000,000	\$50,000,000	\$ 30,000,000
Locations	1	3	3
Project Managers	13	14	12
Estimators	4	12	6
Finance	4	6	4
Administrative Staff	8	13	8
IT Staff	0	1	1
Human Resources	0	1	1
General Superintendent	1	1	1
Purchasing	4	5	4
Total	35	56	37
Total Estimates	734	673	700
Total Dollars Estimated	\$250,000,000	\$650,000,000	\$300,000,000
\$ per Estimates	\$340,599	\$965,825	\$428,571



Key Metrics

- Number of office staff to field staff
- Number of Contracts compared to years past/
Average contract size
- Rate of backlog fill
- Availability of Larger Jobs/Average project size
- Rate of payment/collection
- Backlog at A&E firms
- Site contractor backlogs
- GP\$ per staff level/function vs. prior years



Expect More for Less

- Take a fresh look at:
 - What products and services you buy
 - Who you buy them from
 - How and when you last competitively bid out for these products and services
 - Your staff expertise in particular cost categories and time to focus on this
 - Don't let contracts automatically renew without a full review
 - Don't accept price increases without an explanation
 - Ask yourself, are there alternatives to what we are doing today?



Expect More for Less

Health Insurance

- Average 25% of total compensation costs
- Cost Reduction Strategies
 - Redesign current plans
 - Increase deductibles and doctor visit co-payments
 - Increase prescription drug co-payments
 - Consider premium cost sharing with employees
 - Reduce benefits offered
 - Change benefit vendors



Expect More for Less

Retirement Plans

- Analyze current costs
- Review different plan options
- Discuss possible changes with your investment advisor or third party administrator
- Develop communication plan to employees



What Have You Done for Me Lately?

- Your “A” customers are being courted by your competitors more in 2009 than ever before.

What are YOU doing as a result?

Risk Management

- Know and understand your contract before signing
- Develop a contingency plan that helps you clearly understand what happens when financial problems arise:
 - If the project funded through bonds, are there conditions or restrictions?
 - What does the project financing require of the owner?
 - What required funds are or should be in escrow?
 - How will funds be distributed and under what conditions?
 - Address insurance and understand the mechanics lien filing process.
- Research owners, contractors, and funding sources of a project



4. Winning in Challenging Times

- Strategy
- Leadership Behaviors

Strategy – Companies More Affected by Downturn

Strategic Position

Strong

Refill the tank

Extend the lead

Weak

Mayday

Pass with caution

Weak

Strong

Financial Position



Strategy – Companies Less Affected by Downturn

Strategic
Position

Strong

Lighten the load

Full speed ahead

Weak

Refocus and
retool

Overtake the
timid

Weak

Strong

Financial Position



Strategy – Knowing which Lever to Pull

Strategic and Financial Position Dictates which
of the following levers to pull

- Reduce Costs and Investment
 - Drive Performance and Reduce Costs
 - Tightly Manage Cash Flow and liquidity
- Increase Revenues and GP
 - Turbo Charge Sales
 - Price for Margin/ Share Gains



Strategy-Knowing which Lever to Pull

- Shift Resources to business activities
 - Clarify Strategy-choose where and how
 - Improve loyalty of core customers
 - Strengthen the Organization
 - Divest non-core assets
- Prepare for bold moves
 - Pursue game-changing M&A and partnerships



Strategy

- Identify markets you operate in
 - Assess what is happening in those markets
 - Define strategic position in each one
 - Identify changing needs of customers
 - Identify vulnerable competitors

Strategy

- Identify where you are generating your best results by:
 - Profitability
 - Growth
 - Service line
 - Market
 - Customer

Strategy

- Are you a “Number”?
 - What unique advantages do you offer?
 - Engineering skills
 - Relationships with customers
 - Industry leader
 - Deliver specific benefits to customers
 - Can you move fast when opportunities arise
 - Repeat customers



Strategy

- Internal Focus
 - Strengthen Internal processes, Controls/prevent fraud
 - Upgrade Personnel
 - Get all non-performers or bad attitudes off the bus regardless of their experience or years employed by you
 - Versatility

Leadership Behavior

- Positive Thinking
 - Avoid Downward Spiral Thinking
 - Limited thinking which prevents you from dealing with Challenging times
 - “It is what it is” vs. “It is what we make it”
 - Glass is “Half a glass of Water”
 - Energy Drainers



Leadership Behavior

- Take Care of Yourself
 - Get Rest
 - Eat Well
 - Stay Active
- If you are sick or stressed out, you can't help anyone through routine matters, much less navigate through this challenging economy
- Need to be in shape, physically, mentally and emotionally

