

# Transformation of the construction sector in full swing



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Previous nearly ten years of constant growth had a significant influence on the behaviour of construction companies. In the last years of growth (2006 - 2007) there was a significant overheating of the sector. As our interviews with construction companies showed, only 12% of companies suffered from lack of orders. On the contrary, one of the most frequently reported problems limiting company growth was the shortage of experienced workforce able to handle the large volume of new orders.

## Decline following overheating

Construction sector has undergone a big change since then. We noticed the first drop in the expectations of construction companies at the beginning of 2009 (prediction of a 3% decrease). In the middle of that year, when the crisis was already on the way and a significant decrease in the volume of new orders was obvious, there were even signs of certain panic - in 2009 companies expected the market to decline by 11%! Fortunately, this did not happen, however, it shows the initial shock of the fall in new orders for which the market was not ready. Over time, the industry acclimatized to the new market conditions and companies' prediction in the 2010 deviated only slightly from the final figures by the Czech Statistical Office (compare industry's expectations from July 2010 - annual market decline by 6% - vs. final CSO figures published half a year later : 7.8%).

## No lack of people any more

Most companies currently see lack of skilled workforce as a negligible problem. "We can assume that operation of construction companies is and will be very individual. It will depend on the ability of market actors to replace any business interruptions by other activities. In any case, reduction of workers in construction has already occurred and the process will still continue," says František Vaculík, CEO and Chairman of PSJ.

On the contrary, problems of insufficient demand, are now mentioned as the most common limiting factor for the growth of construction companies (98% of respondents in our survey confirm existence of these

problems, i.e. about 8 times more than in 2007). Construction companies now suffer from lack of private demand, and demand of publicly funded sector, which is mainly due to budget restrictions. This is confirmed by the CEO of Swietelsky stavební and chairman of the Road Contractors Association (RCA), Petr Čížek: “Our current major constraint is the road construction sector being non-conceptual. In accordance with the past state concepts, we equipped ourselves with the necessary resources to handle the state-funded projects and these resources are now largely under-exploited. However, our economic results are particularly affected by the increasing competition, which is related to commissioning the projects to utterly incompetent firms that are ‘able to make’ the price.” Zdeněk Osner, CEO of Energie - stavební a báňská also mentions the decline in the volume of new commissions in the market: “Our main problem is totally inadequate supply of construction contracts and opportunities for the upcoming season.” Today 41% of construction companies say they have fewer contracts than a year ago.

## Importance of personal contacts decreases

The crisis and smaller volume of new contracts have influenced the ways and paths that construction companies use for getting new contracts. For the first time since the beginning of our research, leaders of construction companies consider tenders or selection procedure the most effective way to obtain construction contracts. On the contrary, the previously acclaimed ways (long-term co-operation and personal contacts) have been apparently losing their importance since last year. Directors of construction companies consider direct customer demand the least efficient way of obtaining contracts. Direct demand has significantly decreased as a result of the crisis, and the time when companies could refuse contracts due to work overload and too high demand, are already long gone.

## Poor preparation of projects

The current outlook for next year, in the words of the management of construction companies, does not inspire greater hope. Rather the opposite - directors expect continuation of the downward trend. Low number of new projects in progress is considered as one of the crucial problems. “I see the biggest future problem in halting preparation of construction projects. So even if there was a change in investment strategies of public budgets, the projects are not ready, so you cannot build,” says Pavel Pilát, CEO of Metrostav. This is confirmed by managers of project and engineering companies with whom we did a separate research in June and July. This research showed that the decline in preparation of new projects will continue this and next year too. “The volume of new government tenders related to preparation of transport infrastructure construction has been lower by tens of per cent in the past two years,” said Václav Hořejší, CEO of Arcadis CZ.

## Crisis also has a positive impact

Given the negative outlook on the volume of new contracts, increasing the efficiency remains key priority for construction companies for the next 12 months (97% companies confirm this). However, many directors of construction companies admit that the current crisis has at least some positive effect - the current environment allows companies to implement steps they had not enough capacity to implement at the time of rapid growth. At corporate level there is a transformation of the Czech construction industry going on. This is confirmed by directors of construction companies themselves. “We are more efficient and productive. We deal with internal processes in the company, which we analyze and look for real improvement opportunities. If we keep this approach we will overcome this crisis, and the future crisis yet to come,” says Marcel Soural, chairman of Trigema. “Yes, the crisis has changed our company. It has helped to ‘solve neglected problems’, strengthened ‘revolutionary vigilance and alertness’ of our staff and

increase their toughness. Apart from financial losses - our profits will fall to one fifth or tenth compared to 2010 - the crisis has a very positive impact on our company," Ondřej Chládek from the company Chládek & Tintěra Pardubice assesses the current situation.

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