1.463 The Impact of Globalization on the Built Environment

Session 6:

The International Markets, Networking/Marketing and Selecting the Appropriate Delivery System

Useful Definitions

- Peacemaking or Peacekeeping
- Capital Turns
- Enterprise Cycle
- Multi- and Bilateral Lenders
- Parastatals

A COMPLEX GLOBAL MARKETPLACE

As previously discussed, in the past the markets were:

- Domestic, public and private markets
- Public and private markets in the developed/industrialized/countries (OECD)
- Newly industrializing country markets
- Poor undeveloped nations
- Command economies

NOW! NO ONE SIZE FITS ALL

In addition to traditional planner, designer, contractor and construction supervisor, the markets include:

- Program and construction manager
- Independent consulting engineer
- Independent design checker
- Technical advisors to lenders, governments
- Concessionaires
- Loan certification – engineer of record
- Concession auditors - among others

Nation Building

Three phases –

- Emergency Relief
- Rehabilitation and Reconstruction
- Fostering Long-Term Economic and Social Development

Natural Disaster Response

- How does it parallel and how does it differ from Nation Building?

THE AEC PROVIDERS

- General and Specialized
- The need for a nurturing domestic environment
  - Staff mobility
  - Ease of entry – over 7000 A/E firms in the U.S.
  - High capital turnover
- Difference between domestic and the international markets
- The enterprise cycle
  - Natural consultancy and contractors
  - The need for reinvigoration

BERGER MODEL

The financial model used by the Berger Group for evaluating initiatives and deciding on build/grow vs. buy, is based on the following:

- Average maximum long term growth for a core practice (net of mergers) of 4- 5%. This does not imply acceptance of 4-5% growth rates, but remember that U.S. corporate earnings (including acquisitions) only grew 6-7% annually the past 200 years, so many Vision Statements are overly ambitious.

- Individual initiatives should repay between 2.5-4.0 times the cash outlays, the equivalent of saying Berger could buy a company for 25-40% of sales. There is also a 1-2 year lag between the expenditure and when the sales target is reached, and the 2.5-4.0 applies to all (including unsuccessful) investments.

- A post-tax profit margin of 2.5%.

- Capital turns sales of six times capital and debt (enterprise value).

- Thus, for every $100 million in sales and a 4-5% growth, the following applies:
  - Post Tax Profit $2,500,000
  - Cash needs for $4-5 million in additional sales (1/6)= 667,000 - 833,000
  - Surplus cash (profit and cash above needs) 1,833,000 - 1,667,000
  - Sales growth Initiatives or acquisitions of $1,750,000 2.5-4.0 = 4,375,000 - 7,000,000

Assuming no significant changes in asset levels or R&D

- Trend sales (4-5%)	4,000,000 - 5,000,000
- Buy/grow sales	4,370,000 - 7,000,000
TOTAL GROWTH	$8,375,000 - 12,000,000

Thus, a reasonably well-run practice should grow 8-12% annually without need for additional capitalization borrowing.

SKILLS AND RESOURCES NEEDED TO TARGET THE INTERNATIONAL MARKETS

- Know your strengths and weaknesses
- Are domestic skills transferable
- Long lead time
- International organization and management
- Range of services
- The proper policies

PROJECT DELIVERY

- Local office (yes or no)
- Project or permanent office (yes or no)
- What do you expect of the project manager/office manager?
- Range of services
- You must know how country functions
- Beware of switching partners

RECOMMENDATIONS

- Choose your type of market and client.
- Decide how you will market.
- Define your marketing target.
- Define the target client.
- Define the target projects.
- Analyze the competition.
- Find supporting financial institutions.
- Rely on networking.
- Decide whether you will collaborate,

  and if so, with whom.

Class Discussion

"Underestimating Costs in Public Works Projects – Error or Lie"

- How widespread do you think the tendencies to underestimate projects costs are? What are the risks for different stake holders, an architect/engineer, a financier, the owner (public or private) and a construction firm?
- Why the difference in accuracy between fixed link projects and roads?

- What are risks for the internal operations of a construction company? How would you protect your firm?
- Why do rail projects seem to be the highest overruns of the three areas studied and tunnels more difficult to estimate than bridges?
- Do you agree with the first paragraph on page 285?
- How do you think water and sewage or aviation projects would compare with the three categories analyzed?
- Besides the authors' view that costs were purposely understated, what other factors may have contributed to the significant underestimation of cost and what actions can we take to correct these tendencies?

- Do you agree with paragraph two of page 288 that underestimating costs may save public funds?
- Is there an “obligation to truth in the democratic process,” page 288?
- Does the “regulatory engineer” issue that we discussed in Session 1 have any bearing on this article?
- What are the implications of this article for privately financed public works projects?
- What are your comments on the four causes: technical, economic, psychological and political, identified by the authors?

- Do you think the writers' four recommendations on:

  - increased transparency

  - the use of performance specifications

  - explicit formulation of the regulatory regimes that apply to project development and implementation, and

  - the involvement of private risk capital, even in public projects, would alleviate or reduce the problem?

Outside Reading

- What does Thomas Friedman mean by the Electronic Herd? Is it only a financial phenomenon?
- Does the Herd encourage democracy? Does increased democracy reduce corruption?
- Who starts the stampedes?
- What are the implications for the AEC fields?
- Can nations preserve their identities?
- Do nations have brands?
- What is the difference between Superpower and Supermarket?
- Do you believe in the Golden Arch theory?

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Fall 2009