Strategic Planning for Construction: 10 Useful Tips

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Strategy • Alignment • Scalability

By Marc Emmer
President Optimize Inc.

Author, Consultant and Vistage Speaker

Marc Emmer – President
marc@optimizeinc.net
(661) 313-8047

Introduction

Construction companies face unique challenges in strategic planning due to the industry's complexity and dependence on external variables such as economic cycles, regional markets, raw materials, labor availability, capital requirements, and risk management. These challenges are further compounded by the highly competitive request for proposal (RFP) environment. This white paper provides practical solutions to these problems.

Key Trends in Construction

Tips 1-4: Be aware of trends within construction:

1 Modular and Prefab Construction

Construction and prefabrication are set to grow significantly in 2025. These methods involve assembling building components offsite in controlled environments and transporting them to the construction site for final assembly. Prefabrication reduces construction time, minimizes waste, and can lead to cost savings.

2 Construction Technology and Automation

There is expanded adoption of building information modeling (BIM), drones, AI and robotics. BIM improves project visualization, collaboration, and resource management across stakeholders. Drones are being used for site inspections, surveying, and monitoring construction progress, providing real-time data and enhancing safety. Robotics, particularly in bricklaying, demolition, and 3D printing, will become more commonplace, reducing the reliance on manual labor and improving efficiency.

3 Cooperation

Home builders are completing joint projects with competitors in communities in such a way to offer more choice, and economies of scale. Cooperating with competitors can reduce risk, as each builder focuses a on specialization. For example, one may build 55-and-over communities, while bringing in a partner to build community centers, common areas and restaurants.

4 Vertical Integration

Some companies are acquiring subs and raw material suppliers so they can self-perform more work.

A Primer for Strategic Planning

Given the rate of change, best-in-class construction companies are adopting an agile form of planning so they can act quickly to take advantage of market dynamics. It's critical to think of strategic planning as a cycle and not an event.

5 Adopt a methodology for business planning:

Companies that are good at strategy:

- Have a strategy team that meets quarterly or monthly to reassess strategy, and updates strategic priorities and project plans.
- Analyze their markets to identify specific segment opportunities
- Publish a calendar of strategy activities and milestones
- Develop a methodology for cascading goals, such as use of OKRs (objectives and key results)
- Utilize a facilitator to champion the strategy effort
- Publish key performance indicators (KPIs) linked back to the strategy
- Manage internal improvement projects with the same level of rigor as they would client projects

Managing the Business Cycle

One of the most significant challenges is the cyclical nature of the construction industry. Economic cycles have a direct impact on the demand for construction services, with booms driving project growth and downturns causing delays and increased competition. Companies must carefully plan for these cycles, managing cash flow and resource allocation to avoid overextending during periods of high demand and underutilization during downturns. Forecasting is particularly challenging given the long lead times and delayed payments common in construction.

**We can help.
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6 Our most successful clients pull their foot off the gas early in a downcycle, and have the financial wherewithal to accelerate quickly in upcycles. But don't depend on subjective factors—it's important to identify key external indicators of demand.

Regional Differences

Regionality plays a major role in planning for construction. Different regions have distinct regulatory environments, labor markets and client demands. Construction demand is closely linked to the health of local economies, making it essential for firms to understand the economic drivers in the regions where they operate.

7 Regional firms often follow their clients into key markets to create a hub-and-spoke system.

Raw Materials and COGS

The construction industry relies heavily on materials like steel, lumber and concrete, which are subject to price fluctuations driven by global supply and demand. Disruptions in the supply chain, whether due to geopolitical events, transportation challenges or natural disasters, cause delays and increase costs. As sustainability becomes a priority for both clients and regulators, construction companies must incorporate green building materials into their projects, which may come with additional sourcing and cost challenges.

8 Deploy dynamic pricing methodologies to ensure a predictable gross margin. Do not allow clients to put all of the risk on you!

Managing Labor and Subcontractors

To contract or self-perform is among the most vexing questions for construction companies. Companies that insource work manage labor differently than those who rely on subs, which are becoming more difficult to manage and often introduce defects and safety issues.

The industry faces a persistent shortage of skilled labor, particularly in trades such as electricians, carpenters, and plumbers. The aging workforce and a lack of new entrants into these trades exacerbate the problem.

While there is no clear answer that applies to all, some have migrated toward more insourcing and self-determination. Having a steady labor supply and quality control outweigh concerns about labor-sourcing limitations.

Companies must invest in training and development programs to build and retain a skilled workforce while managing rising labor costs.

Labor strategies should focus on training and retention programs that develop internal talent and reduce dependence on external labor markets. As construction employees tend to jump from industry to industry for competitive wages, frequent compensation benchmarking is critical.

9 Become a best-in-class employer by developing a feedback loop. Frontline construction employees rarely receive feedback. Create an employee engagement system so you are consistently listening to your employees.

Managing Risk

Financial risks, including cost overruns, contract disputes, and non-payment by clients, require careful management to avoid jeopardizing a company's cash flow and long-term viability. Construction firms also face significant capital requirements. It's critical to have access to finance professionals who can model and track profitability and risk.

Standing Out in the Crowd

In the RFP environment, competition is fierce and margins are often tight. The RFP process demands significant resources and time for developing accurate bids.

Every company must have a focus—clear segmentation in a market where it can win. Companies often define their markets too broadly.

Cost estimation is particularly challenging due to fluctuating labor and material costs, making it difficult for firms to ensure profitability while remaining competitive. Companies must have a consistent estimating process.

10 Estimating is a role where paying top-of- market is warranted. Estimators set the table for profitability. Offer training to estimators so they show up as business developers, and can manage client prospects with professionalism.

Optimize can help: Schedule a free consultation

Thank You

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