



MAY
2025



BUILDING OPERATIONAL RESILIENCE TO SUCCEED IN ANY MARKET

BY LUKE MATELAN

The first quarter of 2025 was defined by tariffs, changing regulations and market volatility. While backlogs and margins remain strong in the near term, these factors are fueling uncertainty around what the future holds for the built environment.

The latest data from the Nonresidential Construction Index (NRCI) shows a sharp decrease in the second quarter of 2025, to 43.5 from 56.9 — a 24% drop quarter over quarter. This marks a significant reversal from last quarter's optimism and is the lowest index score since 2020.

Because of potential business implications, contractors need to closely monitor macro-level trends. That said, it's important to keep said trends in perspective. Focus on the things you and your business can control — like establishing and maintaining operational excellence. By emphasizing the fundamentals of best-in-class operational performance, you can cultivate resilience that allows you to win no matter what operating environment you're in.

STEERING THROUGH UNCERTAINTY

One of the best ways contractors can manage their overall risk during periods of uncertainty is to remain highly selective in the work they pursue. Be sure to create (or reestablish) a formal go/no-go process, using objective criteria to help you decide which projects to pursue.

Having clear guidelines takes the emotion out of project selection. We often hear from contractors that they regret taking “that one bad project” with an unreasonable customer. Projects like this — often pursued during periods of uncertainty because a contractor felt like they needed the work to keep crews busy — erode both morale and profitability. Adhering to guidelines for the selection process can help you avoid taking work out of desperation.

Superior contractors track objective data about project outcomes, which helps them refine and perfect their go/no-go criteria and stay disciplined in selecting projects — ultimately supporting a more resilient firm. Areas to track include estimated margin versus actual margin, to aid understanding of where margin is being gained or lost by project size, market segment, customer and geographic location. This data will be an asset in helping make necessary adjustments to the go/no-go criteria, protecting the company from potential risk before it can enter the scene.

GET LEAN AND MEAN: KNOW YOUR TRUE COSTS

Estimating in a growing market is different from estimating when the environment tightens. When times are good, contingency always seem to creep into direct-cost line items. In a hot market, on the other hand, many contractors still win work with overly conservative estimates.

When job costs underrun budgets, the savings directly translate into margin. To build resilience, superior contractors reexamine their estimates to better understand their true costs, then adjust as necessary.

Note that it's important to base any such adjustments on historical data and facts rather than intuition. By understanding true costs, construction executives can make more informed decisions when applying margin to their bids, giving them a competitive advantage over the competition when the market tightens.

You'll want to compare direct-cost variances across a large sample of work (the past few years) to help you identify trends and areas that consistently pick up margin and thus offer room to tighten up estimates. Equal scrutiny should be given to line items that consistently overrun budgeted costs.

IT CAN'T BE OVERSTATED: FOCUS ON OPERATIONS

To reiterate, when macro trends spur feelings of uncertainty, it's best to focus on the things that can be controlled. Operationally superior contractors emphasize refining their operational processes, project controls and productivity. Start with pre-job planning, scheduling, look-ahead planning, manpower coordination and project closeout since these are key drivers of project success.



Adherence to these processes is especially important after tightening estimates, as there will be less room for error during project execution.

Improve project controls and make sure they're consistently followed by all teams. This will help you identify troubled projects early, affording enough time and opportunity to correct issues before they spiral out of control.

Cliché but true: productivity is a journey, not a destination. Even if you took steps to improve your company's productivity in the past, now is the time to revisit and double down on those efforts. Establish a task force of operational leaders to help you improve labor productivity and equipment use.



In addition, ensure that field leaders and subcontracting partners feel appreciated and well supported in their piece of the work. Stay close to them and listen to what's going on in the field. Remember: these individuals are the lifeblood of the business and the ultimate differentiators in winning (or losing) in the current environment.

EXECUTE!

In good times, it's easy to get away from operating fundamentals and develop poor habits — but the best practices outlined above will help you drive organizational success.

FMI forecasts that total construction spending will continue to increase and expects it to surpass \$2.4 trillion by 2028. However, the dynamics that determine where exactly this spending will occur are constantly shifting while competition continues to increase — adding more pressure to a historically low-margin industry.

With all these factors at play, are you prepared to compete? Now is the time to review your operations and implement changes that will drive profitability no matter what the operating environment looks like. By building this resilience in the near term, you'll have a distinct advantage over the competition when the market changes.

THINGS TO ASK YOURSELF:

- Do you effectively mitigate risks?
- Do you have a clear project selection process that is strictly followed?

- Do you have an accurate understanding of which market segments, subsegments, customers and geographies suit you best and which ones are a poor fit? How accurate is the data you're basing your determination on?
- Do your estimates contain true costs or is there contingency baked into your direct-cost line items? Do you have an effective process in place for tracking and scrutinizing direct-cost over/underruns?
- Do you apply operational processes and project controls consistently across your organization — or are these practices outlined and filed away in a seldom-referenced/rarely updated manual?
- Does each project provide the same great experience for your customers, or is customer experience highly dependent on project team?
- Do you consistently put your field teams in the best position to win on their projects, or are they constantly fighting to hit their productivity targets?
- Do you regularly solicit feedback from your field leaders and subcontractors about what's actually taking place in the field?

Your responses to these questions will shed light on the challenges that exist within your organization, allowing you to create solid action plans. By addressing these issues head-on, you'll be that much closer to creating an operationally superior — and resilient — company that will thrive in any operating environment.

AUTHOR



LUKE MATELAN is a senior consultant at FMI, where he's passionate about helping construction companies reach their full potential. Luke specializes in helping clients beat their expected project margins through implementation and rigorous adherence to best-in-class operational processes, which leads to increased profitability and firm value.

Luke is a facilitator at the FMI Project Manager Academy and FMI CFO Forum. He enjoys speaking to industry associations about a host of construction-related topics and presenting customized training programs to FMI clients.

Prior to joining FMI, Luke worked for a site developer and was a project manager in the rail industry. He played Division I football at Youngstown State University while earning his civil engineering degree.

Luke can be reached at Luke.Matelan@fmicorp.com.



CONTACT US



RALEIGH HEADQUARTERS
223 S. West Street
Suite 1200
Raleigh, NC 27603



919.787.8400

FMI is a leading consulting and investment banking firm dedicated to serving companies working within the built environment. Our professionals are industry insiders who understand your operating environment, challenges and opportunities. FMI's sector expertise and broad range of solutions help our clients discover value drivers, build resilient teams, streamline operations, grow with confidence and sell with optimal results.

OFFICES

Denver
44 Cook Street
Suite 900
Denver, CO 80206
303.377.4740

Houston
1301 McKinney Street
Suite 2000
Houston, TX 77010
713.936.5400

Tampa
4300 W. Cypress Street
Suite 950
Tampa, FL 33607
813.636.1364

FMICORP.COM