

## TECHNOLOGY — A KEY FACTOR DRIVING SUCCESS IN THE CONSTRUCTION INDUSTRY

In addition to delivering legal advice, our lawyers are routinely asked by clients to provide insight relating to business/legal decisions. In the context of solving a legal issue, it is often necessary to understand the business challenges faced by the client. In this regard, we always make a concerted effort to understand the full scope of complexities, legal and otherwise, to help clients make informed decisions. This brief

overview outlines numerous challenges in the construction industry relating to profitability, productivity and overall performance, all of which are essential to sustainability, regardless of economic conditions.

When barriers to entry are low, the number of players and level of competition is usually very high — the construction industry is no exception. If productivity is not at a high level, the owners are constrained in reinvesting profit in technology, which is becoming essential to sustainability. We often hear from our clients that their biggest challenge is maintaining a high profit margin on projects due to flawed bidding, delays and poor performance in the field or a combination of any of the three.

In a study by the Construction Owners Association of America (COAA), more than 50% of direct labor time and costs on large projects relates to delays in the delivery of materials, equipment or travel to the project, along with poor planning. All of these factors

impact productivity, which results in lower profit margins. As profit margins decrease, the ability to invest in technology is diminished. Over time, this condition impacts sustainability.

Given the increases in the complexity of construction projects, it is critical that the methodology to creating a bid provides the company with credible data and realistic timelines to complete the job. Backlog is critical to sustainability; however, if the company does not maintain a reasonable profit margin, it is simply buying the project and if the economy experiences a downturn, it could spell doom for the company. The more complex the design, the greater the efficiency is required to maintain margins. In a report by Accenture, it was stated that approximately 70% of complex projects are “on-time and on-budget.” According to a KPMG industry study, almost 50% of all construction companies experience one or more underperforming projects annually.



*industry spotlight*

Finding skilled workers is another significant challenge for our clients in the construction industry. The number of qualified project managers, supervisors, engineers and estimators has decreased as the amount of business opportunities has increased. In addition, the labor force that does exist has varying degrees of work ethic, attitude and overall expectations. A significant portion of the skilled workforce withdrew from the marketplace after 2008, resulting in a decrease in laborers without experience. During the next two decades, many construction companies will be required to reinvest in training replacements, which will result in inefficiencies, performance and quality issues along with delays, all of which impacts profitability.

The key to reinvention for construction companies continues to be a greater reliance on digital technologies, which provide the opportunity to address poor profitability/productivity, project performance, skilled labor shortages and sustainability. The use of technology is a critical component of "best practices." It will improve overall outcomes on a project-by-project basis. The ability to bid a job in real time, as well as manage it to completion without delays, will increasingly depend upon technology driving the process, resulting in higher levels of productivity and profitability.

Helping our clients overcome challenges, whether those challenges are legal matters, business strategy issues or a combination of both, is our priority. This all-encompassing approach to problem-solving offers the broadest range of information and options to assist our clients in the construction industry to make informed decisions. For more information about the construction industry and related business and legal issues, please contact PLDO Managing Principal Gary R. Pannone at 401-855-2601 or email [gpannone@pldolaw.com](mailto:gpannone@pldolaw.com).



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