

Reshaping Construction

analysis of the influencing factors

How will the remaining and new entrants fare in the new imposed environment?

Guest Lecture to Nelson Mandela University
Construction Management 4, 13 March 2019

Bob Hindle

Construction Academic & Business
Development Consultant

WBHO 26 Feb 2019

- **Continued uncertainty in SA's political & business environment has had “a devastating effect on the local construction industry.”** Source: Engineering News

STATE OF SA's Major League

AVENG (Grinaker/LTA)

Murray & Roberts

WBHO

Group Five

Stefanutti Stocks

Basil Read

STATE OF SA's Major League

AVENG (Grinaker/LTA)	Piecemeal sell off of SA ops to be comp'td by June 2019	X N
Murray & Roberts	Sold its SA General contracting Businesses	X N
WBHO	Best of bunch but now to be mainly beyond borders	✓
Group Five	In Business Rescue – March 2019 - Trying to sell-out	? N
Stefanutti Stocks	Restructured & Cross border future focus	✓
Basil Read	In Business Rescue – Debt standstill till June 19 but.....	X

SCALE !!!!

AVENG (Grinaker/LTA)

Broke 8
X

These two
damaged
investors more
than Steinhoff
did!!

Group Five

Cross border
focus
?
?

Other Contractors

NMC	Gone Non payment	X
LIVIERO	In Business Rescue July 2018 - Non payment	?
ESOR Construction	In Business Rescue 13 August 2018	?
Many other wobbly		

The Major ... present just
the ... erg:

**The loss of world
class capacity**

**Set-back 20
years, at best!**

Spe

sub

En

Skill

Constructio

X


X

X

X

X

FIVE Potential REASONS

1. **Public servant – incapacity/neglect**
 2. **State of the SA Economy**
 3. **Fall-out from Collusion**
 4. **Government (targeted) Interventions**
 5. **Distressed working conditions**
- 

1. Public Servant – incapacity/neglect

- Lack of understanding & caution concerning industry
- Poor policy formulation & application
- Poor delivery:
 - Underspending of budgets
 - Procurement system abuses
- Eyes off the ball
 - State Capture

1. Public Servant – incapacity/neglect Cont'd

- R800-b infrastructure promise
 - Announced in 2012
 - **Why did Gov't not advise that this could not be found?**
 - E.g. **ESOR & Water work promises**
- Stimulus Package for 2019 but...

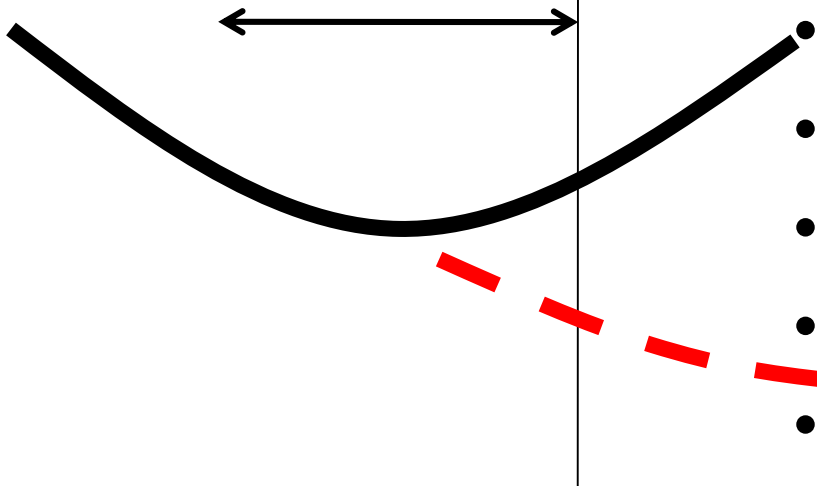
2. State of the SA Economy



Cycle phases & Typical Symptoms

Construction Cycle (4)

- TROUGH after recession or prolonged decline



- Weak demand
- Competition very high
- Discounted margins
- Claims the norm
- Short project durations
- Antagonistic attitudes
- Materials in good supply
- Problem Contracts (1:5)
- Retrench & downsize
- Sell-off units or closures
- Social upheaval

SA impacted by **Global Economy**

What can a financial crisis lead to?



TRADE IMBALANCE

It starts with people living beyond their means and taking on debt. Wages become distorted, production costs escalate and industries move offshore. The result: trade deficits and an unsustainable national debt.



FINANCIAL CRISIS

When debt levels reach the tipping point, the financial system suddenly and dramatically destabilizes. Companies and individuals can no longer borrow money. Bankruptcies and unemployment soar.



CURRENCY WAR

Politicians seek to cheat economic laws. Governments print money to pay debts and devalue their currency, which temporarily promotes exports and discourages imports. Those who devalue first gain the most.



TRADE WAR

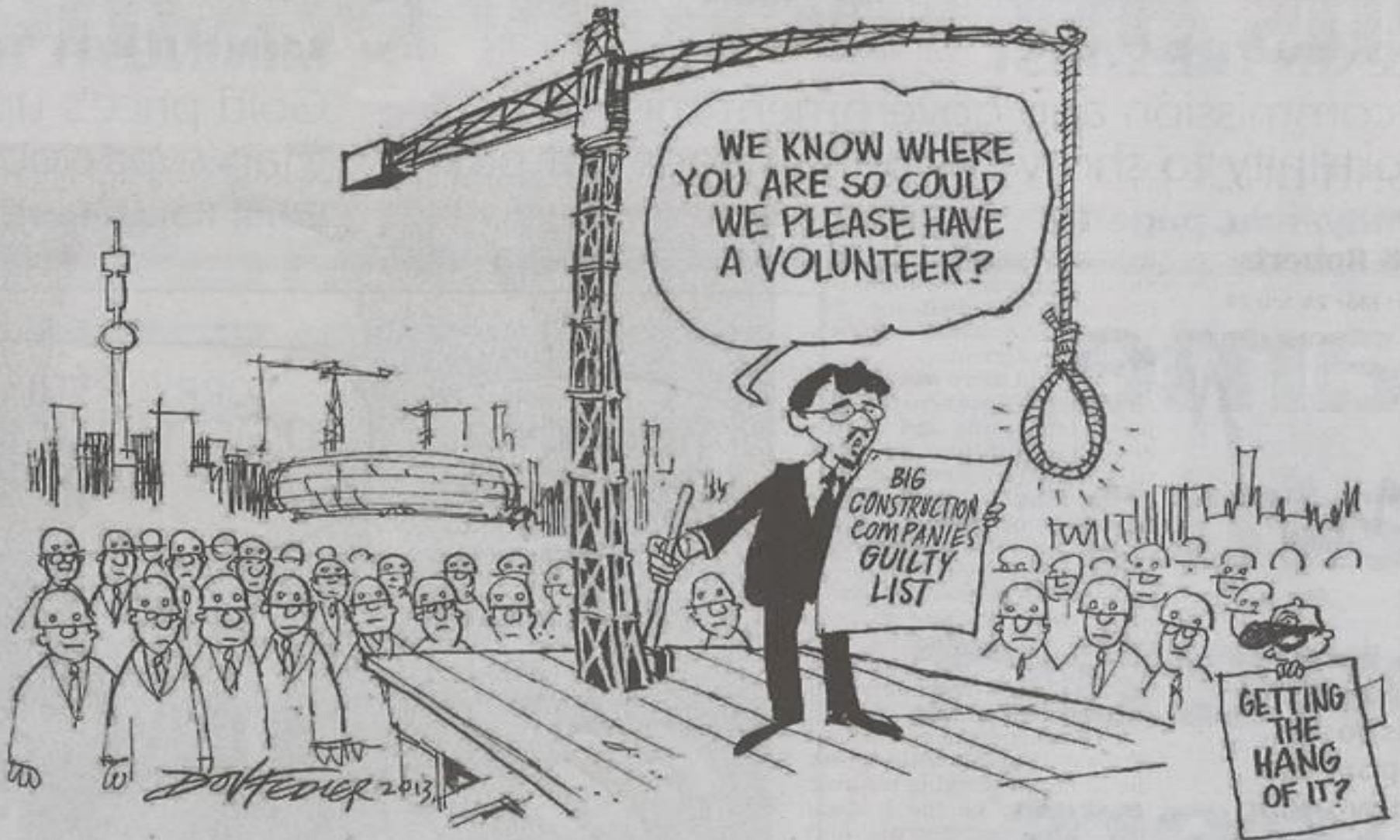
As they work to steal trade from each other, governments enact tariffs, taxes and subsidies. Global trade plunges, exacerbating the financial crisis. Unemployment rises. Politicians again devalue currencies and enact more radical populist measures.



HOT WAR

Like currency wars, first-mover advantage goes to those who unexpectedly strike first.

3. Collusion Impact



3. Collusion Impact (a)

- **Fines of R1.3 billion**
- **Further Settlement R1.5 billion to fend off other claims &**
 - Form a Development Fund +
 - Sell off at least 40% +
 - Mentoring EC's

3. Collusion Impact (b)

- It provided a reason to apply 'full-screws' B-BBEE and to....
- Punish beyond the fines to drive them out of SA!??

4. Government Intervention

- **Took-out** Industry leadership (Democracy)
- **Added new entities** - not helping but costing:
 - CBE / CIDB / CETA / NAHB
- **Huge burden of regulatory Compliance** – too much in short time - (Tsunami of change)
- **Production managers** required to become
 - HR & B-BBEE specialists
 - JV diplomats & Mentors
 - Abandon key loyal staff to employ raw locals
 - Manage labour where machines were used
- **Productivity relegated to 3rd or 4th place**

5. Distressed Operating Environment?



CMP

SURVEY

RESULTS ARE IN!



Problems Retarding Productive work 2018	RANK	Trend
Late or Non payment	1	From 20 th 09 Cycle impact
Bus' Forum (Mafia) attacks	2	33 rd 2011 GROWING
Shortage of skills	3	1st or 2nd norm
Late/poor info' then changes	4	3rd normal

Problems Retarding Productive work 2018	RANK	Trend
Antagonistic attitudes	5	Cycle impact
Poor performance of SMMEs	6	New
Few large tenders	7	New
Rework the norm	9	GROWING
Number of skilled leaving	5th	on average
High stress levels (self)	10th	on average
Empowerment policy unevenly applied	15th	on average

Impact
Community
MAFFIA

**ENOUGH OF THIS
DISTRESSED OPERATING
ENVIRONMENT**

Relative load



Declining Demand

System Failure

Skills Shortage

- No new Artisans
- Retirements
- Burnout

Too much to handle

Burn-out or Opt-out !!!



TRENDS

2018

2019

2020

2021

2022

2023

2024

2025

2026

2027

2028

2029

2030

2031

2032

2033

2034

2035

2036

2037

2038

2039

2040

2041

2042

2043

2044

2045

2046

2047

2048

2049

2050

2051

2052

2053

2054

2055

2056

2057

2058

2059

2060

2061

2062

2063

2064

2065

2066

2067

2068

2069

2070

2071

2072

2073

2074

2075

2076

2077

2078

2079

2080

2081

2082

2083

2084

2085

2086

2087

2088

2089

2090

2091

2092

2093

2094

2095

2096

2097

2098

2099

2100

2101

2102

2103

2104

2105

2106

2107

2108

2109

2110

2111

2112

2113

2114

2115

2116

2117

2118

2119

2120

2121

2122

2123

2124

2125

2126

2127

2128

2129

2130

2131

2132

2133

2134

2135

2136

2137

2138

2139

2140

2141

2142

2143

2144

2145

2146

2147

2148

2149

2150

2151

2152

2153

2154

2155

2156

2157

2158

2159

2160

2161

2162

2163

2164

2165

2166

2167

2168

2169

2170

2171

2172

2173

2174

2175

2176

2177

2178

2179

2180

2181

2182

2183

2184

2185

2186

2187

2188

2189

2190

2191

2192

2193

2194

2195

2196

2197

2198

2199

2200

2201

2202

2203

2204

2205

2206

2207

2208

2209

2210

2211

2212

2213

2214

2215

2216

2217

2218

2219

2220

2221

2222

2223

2224

2225

2226

2227

2228

2229

2230

2231

2232

2233

2234

2235

2236

2237

2238

2239

2240

2241

2242

2243

2244

2245

2246

2247

2248

2249

2250

2251

2252

2253

2254

2255

2256

2257

2258

2259

2260

2261

2262

2263

2264

2265

2266

2267

2268

2269

2270

2271

2272

2273

2274

2275

2276

2277

2278

2279

2280

2281

2282

2283

2284

2285

2286

2287

2288

2289

2290

2291

2292

2293

2294

2295

2296

2297

2298

2299

2300

2301

2302

2303

2304

2305

2306

2307

2308

2309

2310

2311

2312

2313

2314

2315

2316

2317

2318

2319

2320

2321

2322

2323

2324

2325

2326

2327

2328

2329

2330

2331

2332

2333

2334

2335

2336

2337

2338

2339

2340

2341

2342

2343

2344

2345

2346

2347

2348

2349

2350

2351

2352

2353

2354

2355

2356

CESA CEO Chris Campbell

15 Feb 2019

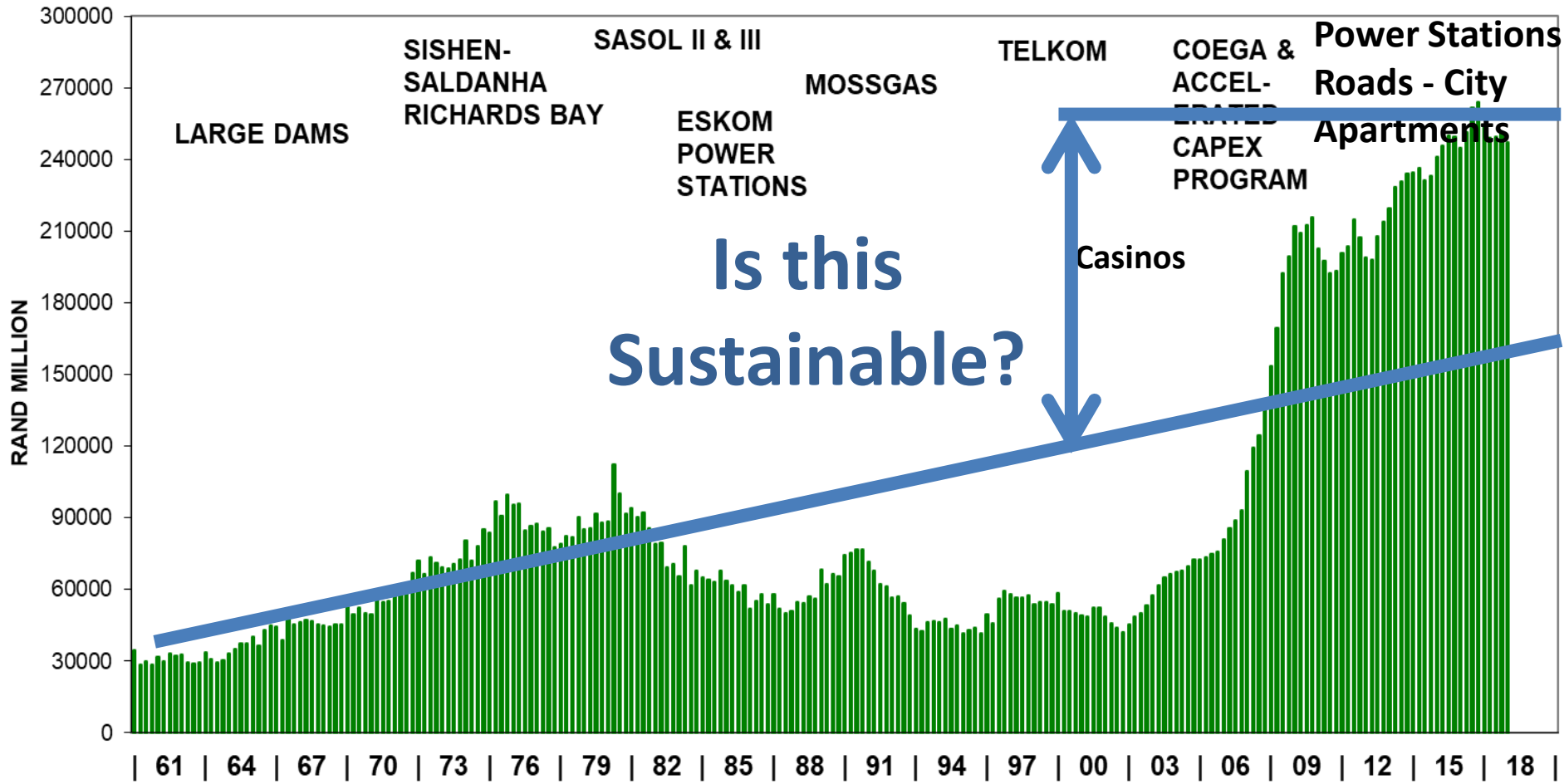
- **“Without investment in the short-term the sector will be irrevocably crippled.”**

Source: Engineering News 15 Feb 2019

R100 b infrastructure spend over next 10 years

- Another promise
- Use of PPP's
 - Who will step-up to deliver?
 - Will they try to group dozens of EC's?
- Enter the dragon?

INVESTMENT IN CONSTRUCTION WORKS AT CONSTANT 2015 PRICES 1960 to 2018 (SEASONALLY ADJUSTED QUARTERLY DATA)

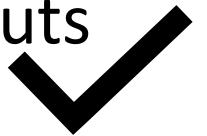


Is this Sustainable?

Source: SARB; MFA DATABASE

TRENDS (1)

- More casualties expected
- Growth of SMME's (16% to 40% already)
- Faster skills migration (Overseas)
- **New Majors Emerging** -empowerment buy-outs
- Risks to all from last:
 - Inexperienced management
 - Skills shortage
 - Contract guarantees?



TRENDS (2)

- Construction Mafia expanding
- Increasing risk of project failure
- More late payment issues –
- Big insurance premium increases
- Wage & Salary inflation
- Construction costs escalation expected

Just part of the story

but

All for now!

Thank You

