

## Predictions for 2011

The worldwide financial crisis has had a major impact on the construction and real estate industries. However, the crisis didn't create the problems facing the construction industry; it merely shined a bright spotlight on them. The structural problems facing the construction industry were present long before the crisis swept around the world. Instead of complaining about the crisis, I believe it may actually be good for the construction industry in the long term. Yes, you heard me correctly. Professor John Kotter wrote that "a sense of urgency" is required to obtain significant and sustainable change. The financial crisis has definitely created a sense of urgency. The industry has reached a tipping point where significant change is possible.

The question is this: What will that change be?

Of course there are those that think now is the time to pile on and take advantage of the industry. They believe they can demand lower prices because there are many desperate contractors and designers. This isn't change. This is more of the same old nonsense with one party attempting to win at the expense of another. Unfortunately it doesn't work. There is no such thing as win-lose because it will morph into lose-lose before it's over.

Jim Collins reported in *Good to Great* that companies that are realistic about their environment are more successful. In reality today the construction industry needs to reduce overall project costs by 20 to 30 percent. However, I'm not suggesting merely that contractors and designers slash their prices. The entire system must be revamped to minimize the waste. Most of the waste is between the various entities, not within the individual entities. Before you begin to argue that this isn't possible, consider the following. Toll Brothers reduced the cost of one of their houses from \$170 a square foot to \$100 a square foot—a 41 percent reduction. Private-public-partnerships cost between 18 and 30 percent less than convention public bid projects. When people start to think differently it's possible to reduce costs without beating up the participants.

The pressure on price is real. Contractors that want to compete must lower their costs. Since the Lean Construction Institute was founded in 1997, contractors have been slow to embrace the process. The typical reason is people resist change. However, in a recent interview with Greg Howell, LCI's cofounder, he reported current interest in "lean construction practices" is exploding. The reason is simple: lean construction practices reduce costs. One contractor that embraced lean told me they can get virtually any job they want because their costs have come down that much.

Reducing lean construction to a single idea is an oversimplification, but improved planning or in most cases preplanning has a significant positive impact on the project. Another contractor told me that because he increased preplanning, his company's profits are up despite their volume being down.

Therefore, my first prediction for 2011 is that high-performing contractors will increasingly embrace lean construction techniques in the year ahead, which will force other contractors to follow suit. But the problem is not just with the contractors; it's with the system. By definition, preplanning means "before you start." When an industry has a practice of designing the project before going to the contractor, the contractor's preplanning is limited to construction preplanning.

This is a mistake because the opportunity for the greatest improvement to a project's performance, including better schedules, better designs and lower costs, comes from preplanning before even beginning the design process. To maximize the benefits of preplanning, all the key disciplines should participate.

While technology never solves a problem, it certainly can help implement a solution. Technology, such as BIM, can help improve coordination. Project management software can improve communication and collaboration. In essence, technology is critical to lowering the cost of the construction process; therefore, in 2011 I predict that we will continue to see greater investment in and use of technology in the construction industry.

Local communities, state governments and even the federal government are being forced to do more and more with less and less. That's not possible unless the waste in the system is reduced. The ASCE places the backlog of infrastructure work at more than \$2.2 trillion. However, if we could reduce that by 30 percent, or \$660 billion, it would be a huge leap in the right direction. As the various government agencies are forced to build projects with limited funds, they will need to find a better strategy than the design-bid-build approach.

Therefore, I predict that in 2011 we are going to see more infrastructure projects use some form of integrated project delivery to improve the process through better project planning, technology, collaboration and innovation. In 2011 this approach will be embraced by the forward-thinking leaders, and as their projects demonstrate the benefits of this approach, more and more agencies will join in. In addition, I predict in 2011 we are going to see an increased use of private-public-partnerships, especially on critical projects where government funding is lacking. Of course, this concept has some challenges, but the huge demands will create the urgency for community leaders to battle through the challenges and find workable solutions.

In the private sector, as companies begin to realize that through collaboration they can obtain better value, prices and quality, companies will increasingly move toward integrated project delivery methods. Many companies currently are embracing this approach, but I predict in 2011 that the trend toward integrated project delivery will expand.

The housing industry is going to experience a large change. If homebuilders are going to start building new homes at anywhere near historical levels, they will need to reduce the cost of homes. Of course, the housing industry is local and some locations are better than others, but my comments are directed to national averages. Therefore, I

predict that in 2011 the average size of new U.S. homes will shrink because making houses bigger every year is just unsustainable and the bubble has burst.

However, the biggest change will occur to those that survive in the industry because to survive they must lower the cost of the housing. There was a reason Toll Brothers reduced the cost of their houses; they would not have been able to sell them otherwise. In 1996 "Fast Company" wrote an interesting article about Doyle Wilson Homebuilding and his effort to bring lean construction to the housing industry. A few years ago, I chased down Wilson and asked how things were coming 10 years later. He told me he got out of the housing business because homebuilders refused to make the efforts to be more efficient. The reality is that unless homebuilders do a better job of planning and focusing on limiting the waste in their processes, they will not survive. Therefore, I predict in 2011 we will see homebuilders finally begin to embrace better planning and lean concepts.

### **Global Perspective**

Thomas Friedman's book *The World Is Flat* is a euphemism for our shrinking world. The economic crisis demonstrated just how small the world really is as the crisis affected virtually every part of the globe. While my above predictions were focused on the U.S. market, the same principles are affecting the worldwide construction and real estate industries. If markets are perceived as unfair to contractors because competition is pushing profit margins too low, contractors will move to markets that are more favorable. If a contractor perceives that by using lean or more sophisticated technology they will have a competitive advantage in a marketplace, they will move into it. All over the world, the report is that more and more nondomestic contractors are moving into the marketplace.

The actual implementation of principles will vary all over the world, as it often does within large countries. This is even true among companies in the same market. This occurs for many reasons.

However, the principles of leadership, strategic thinking, collaboration, innovation, efficiency and lean are fundamental foundations to the construction industry's success. As the world continues to shrink, my global prediction for 2011 is that these fundamental principles will be applied more evenly around the world as successful contractors take good ideas from one market to another and visionary owners replicate successful techniques from other markets.

In the end it makes sense because if we all work together, we can create a win-win situation for all stakeholders.

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