



Construction Community 2022 Outlook

Research Summary



SUMMARY

WHY

This study is part of KatzAbosch's ongoing commitment to conduct and share timely information to construction companies and the professionals who manage them. To get a sense of how construction companies are responding to the upcoming year we reached out to our clients and contacts and invited them to participate in our peer survey.

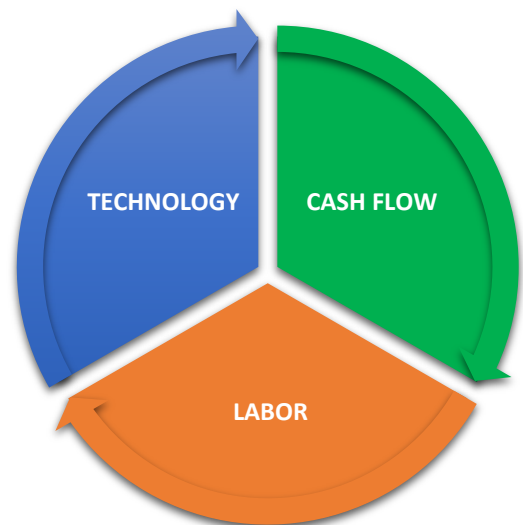
The goal was to provide general benchmarking data to help reinforce operational best practices and highlight planning opportunities to allow your company to thrive in 2022.

INSIGHTS

Construction companies remained busy through 2021. Many companies continued to adapt and uncover new and better ways to run their business and took advantage of the federal programs available such as the Paycheck Protection Program (PPP) loan forgiveness and the employee retention credit (ERC).

For 2022 companies are aware of the ongoing threats of labor shortages, rise of cost of materials and supply chain shortages. Overall, supply chain disruptions and volatility are expected to be among the biggest challenges to continue in 2022, and the companies that can navigate through them will likely emerge as winners.

The graph to the right represents three themes which the survey made sure to evaluate. These three themes provided the greatest opportunities for a company's growth when monitored and managed successfully. These subjects will be reviewed in further detail throughout the report.

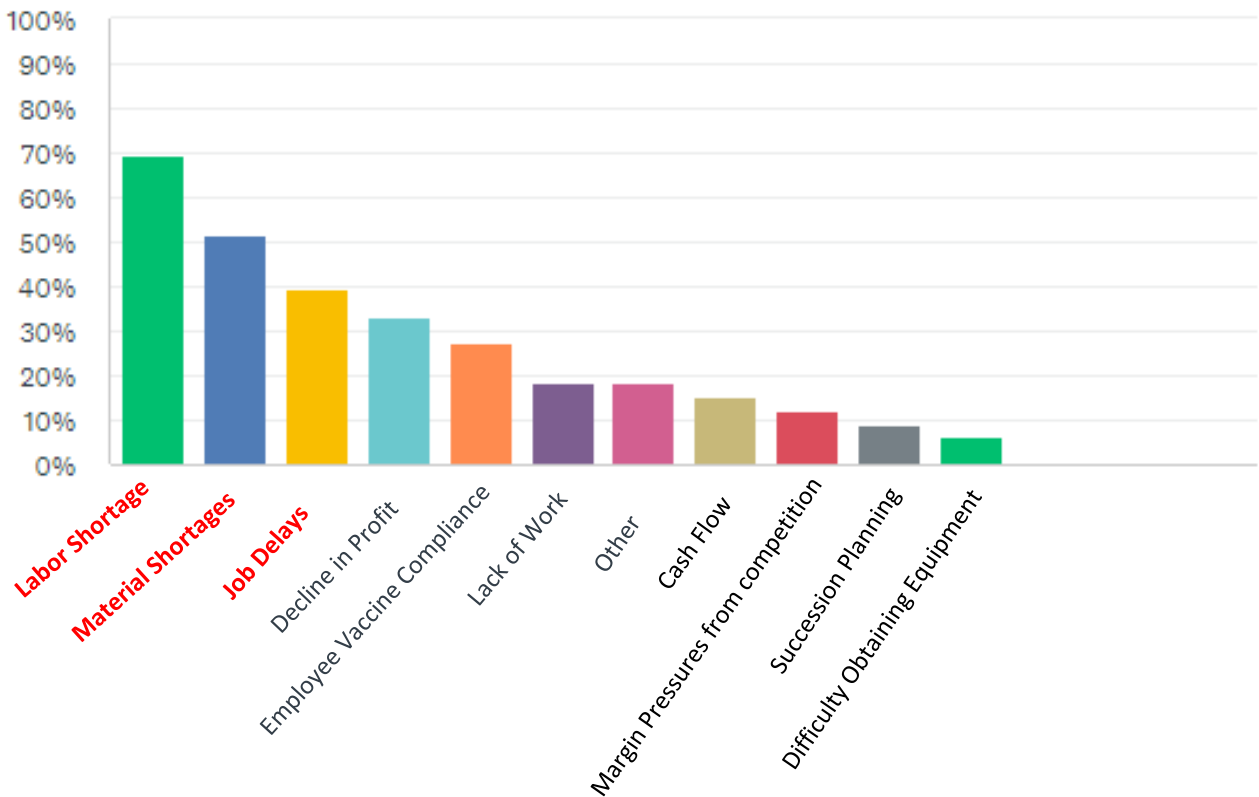


CHALLENGES

Construction companies have been juggling several financial obstacles and challenges over the past five years. The most urgent issue impeding progress for 2022? In a word, it's "shortages," specifically involving materials and labor. Not having the materials or the personnel to complete a project on time can kill revenues and the bottom line. Rising material prices, a fluctuating workforce, supply chain breakdowns, and many other challenges have set off a domino effect that will take a long time to recover from. There's no one thing causing all these challenges. They all affected each other in different ways.

The opportunity in this type of environment is the boom/demand the North American construction market is experiencing simultaneously. This in turn could become even larger when considering the U.S. infrastructure bill.

Figure 1: Top Three Challenges For 2022



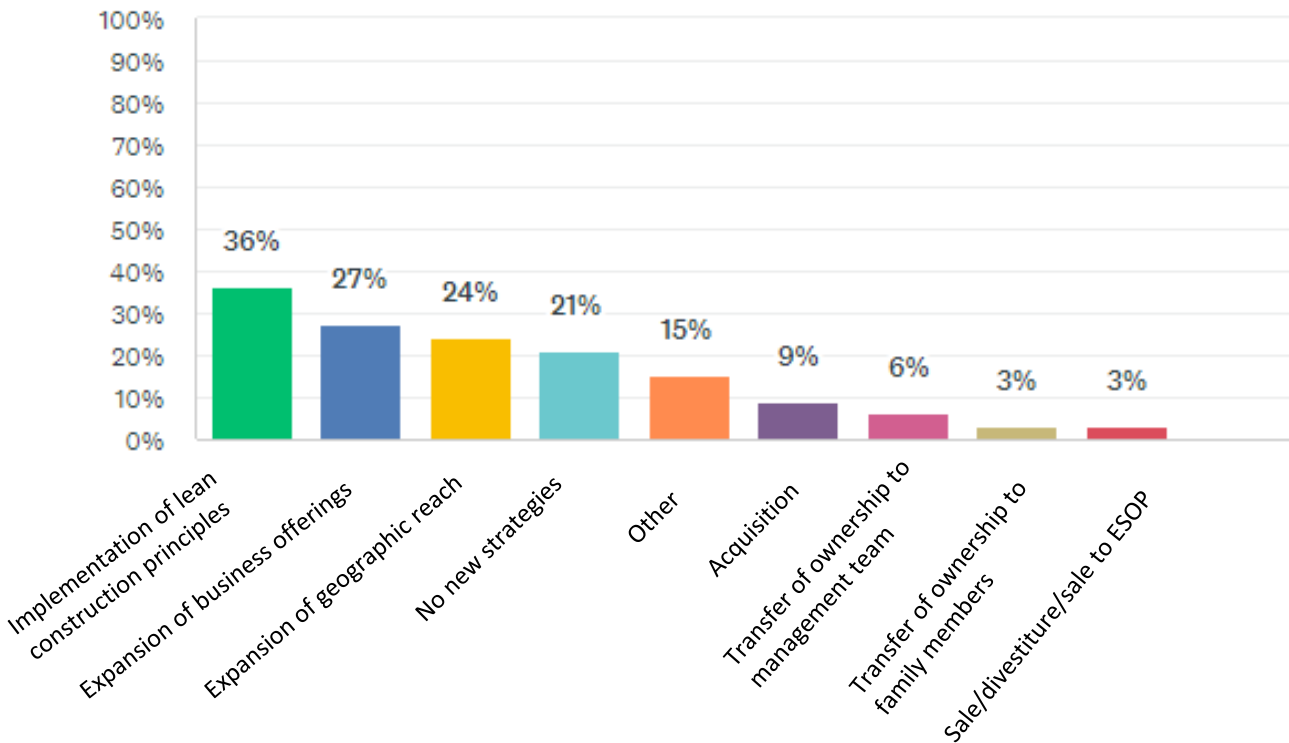
OTHER:

- Class Action Litigation Abuse
- Hybrid Flexible Schedule accommodations that vary with staff
- Material price increases from bid to job start
- Diversity Requirements

TOP BUSINESS STRATEGIES

How are contractors planning on mitigating the growing challenges? According to survey respondents, implementation of lean construction principles will be a key business strategy in 2022. Conversely, they are looking to expand business offerings and geographic reach. On the other hand, 21% of the survey respondents indicated they will not move forward with any new strategies.

Figure 2: Percentage of Business Strategies Being Implemented in 2022



OTHER:

- Acquisitions of others to grow and expand our market
- Focus/emphasis on the right jobs/client
- Focused marketing to industry segments
- Continue to grow our K-12 projects outside of our current clients
- Scaling back

CASH FLOW OUTLOOK

OVERVIEW OF THE NEXT 12 MONTHS

Figure 3 indicates 80 percent of the survey respondents hold fix fee contracts. This factor combined with the variable that many contractors may have taken advantage of various relief packages and tax credits providing short term cash flow support in 2021, may support Figure 4 below.

In this graph many survey respondents overall are not concerned with cash flow in 2022. Unknown future conditions and unanticipated growth may be the cause for the slight increase in worry around cash flow toward the 6-12 months marks.

Figure 3: Percentage of contract type by survey respondents

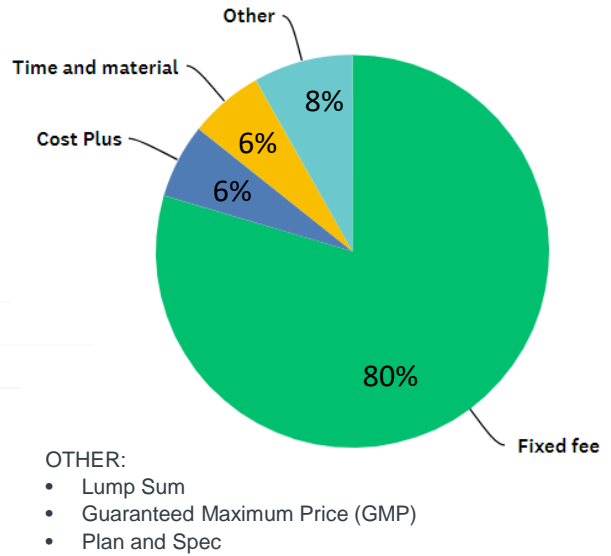
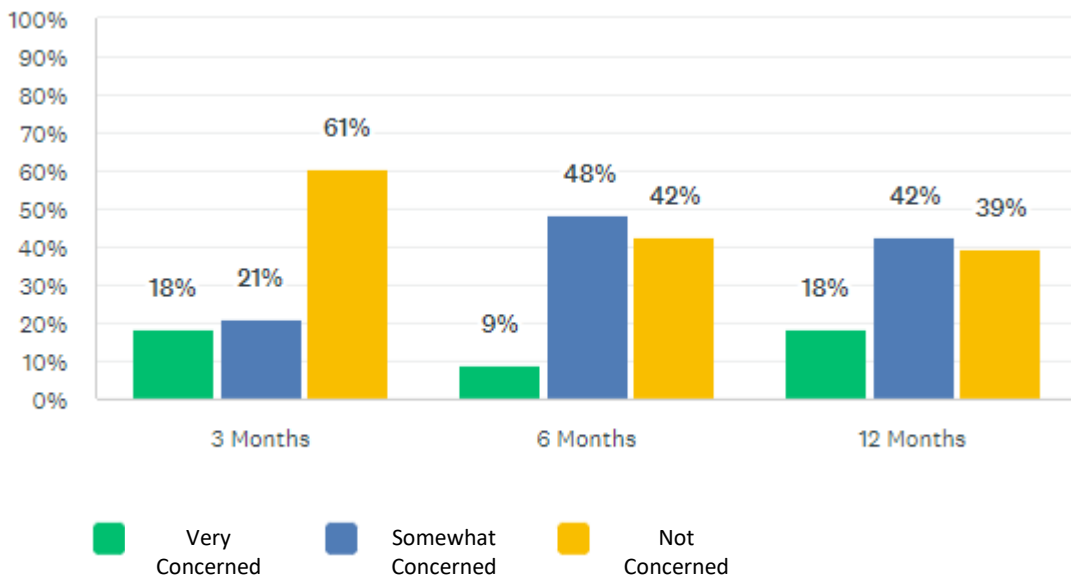


Figure 4: Percentage of companies concerned with cash flow over the next 3 to 12 months



CASH FLOW OUTLOOK

PROJECT BACKLOG OR PIPELINE STATUS

The below graphs represents the percentage of companies' backlog/pipeline statuses. According to Figure 5, many companies are experiencing higher backlog. Figure 6 shows that it seems that most survey respondents report to be about a year or less behind.

Companies can better prepare for what's to come by monitoring not only your own company's backlog, but also that of the industry. Avoid projects that are outside of your niche or in locations where you won't have the workforce or resources to feasibly fulfill the requirements. Above all, avoid the temptation to bid too low and potentially lose money if you're awarded the work.

Figure 5: Current project backlog or pipeline status of surveyed companies

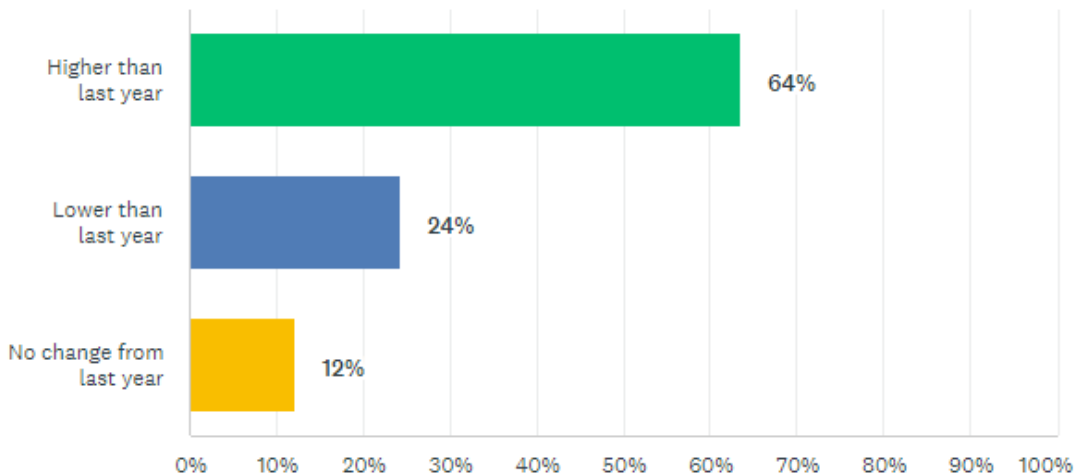
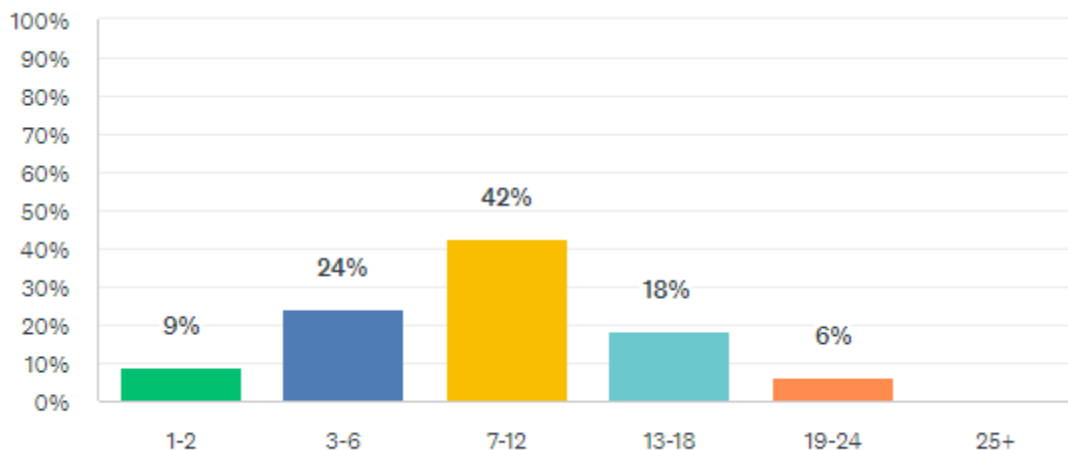


Figure 6: Number of months of backlog indicated by surveyed companies

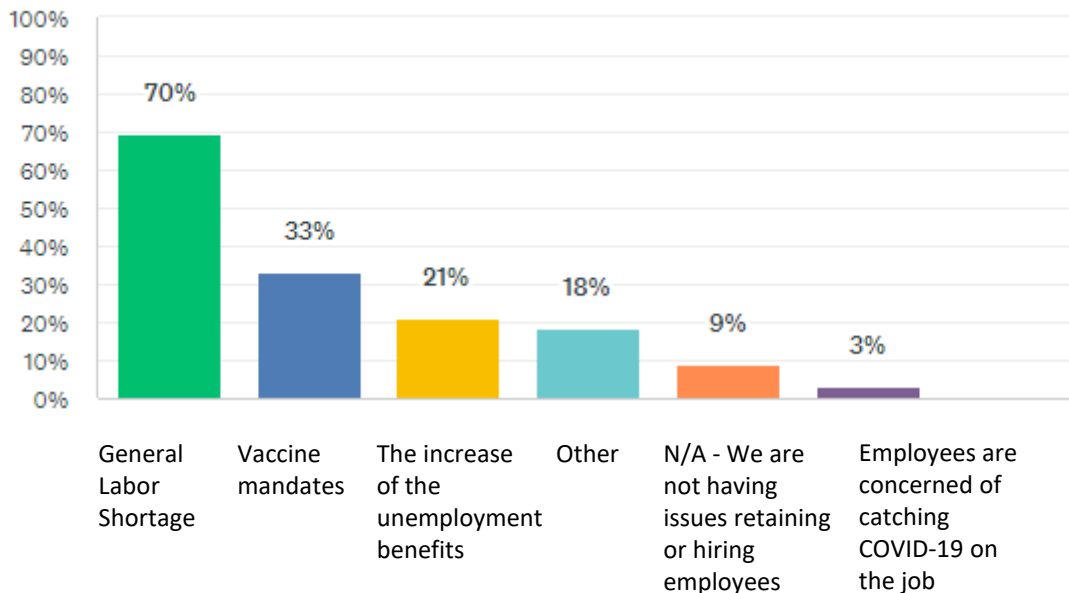


LABOR OUTLOOK

TOP RETAINING & HIRING MATTERS

The below graph (Figure 7) indicates the top reasons companies are finding the labor market challenging when it comes to hiring and retaining employees. The labor shortage continues to be the number one reason and is not new for the industry. Its ongoing impact has led to greater strategies to contend with a smaller talent pool. Interestingly, the next two are COVID-19 disruptions that will still be notable in 2022.

Figure 7: Top reasons organizations identified as why they are having trouble retaining/hiring employees



OTHER:

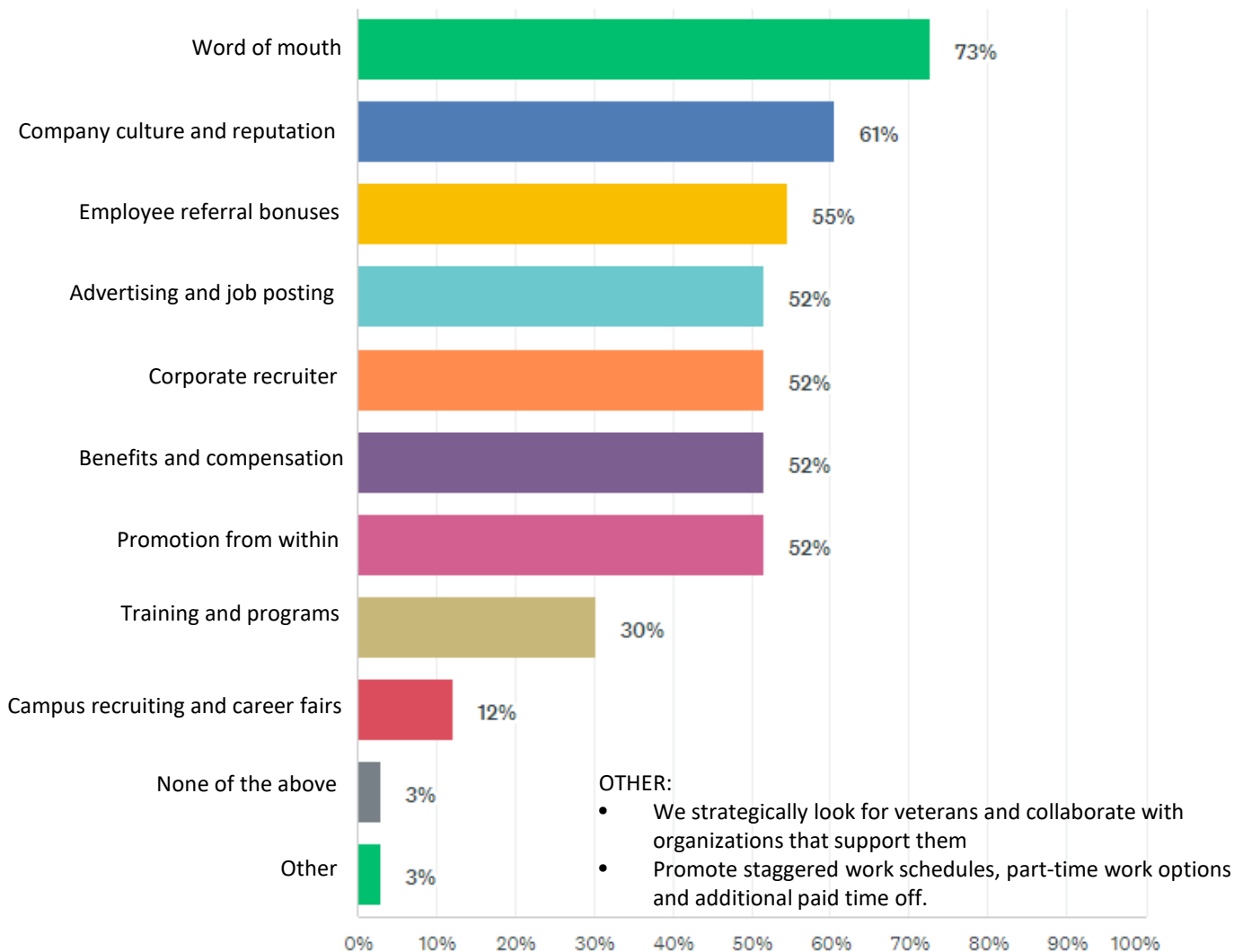
- Salary increase demands
- Unrealistic compensation
- Candidates do not want to leave current company.
- Competition "stealing" labor
- Potential Employees are finding remote work we are in office
- Qualified and experienced site supers and project managers (are in high demand)

LABOR RECRUITMENT OUTLOOK

RECRUITMENT STRATEGIES

Figure 8 shows strategies contractors are using for their recruitment efforts. Since last year, the COVID-19 pandemic changed how the construction industry does business, from scheduling and closing projects to hiring workers to meeting with clients. New technology continues to change the construction site, improve the ability to win projects, and increase profit margins. Trends and movements are changing the roles of industry professionals and frontline workers. As the industry becomes more competitive and the market shifts, harnessing these construction trends will prove valuable for any construction firm when looking to hire.

Figure 8: Strategies being implemented to recruit employees



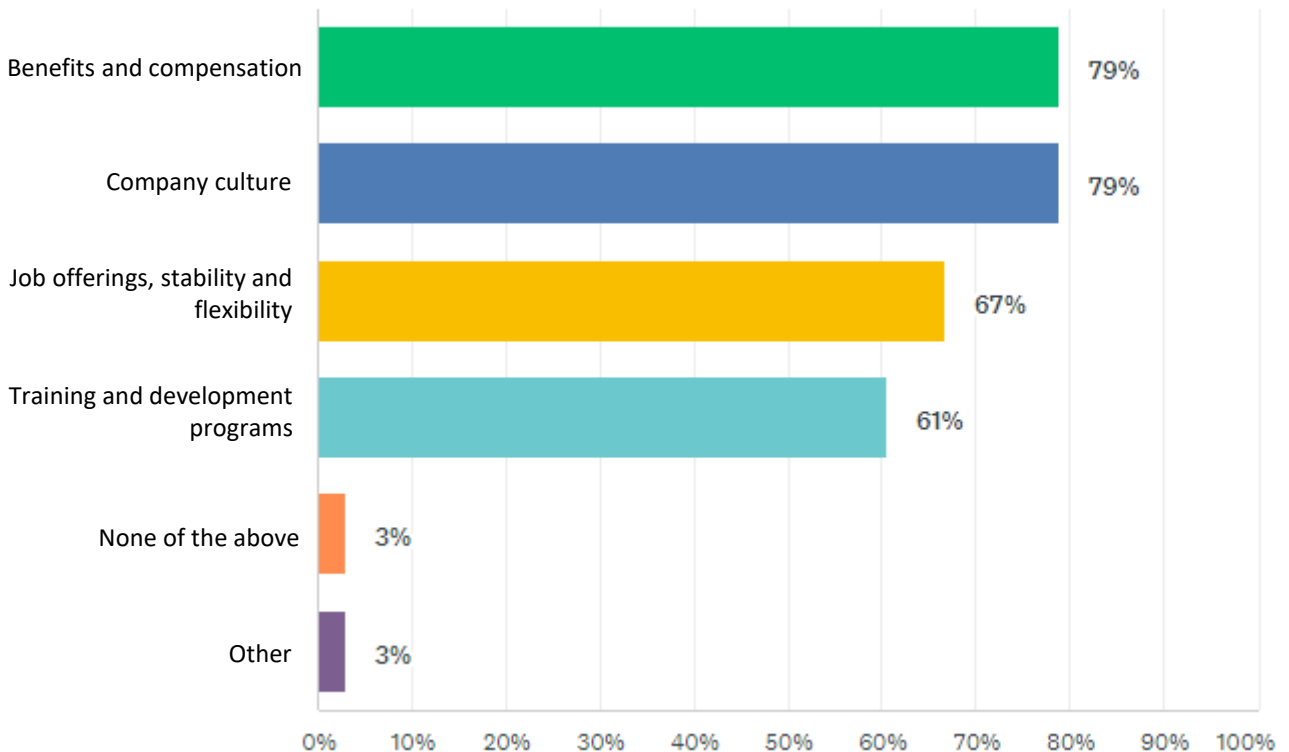
LABOR RETENTION OUTLOOK

RETENTION STRATEGIES

Figure 9 below, highlights strategies for employers are implementing for retaining talent. 79 percent of the survey respondents indicated they are looking at their benefits and compensation. Most importantly, equally companies are also reviewing their company culture.

These strategies combined indicate that more construction companies are considering finding the right people and training and reskilling them to enable the work and workplace of tomorrow.

Figure 9: Strategies being implemented to retain employees



OTHER:

- Offering growth in their careers and responsibility
- Send out small survey to employees each year to show that we care about their welfare and get their feedback on us and what we can improve

LABOR OUTLOOK

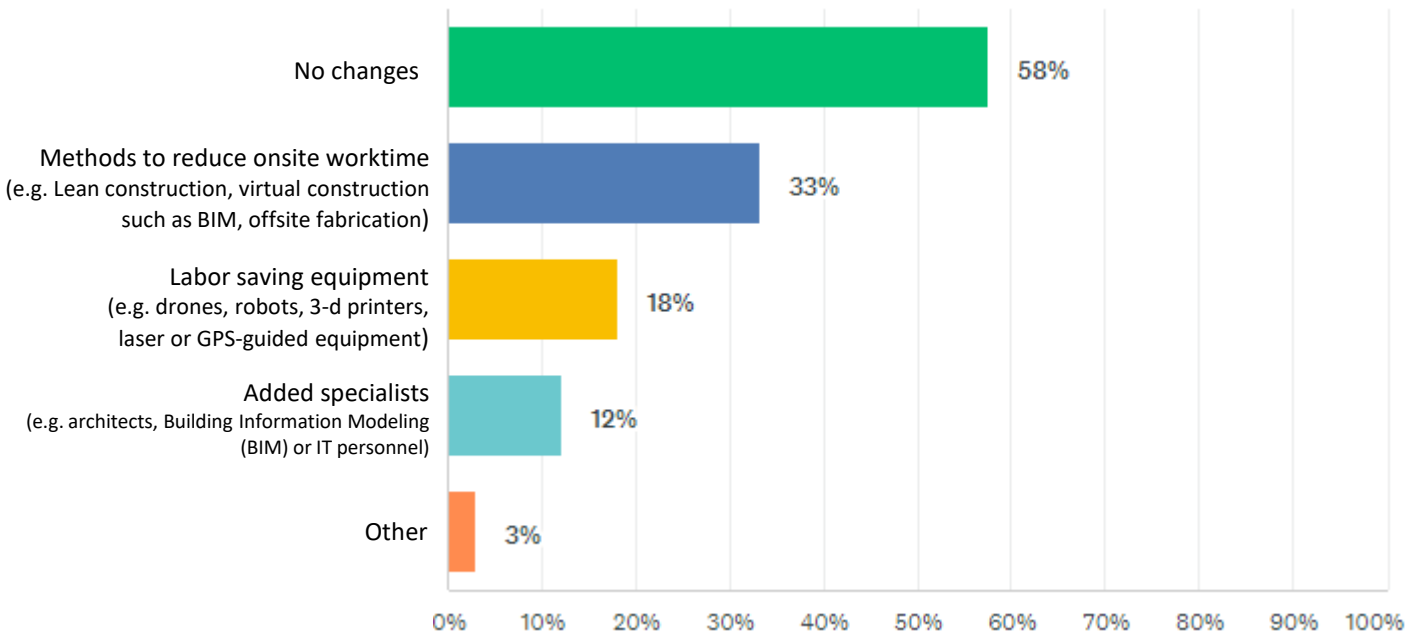
ALTERNATIVE LABOR STRATEGIES

Figure 10 below, highlights some of the alternative strategies employers are taking in helping to mitigate the labor shortage. 58 percent of the companies who took the survey are not implementing any alternatives. The other half are. The two most common alternative strategies being used is lean methods to improved efficiency and the use of labor-saving equipment.

As mentioned earlier, the labor shortage in construction will continue in 2022, which presents more than an issue of delayed projects, but survival. Even with a boom in construction projects, it doesn't matter for contractors if they can't get anybody to work on them. Looking at the trends in construction itself may offer the best solution. For example, technology plays a role: not only does it improve productivity but drones, robotics and digital tools in construction appeal to young workers.

What's more, younger workers will have skills in technology that older construction workers might lack, putting that younger demographic in demand, helping boost entry-level wages. Thus, offering voluntary employee benefits can also give contractors an edge in attracting employees.

Figure 10: Alternative strategies being implemented to replace workers or skills



OTHER:

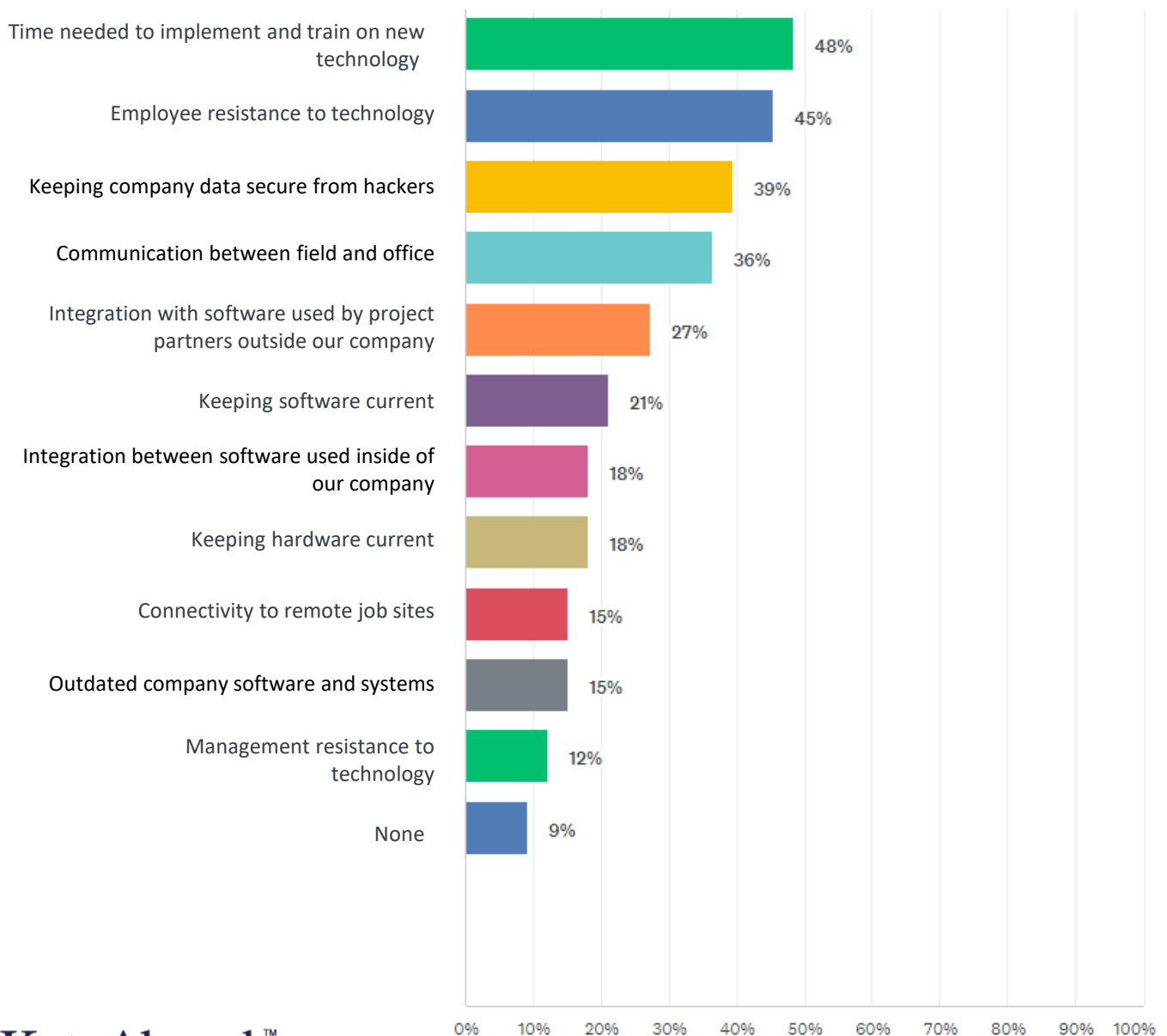
- Have not found a suitable alternative than manpower

TECHNOLOGY OUTLOOK

TOP CHALLENGES

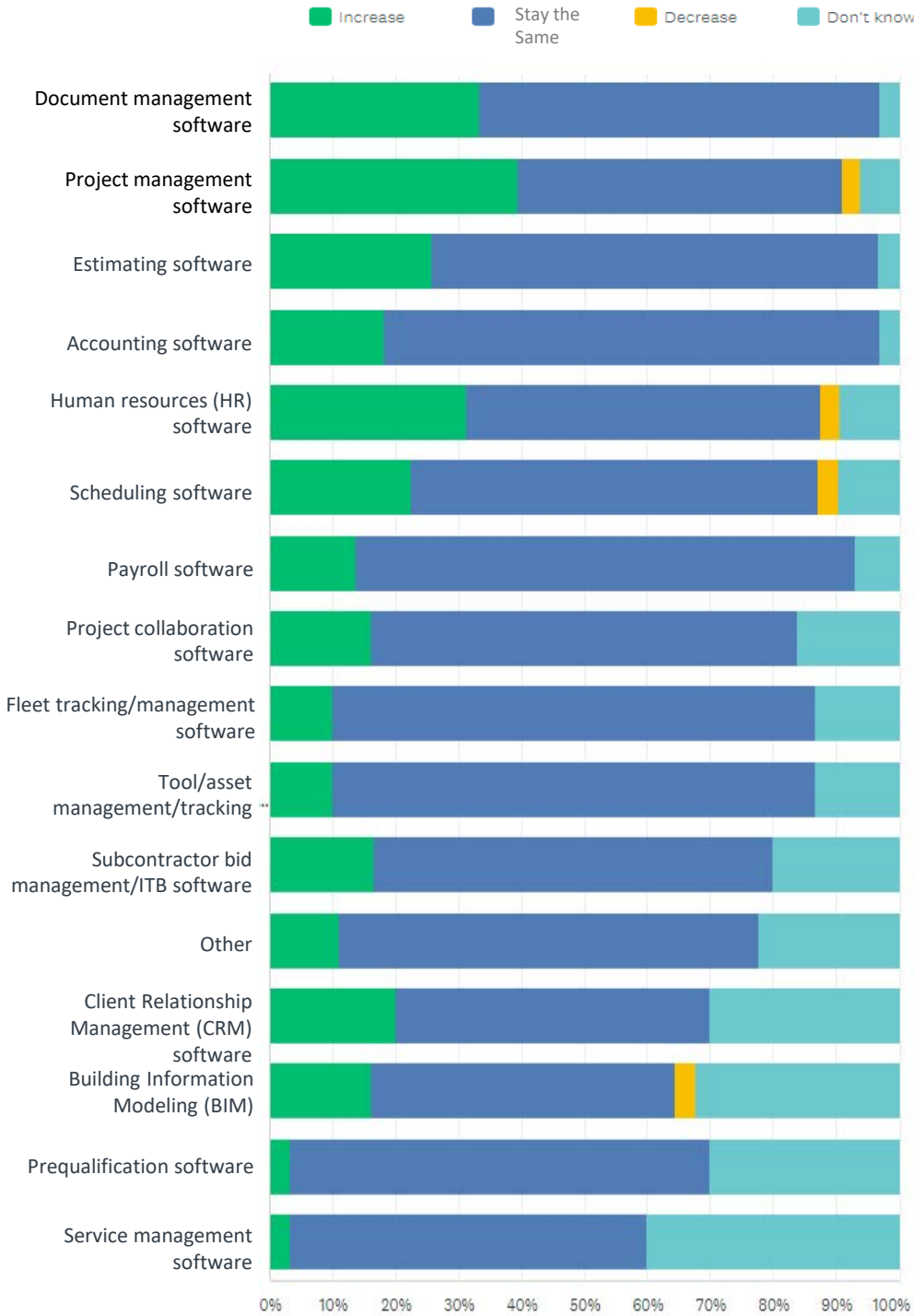
Figure 11 below, highlights the top IT challenges for contractors. 48 percent of the survey respondents indicated they need time to implement and train on new technology followed closely by 45 percent also confronted by employees' resisting it.

Figure 11: Top IT Challenges



TECHNOLOGY OUTLOOK

Figure 12: Change in technology investment from 2021 to 2022



TECHNOLOGY INVESTMENTS FOR 2022

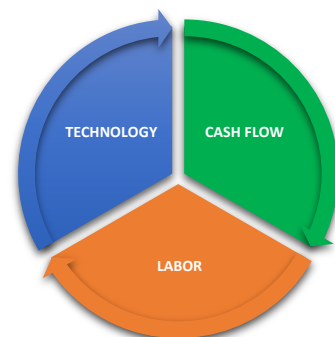
The graph represents the investment percentage change in companies' technology investments.

Most companies are staying the same in 2022 regarding their investments. If they are deciding to change, they are looking at software that impacts their daily workflows such as document, project, and HR management.

GUIDELINES FOR 2022

These three construction operational areas are rapidly changing within the marketplace. Additionally, rising prices and skilled labor shortages are likely to continue in the coming decade, and technology integration may move faster with intense scrutiny on workplace safety and climate change adaptation becoming an increasingly significant global matter. The opportunity is that these marketplace factors are challenging the industry to innovate competitive new ideas in these areas.

By adopting new practices, leveraging new technologies and investing in new projects, companies can reduce risk, win more contracts and enjoy profitability. We see successful construction companies in 2022 will be taking advantage of the following:



CASH FLOW: Preparing to mitigate cash shortages by:

- Having a material escalation clauses in your contracts to off-set increasing material costs.
- Having a plan for work down-turns or stoppages to avoid unnecessary payroll costs.
- Having a cash-flow projection to help predict cash shortages.
- Increasing your line of credit before you need to use it.
- Taking advantage of low-interest rates for leasing or financing equipment versus using operating cash.
- Evaluating COVID related funding programs.

LABOR: The workforce landscape is evolving. Companies should consider innovating with technology and cash flow management to support labor force efforts by:

- Monitoring overhead and right sizing their labor force as needed.
- Analyzing current roles and responsibilities to get more done by implementing new Lean practices into your daily operations with your labor force.
- Considering recruiting outside the traditional construction space with a focus on IT skillsets. Quality labor is expensive and competitive. Despite technologies' best efforts, educated workers will still be needed to manage and interpret the data produced by new technology.

TECHNOLOGY: Companies that invest in technology innovations to enhance efficiency will grow at a faster pace and be ready for the digital age by:

- Accepting inflationary pressures. These are likely to compound all types of costs, resulting in further burdens on total construction projects for years to come. Implementing technologies like drones, AR and BIM will be key in helping to maintain project volume and combat these cost pressures.
- Maintaining a comprehensive construction management software. This is a vital tool for remaining competitive, building a valuable business and mastering operational efficiency.
- Reviewing software services. While each software service differs slightly in features and offerings, the best ones' tackle end-to-end needs from RFIs to compiling data, sharing files with mobile teams, budgeting, document storage, payroll and HR, and inventory monitoring.

ABOUT KATZABOSCH

As a Mid-Atlantic serving accounting firm, our mission is to provide the highest quality accounting, tax, financial and management consulting services to our regional clients. We understand the needs and challenges of our clients and we have made it our obligation to create, grow and protect their asset value.

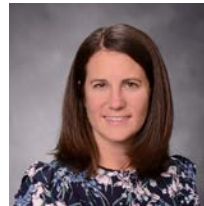
With over 50 years of experience serving construction companies, KatzAbosch has the knowledge and business expertise to help you set and reach the goals to which you aspire. Whether you are a small company in Baltimore, Maryland or one of the Mid-Atlantic region's largest companies, you can rely on the experienced CPAs and financial professionals of the KatzAbosch Construction Services Group.

Our long-standing relations within the construction community are testimony to our proven track record of achievement. Our knowledge of what you do enables us to provide the guidance that will lead you into the future. We pride ourselves on making it our business to immerse ourselves in your business. We invite you to explore our full list of services at: www.KatzAbosch.com

For more information about this report and to address practice matters, please contact KatzAbosch's Construction Services Group Co-Chairs:



Michael Gentry, CPA, CCIFP, CCA
Director
410.307.6440
mgency@katzabosch.com



Kristin Bailey, CPA, CCIFP, CCA
Shareholder
410.307.6398
kbailey@katzabosch.com



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