
The Impact of Globalization on the Built Environment

Session 4:

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.