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What’s Your Next Move? Identifying Markets for Geographic Expansion

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11:00 a.m. – 12:15 p.m.
Agenda

- The Growth Challenge
- Key Elements of Growth Strategy
- Geographic Playbook Overview
- Getting Started
The Growth Challenge
Growth Levers

As E&C companies look to grow into new markets, geographic expansion seems like the most straightforward path to take…

- **Vertical Integration**: Different business model requiring different management capabilities
- **Geographic Expansion**: Same core business – new locations
- **Sector Expansion**: Different project types requiring different technical expertise
Key Challenges in Geographic Expansion

...However, efforts at geographic expansion often fail to meet expectations due to insufficient planning and unanticipated challenges.

- Poor development of organizational structure and governance
- Mismatch of leadership to local market (or to headquarters)
- Unqualified or lack of a labor pool
- Unknown contractual clauses common in the market
- Lack of understanding of regulation and governance
- Inconsistent use of IT and accounting functions
- Poor integration strategy
- Failure to appropriately assess the competition
- One size fits all mentality
- Lack of understanding the economic factors
Taking a Systematic Approach
A systematic approach to geographic growth strategy can help address these challenges and drive successful market entry.

From

- One-off project
- Follow a client
- Individual interest

To

- Market due diligence
- Strategic choices
- Leadership and governance
- Commitment and investment
Key Elements of Growth Strategy
Defining a Strategy: The Choice Cascade

Strategy can best be expressed as an integrated set of choices.

What are our goals and aspirations?
- Purpose
- Financial objectives
- Non-financial objectives

Where will we play?
- Geographies
- Sectors & Customers
- Vertical Stages

How will we win in chosen markets?
- Value proposition
- Sources of defensible advantage
- Profit model(s)
- Partnerships

What capabilities must be in place?
- Distinctive capabilities
- Reinforcing activities

What management systems are required?
- Systems
- Structures
- Measures

“Positioning”

“Activation”
Successful strategies are characterized by choices that reinforce each other across the cascade.

- The most **robust** strategies are those in which the how to win reinforces the where to play and vice versa.

- The most **satisfying** strategies are those in which the where to play and how to win choices have the potential to meet the desired goals and aspirations.

- The most **sustainable** strategies are those in which the where to play and how to win choices are buttressed by appropriate, distinct, and reinforcing capabilities, organizational systems and initiative programs.
Positioning Choices for Geographic Expansion

Understanding local market demand and supply dynamics and what it takes to win informs core market entry strategy choices

<table>
<thead>
<tr>
<th>Where to Play?</th>
<th>How to Win?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Which market(s) should we consider?</strong></td>
<td><strong>What services will we offer in this market?</strong></td>
</tr>
<tr>
<td><strong>Should we enter the market under consideration?</strong></td>
<td><strong>How will we differentiate vs. local incumbents?</strong></td>
</tr>
<tr>
<td><strong>Which customer segments should we target?</strong></td>
<td><strong>What sources of advantage will we leverage?</strong></td>
</tr>
</tbody>
</table>

**Key Business Questions to Answer**

- What is the demand outlook for E&C services in the market? How does it vary by sector?
- What does the local competitive landscape look like?
- What kind of fees are typical?
- Who are the key customers by segment?
- What is the sub and labor environment like?
- What delivery methods are typically used?
- Who are the key influencers and decision makers in project award decisions?
- What does it take to get on bid lists?
- On what basis are projects typically awarded? What is the relative importance of relationships, experience, and price?
Activation Choices for Geographic Expansion

Positioning choices inform consideration of the capabilities required to support successful and sustainable market entry.

**People**

The skills, incentives, and workforce planning that enable an optimal talent base to execute entry into a new market and consistently deliver high performance. Consider:

- Leadership Requirements
- Talent / Skills
- Relationships with Target Customers
- Headcount

**Governance and operating processes and activities to achieve a desired outcome.** Consider:

- Management routines (local and with headquarters)
- Customer relationship management
- Local project portfolio oversight
- Financial management

**Processes**

**Systems**

The systems and technology platforms required to support the local business. Consider:

- Degree of integration with corporate technology platforms (e.g., ERP, CRM)
- Tailoring of assets to align with complexity of local business
- Need for specialized new hardware or software
Creating the Business Case

Working through the choice cascade provides a foundation for developing a robust business case to quantify financial impact, evaluate funding and measure success.

Key Elements of Investment Strategy

1. Pro-Forma Financial Statements
   *Income Statement, Balance Sheet, Cash Flow*

2. Sources & Uses of Cash
   *Internal vs. External Funding*

3. Financial Modeling
   *IRR, DCF, Payback Period*

4. Performance Measurement
   *ROIC, Leverage Ratios, Profitability*
Geographic Playbook Overview
Understanding the Geographic Playbook

**What is a Geographic Playbook?**

- A common set of frameworks and analysis to apply in the formulation of geographic expansion strategies
- A reference document of tools, resources and templates to consider when assessing or contemplating geographic growth
- Living document that identifies geographic priorities and growth options in the short and long-term

**Why build a Geographic Playbook?**

- Determine the set of guiding principles that define attractive markets for potential expansion
- Inform the detailed level of analysis that is needed to conclude whether a market meets the guiding principles
- Process by which geographic expansion strategies are designed, executed and implemented
Playbook Flow
The Geographic Playbook guides a company through the process of expanding into a new market while staging the required investments.
Chapter 1: Identify Target Market

**Strategic Choices**

- *Which short list of new markets should we consider for expansion?*

**Key Business Questions**

- Where do we anticipate market growth in sectors in which we compete?
- How big are these markets? How sustainable are the drivers of demand in these markets?
- How intense is the competition in these markets? How concentrated is the competitive playing field?

**Major Activities**

- Developing criteria for market prioritization
- Conducting secondary research and analysis on:
  - Market size and growth by sector
  - Competitive market share
- Management team alignment on priority markets for consideration

**Supporting Tools**

- "Heat Map" Market Opportunity
- Market Prioritization Table
Building Construction

Increasing investment in nonresidential construction in the South and West, coupled with strong economic growth, will fuel building construction.

**Real GDP Since 2010**

- **East North Central**: 2010 - 2015
- **East South Central**: 2010 - 2015
- **Middle Atlantic**: 2010 - 2015
- **Mountain**: 2010 - 2015
- **New England**: 2010 - 2015
- **Pacific**: 2010 - 2015
- **South Atlantic**: 2010 - 2015
- **West North Central**: 2010 - 2015
- **West South Central**: 2010 - 2015

**Top Opportunities:**

1. **West South Subregion** has strong economic expansion forecast – compound growth rate since 2010 has exceeded the US overall rate of 1.97%
2. **Pacific Subregion** presents strong economic power and above average growth
3. **South Region** as a whole has an economic growth rate surpassing the US – sign of future investment in building construction
4. **West Region** keeps pace with US economic expansion – second largest regional economy and second fastest growing
5. **Pacific and West South Central** lead in both GDP growth and nonresidential construction – indicate strong forecast for building construction

**Value of Private Nonresidential Construction Since 2010**

- **CAGR**
  - East North Central: 1.11%
  - East South Central: 1.24%
  - Middle Atlantic: 1.09%
  - Mountain: 1.76%
  - New England: 0.70%
  - Pacific: 2.06%
  - South Atlantic: 1.18%
  - West North Central: 1.28%
  - West South Central: 3.59%

**CAGR**

- East North Central: 1.48%
- East South Central: 1.39%
- Middle Atlantic: 7.70%
- Mountain: 2.01%
- New England: 3.06%
- Pacific: 10.67%
- South Atlantic: 6.27%
- West North Central: 19.68%
- West South Central: 15.26%

Source: IBIS World; National Association of State Budget Officers; FRED Economic Data
“Heat maps” can be used to prioritize across a broad set of geographies and sectors or can go deep into geographic hot spots within a sector.

### Illustrative Sector x Geog Map

<table>
<thead>
<tr>
<th>Project Sectors</th>
<th>West</th>
<th>New England</th>
<th>Mid-Atlantic</th>
<th>South</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amusement &amp; Arts</td>
<td></td>
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<tr>
<td>Education</td>
<td></td>
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<tr>
<td>Government</td>
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<tr>
<td>Healthcare</td>
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<td>Hospitality</td>
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<tr>
<td>Manufacturing</td>
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<td>Office</td>
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<tr>
<td>Religion</td>
<td></td>
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<tr>
<td>Retail &amp; Restaurants</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Warehousing / Logistics</td>
<td></td>
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<tr>
<td>Residential</td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

### Electricity Regulation

#### Top 5 States with In-flight* Renewables Projects 2015
- Calif...
- Texas...
- North...
- Okla...
- Color...

#### Top 5 States with In-flight* Natural Gas Projects 2015
- Ohio...
- Texas...
- Penn...
- Calif...
- North...
Chapter 2: Qualify Target Market

**Strategic Choices**
- Should we actively pursue entering this particular market?
- If so, which sectors / customer segments should we target?
- With what offers and sources of advantage?
- Should we buy or build our way in?

**Key Business Questions**
- Who are the key customers in this market? How do they buy E&C services?
- What types of competitors win in different segments of the market? Why?
- What does the local sub landscape look like? Is it open or closed to new players?
- What services / delivery methods are used in the market? Do they play to our strengths?
- What kind of fees can we expect in the market?

**Major Activities**
- In-depth local market research – ideally with on-the-ground market visits and local stakeholder discussions with:
  - Customers
  - Subs
  - Local influencers in the market
- Management team alignment on attractiveness of the market and ability to win

**Supporting Tools**
Build vs. Buy

Considerations around timing, risk, control, and requirements, are key drivers of the build versus buy decision across sectors.

**Build**
- Controlled vision and strategy
- Controlled risk management
- Greater ability to design organization and manage talent
- Greater ability to manage brand identity

**Buy**
- Faster time to payback
- Immediate scale in new market
- Access to new capabilities
- Access to insight and experience in new market
- Clear signal to market

**Pros**
- Longer time to payback / slower growth
- Lack of scale in new market
- Unclear signaling on commitment to new market
- Risk of pitfalls due to lack of market insight

**Cons**
- Higher up front investment
- M&A risk (e.g., loss of talent, culture clash, systems clash)
- Integration challenges / distraction to operations
- Cost of complexity
Chapter 3: Plan Market Entry

**Strategic Choices**
- What leadership team will we bring on board?
- What resources will we put in place to support the new market?
- What processes will we put in place (commercial, operational, financial, governance)?
- What supporting infrastructure will we invest in?

**Key Business Questions**
- What local leadership characteristics are required to succeed in this market?
- How many resources do we need to deploy in the new market? With what skill sets?
- What’s the right balance of local flexibility and corporate consistency with respect to processes?
- To what extent can we leverage corporate infrastructure? What do we need to tailor?

**Major Activities**
- Screening and selection of local leadership team (early enough to participate in in-depth planning)
- Assessment of local workforce needs and development of staffing plan
- Development of governance and operating model
- Development of infrastructure investment plan
- Completion of full business case based on market entry strategy and plan

**Supporting Tools**

Illustrative
Candidate Screener Example

A candidate screener ensures consistent criteria are applied in selecting local leadership.

### Candidate A Scorecard

#### Commercial Leadership

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Notes</th>
<th>Score</th>
<th>Weight</th>
<th>Weighted Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Does the candidate have a track record of successful, profitable projects?</td>
<td>Yes, 24 projects over the past 8 years.</td>
<td>9</td>
<td>35%</td>
<td>2.25</td>
</tr>
<tr>
<td></td>
<td>Has references</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Fit with Culture

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Notes</th>
<th>Score</th>
<th>Weight</th>
<th>Weighted Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>To what degree does the candidate display a willingness to ‘do whatever it takes’?</td>
<td>Yes, definitive ‘Type A’ guy</td>
<td>10</td>
<td>20%</td>
<td>2</td>
</tr>
</tbody>
</table>

#### Does they have a discernible network of strong, on-going relationships exist with owners, A/E, subcontractors and other important stakeholders?

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Notes</th>
<th>Score</th>
<th>Weight</th>
<th>Weighted Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strong relationships with an array of clients</td>
<td></td>
<td>10</td>
<td>30%</td>
<td>3</td>
</tr>
</tbody>
</table>

#### What evidence exists of an ‘entrepreneurial spirit’ (creativity, risk taking, etc.)?

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Notes</th>
<th>Score</th>
<th>Weight</th>
<th>Weighted Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Built company’s healthcare practice from $0 to $150 M</td>
<td></td>
<td>9</td>
<td>15%</td>
<td>1.35</td>
</tr>
</tbody>
</table>

### Category Score

- **Commercial Leadership Score**: 9.3

### Cumulative Score

- **Cumulative Score** (Total of Commercial and Fit scores must be greater than 15): 17.8

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**Polished, confident speaker**
Organizational Design to support Operations

Aligning strategy, operations and client needs are key determinants in the organizational design options that should be considered.

- Conduct external research to broaden range of options under consideration (e.g., benchmarking of industry and non industry comparables, customer service expectations)
- Assess historical organizational choices to further define range of options and identify key lessons learned
- Identify structural options that would match required competencies and specific knowledge with decision rights
Chapter 4: Launch Local Office

Strategic Choices
- What type of launch will we pursue (soft launch or big splash)?
- How will we communicate our entry into the market?
- How will we track and monitor our near term progress?

Key Business Questions
- What expectations do we have for market traction and time to payback?
- What messages will resonate in the market? What’s the right balance between generating excitement and setting expectations?
- What leading indicators will give us an early view into our traction in the market?

Major Activities
- Finalizing and opening local office space
- Developing communication plan
- Crafting and executing against near term market development plan
- Initiating regular business reviews to track against near term leading indicators and make course corrections to drive traction in the market

Supporting Tools

Illustrative
Marketing Communications Approach

Developing a comprehensive marketing and communications plan is key to success when entering a new market to ensure consistent messaging.

### Marketing Communications Planning Overview

<table>
<thead>
<tr>
<th>Marketing &amp; Communications</th>
<th>Functions</th>
<th>Sample Outputs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overview</td>
<td>The Marketing &amp; Communications function is responsible for promoting the organization and its services, managing the organization’s public image as well as conducting research to help better understand the marketplace as well as customer needs and behaviors.</td>
<td></td>
</tr>
<tr>
<td>Marketing Strategy &amp; Plan</td>
<td>• Defines marketing strategy with dual focus; protecting and growing brand</td>
<td>• Documented Marketing Strategy and Plan</td>
</tr>
<tr>
<td></td>
<td>• Develops all marketing-related plans based on marketing strategy and objectives</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Identifies strategic placement opportunities for advertising and communications</td>
<td></td>
</tr>
<tr>
<td>Marketplace Research</td>
<td>• Identifies market research needs (i.e., environmental scanning)</td>
<td>• Research Plan</td>
</tr>
<tr>
<td></td>
<td>• Coordinates research efforts (i.e., outsource effort, coordinates internal effort)</td>
<td>• Research Report</td>
</tr>
<tr>
<td></td>
<td>• Analyzes results, identifies trends, opportunities, threats; communicates findings</td>
<td></td>
</tr>
<tr>
<td>Branding</td>
<td>• Defines brand guidelines; enforces appropriate use of brand</td>
<td>• Service Guidelines</td>
</tr>
<tr>
<td></td>
<td>• Identifies/executes opportunities to promote brand through advertising and merchants</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Actively pursues strategic co-branding opportunities; ensures brand alignment</td>
<td></td>
</tr>
<tr>
<td>Advertising Mgmt. &amp; Execution</td>
<td>• Selects and works with agencies to develop advertising materials (i.e., print, TV)</td>
<td>• Advertising</td>
</tr>
<tr>
<td></td>
<td>• Reviews material, provides feedback and manages relationship with agencies</td>
<td>• Collateral</td>
</tr>
<tr>
<td></td>
<td>• Conducts/triggers research around effectiveness of advertising effort</td>
<td></td>
</tr>
<tr>
<td>External Communications</td>
<td>• Develops external communications, media and public relations strategy and plan</td>
<td>• Communications Plan</td>
</tr>
<tr>
<td></td>
<td>• Coordinates and creates all external communications (i.e., presentations, articles)</td>
<td>• Media Plan</td>
</tr>
<tr>
<td></td>
<td>• Ensures consistent communications to customers</td>
<td>• Public Relations Plan</td>
</tr>
<tr>
<td>Public and Media Relations</td>
<td>• Manages public and media relations; publicly addresses incidents or threats that may impact the corporate reputation</td>
<td>• Public Appearances</td>
</tr>
<tr>
<td></td>
<td>• Proactively markets successes and positive results; supports public appearances, as needed</td>
<td>• Public Presentations</td>
</tr>
</tbody>
</table>
Chapter 5: Ensure Sustainability

**Strategic Choices**
- How will we diversify our local business portfolio to support long term growth?
- What resources do we need to recruit and/or develop to support long term growth?

**Key Business Questions**
- How sustainable is our core sector in the local market?
- What adjacent sectors offer attractive opportunities for long term growth and diversification?
- What new service offerings do we need to develop to compete in these adjacent sectors?
- What capabilities and resources do we need to support a more diversified business portfolio?

**Major Activities**
- Building local market intelligence on adjacent sectors
- Crafting longer term diversification plan
- Developing longer term local talent plan
- Setting specific growth objectives and milestones to track over time

**Supporting Tools**
Getting Started
Key Benefits of Geographic Playbook

Developing a playbook to guide the organization in geographic expansion helps address many of the pitfalls of more opportunistic approaches.

- **Stage Investment Decisions**
  
  *Playbook explicitly stages expansion decisions and corresponding investments to ensure the each is supported, sequenced and scaled*

- **Foster Commercial Mindset**
  
  *The playbook helps embed commercial thinking by focusing on the markets wants and needs*

- **Make Data Backed Decisions**
  
  *Decisions are informed with market level data and analytical tools, enabling a more comprehensive and objective decision making process*

- **Create Consistency**
  
  *Ensure that opportunities are evaluated using the same disciplined set of best practices*

- **Build Broader Commitment**
  
  *Involving multiple stakeholders in the expansion process, a broader platform of individuals will be involved and vested into the success of the office*

- **Set Mutual Expectations**
  
  *Helps set expectations across the key stakeholders*
Creating Your Own Playbook

To start the process, align on your objectives and issues and then charter a team to drive the development of the playbook.

**Align on Growth Objectives**
- Company’s growth ambition over the next five years
- Role that geographic expansion will need to play in driving that growth

**Review Past Experience**
- What has worked well and what hasn’t in past experience with geographic expansion
- Key issues that are most important to address going forward

**Charter a Team**
- Cross-functional representation for input and buy-in
- Development opportunity for high-potentials