

VIEWPOINT

Saleh Muradweij, executive director of Drake & Scull Construction (DSC), gives an insider view on how companies are best placed to survive an economic downturn

Reflecting on Dubai's construction industry prior to the recent global economic slowdown, it is clear that the boom was a contractor's dream. Projects flooded in from both the private and public sector, and contracts were awarded with almost lightning speed. At Drake & Scull International's (DSI) civil contracting business stream our revenue jumped by over 324 percent in two years, and our operations expanded from 300 to 3,000 employees. It was a time of great prosperity and everyone, from the smallest to the largest players in the industry, was making the most of it.

The problem with exceptionally good times, however, is that they do not last forever. As the dominoes began to fall in the US, it was inevitable that we would also begin to feel the pinch locally. While many contractors were still sustained by the projects they had won in the preceding years, they soon realised that new wins were too few and far between to keep up the growth rate experienced at that time.

Moreover, during the boom, the ground rules were different. Contractors were hot commodities as demand shot up and supply struggled to keep pace. Back then, contractors dictated the terms of engagement. Post-boom, mid-recession, developers now have the upper hand. Newly awarded jobs now not only come with smaller advance payments and lower profit margins, but responses to tenders are vigorously compared, and decisions to award contracts take much longer.

As with most unprecedented crises, it is tempting to go into overdrive. However, before senior management put the control mechanisms in motion, it is important to take a step back and identify the opportunities in this challenging situation.

A recession is a great time for management to go through company processes with a fine-tooth comb. Managing cash flow is essential, especially when it comes to receivable practices; demanding greater value from vendors and eliminating unnecessary processes that cost extra money is a sure-fire way of guaranteeing cash-flow stays manageable.

A recession is also the best time to ensure that wherever you invest, you receive a measurable return. This implies clearing the balance sheets of excess through effective procurement, manpower planning and other unnecessary costs.

In times such as these, it is vital to cut out any dead wood and streamline those parts of the business that are not pulling their weight, while also focusing on releasing the untapped potential of other areas. This means innovating, not just at a strategic level, but also from the ground up. Senior level and junior employees should all be part of the process of brainstorming out-of-the-box solutions for every issue – whether it is streamlining costs, boosting productivity or reducing overheads to cope with shrinking profit margins.

At a time when most businesses are making conservative choices, fortune will favour the brave. It is important to move against instinct and diversify, even though instinctively many companies would like to play their cards close to their chest.

However, even while aggressively expanding our portfolio, it is still imperative to do our due diligence in terms of forecasting market trends. At DSI we carefully calculated our geographical and sector-led expansion to benefit from trends indicating that the public sector will invest heavily in national infrastructure. We established offices in strategic growth areas such as Jordan, Libya and Thailand, and we expect these offices to serve as future gateways to the Levant, Africa and the Far East respectively.

In Thailand, traditionally, mechanical, electrical and plumbing (MEP) works are executed separately. We spotted a gap in the market – a gap our integrated approach to the design and build principles of MEP, civil contracting and water, power and infrastructure engineering could fill.

The key elements of our growth strategy are to expand geographically across the Middle East and North Africa region, and into new customer segments through selective

acquisitions and joint ventures. Internally, we are looking to innovate, and create new opportunities within our industry to further reduce our vulnerability to periodic downturns in individual markets.

Despite the recession's warning bells clanging around the globe, we have held onto our hopes for expansion and continued to forge ahead with our strategic growth plan. We placed our faith in our strong management team, resilient business model and the innovation of integrated engineering to weather the coming storm.

When we all earn a little breathing room from the economic slowdown, it is important to recognise the patterns of behaviour that led up to the recession. What goes up must come down; it is a part of life and part of doing business. But what in particular exacerbated the effects of the downturn for the construction industry in the region?

Firstly, a general naïveté was probably to blame. The local industry should have been more alert to the potential impact of global markets, and based on this it should have developed alternative strategies.

One should also note the pattern that could bring one out of such difficult times. Contractors and developers have become far more transparent in their communications, closely interacting on issues of payment rescheduling and project delivery.

As governments in the region consider stepping up their investment in infrastructure, contractors stand to gain from the need for schools, universities, roads and bridges.

At a time when confidence in the industry is at an all-time low, some developers are restructuring debt to inspire further confidence among offshore investors in the financial structure. To further bolster international trust in our markets, regulatory bodies could streamline the claims processing mechanism, closing out pending issues quickly and efficiently.

But most of all, what the real estate and construction industries have learnt is prudence. We have learnt the hard way to wait for the appropriate time to build projects and watch market conditions (supply and demand trends) before planning any big changes.

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As the dust settles on the recession, a more savvy construction industry will emerge: one that is efficient and maximises productivity while minimising overheads. Contractors should also consider geographical expansion and maintaining a diversified portfolio, whether that diversity is expressed geographically, in customer base or in verticals. At DSI, while we will continue our aggressive expansion tactics, we will focus our attention on one sector and one country at a time.

There is a sense of cautious optimism in the market now as many believe the worst is behind us. While both developers and contractors will certainly tread carefully in the future, it is important to see things as they are and not worse than they are.

If an opportunity exists, take it. If you spot a gap and have the resources, fill it. If a new market looks ripe for change, capitalise on it. The recession has separated the professionals from the amateurs; now is the time to cement your position as market leaders. ●