

'REBUILD' AND THEY WILL COME

Construction Industry Bouncing Back

By Symone C. Skrzycki

Like a phoenix rising from the ashes, the construction industry is experiencing a rebirth as it recovers from the Great Recession.

Businesses are growing, fueling the need for new buildings. The housing market is steadily improving. And a multitude of projects throughout Indiana are boosting the state's economy.

But make no mistake: The industry still faces its share of obstacles. The No. 1 challenge is talent – specifically, attracting and retaining skilled workers – according to a quartet of industry veterans who joined *BizVoice*® for a spirited discussion.

The American Society of Civil Engineers' 2013 Report Card for America's Infrastructure (conducted every four years) projects that a \$3.6 trillion national investment will be needed by 2020 to address growing needs for roads, public parks and recreation, bridges, levees, schools, aviation and drinking water.

Bringing their knowledge and passion to the table are:

- Jeff Hagerman, chairman, The Hagerman Group, at www.thehagermangroup.com
- Michael Patarino, senior vice president, Keystone Construction Corp. and Keystone Realty Group LLC, at www.keystone-corp.com
- Kerry Stemler, owner and CEO, KM Stemler Co. Inc., at www.kmstemlerco.com
- Brad Skillman, president and owner, The Skillman Corporation, at www.skillman.com

Skillman keenly reflects that employees lay the groundwork for the organization's success and enrich his job every day.

"In construction, we're very lucky in that we draw some very special people," he emphasizes. "It's a brotherhood; it's a calling. But ultimately, it's the fact that you're responsible for these people and watch them grow and develop their families. The average tenure of our employees is 15 years – so they're not employees; they're family."

"Our mantra in our organization is, 'Everybody is obliged to leave the company in a little better shape than how they found it.' When you have that kind of mentality and that philosophy – you love building the buildings, love seeing what's going on."

Technology: blessing or curse?

Stemler started KM Stemler Co., a commercial

industrial contractor in southern Indiana, 40 years ago at the ripe age of 18. He's astounded by technology's evolution.

"When I started, we didn't get people iPhones and iPads," he recalls. "Everything's done that way (today). The fact that they can take a photograph of a problem and get it right to the architect or the engineer, and we can go back and forth with it (is remarkable). They can be sitting two states away or whatever. It makes a big difference in how we can move that information around and solve problems, and move a project forward."

While harnessing technology is a powerful way to enhance competencies, it also can hinder progress according to the panelists. Skillman – whose company serves markets ranging from health care and higher education to hospitality, K-12 and more – expresses mixed feelings. He contends that it can complicate, rather than streamline, communication in some cases.

"The downside is, 'All right, quit emailing the issue. Pick up the phone or get face-to-face with the person and solve the problem.'

"It's good and bad. It's made us more efficient, but at the same time, construction, just like anything else, is a people business. And unless you can sit down with (your employees) and say, 'All right. We're going to put the iPad away and figure out how we're going to resolve this,' the technology can be a hindrance sometimes."

Generational differences can magnify the matter, with older workers often less experienced and more uncomfortable with new technology.

It's a challenge Patarino has encountered at Keystone, which specializes in mixed-use, multi-family and commercial projects.

"We're in a constant training mode right now and that's never going to stop," he stresses. "Making sure that everybody accepts the technology and they're trained on it – we still find it a daily challenge out there."

"All the young people, they're instantaneously adapting to the technology and really training some of our older staff all the time. It's one of the things that we've been using to try to move younger managers to the field because we need to train those guys over time to be superintendents. We see some synergy there and some more collaboration between the generations, which helps quite a bit."

Hagerman – easy going in nature, but passionate about his field – has been actively involved in the industry since age 14 (although he quips that he's been a part of the construction world since birth at his more than 100-year-old family firm).

"It's amazing to see how our old-timers, they wouldn't think about running a job without a set of blueprints. And new guys can run an entire job with no prints on the job," he observes.

VIDEO BONUS: CONSTRUCTION INDUSTRY EVOLUTION



Hagerman cites the cost of technology as an obstacle.

"It wasn't 10, 15, 20 years ago, I guarantee our IT budgets, our technology budgets, weren't a tenth of what they have to be today," he recalls. "How quickly technology is changing and making sure that we're able to keep up and communicate with our clients – some of them are extremely advanced – has been a real challenge."

Lightening the load

How do you change misconceptions about the construction industry that may be deterring young people from pursuing related careers? Provide opportunities for exploration as soon as possible. Before high school. Before middle school. Start with kindergartners.

"We need to convince young people that the construction career is a worthy endeavor and a worthy career," Skillman declares. "You hear a lot about the skill trade or the skill gap. But, selfishly, in construction that's the only skill trade that can't be outsourced. You can't outsource work that needs to be done in somebody's community ...

"We've vilified our trade," he continues. "How many of us, if we went and sat down with our high school counselor and said, 'I want to go pour concrete,' would have been encouraged to do that?"

"You look at all of the press that comes around the cost of a four-year degree. Well,



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Michael Patarino

in our industry (within) six months to two years, you can be trained and out in the workforce with an average salary much higher than most four-year-diploma kids are coming out with."

Hagerman seconds that.

"Two or three years ago, we were 40,000 or 50,000 welders short within the country," he says. "You look across the board with respect to the carpenters, the electricians, the plumbers, the pipefitters – we're having a recruiting problem. And 2008 to 2012-2013 didn't help our industry."

"We had a mass exodus in those years. A few of those folks went back to school to get training to either be in a different industry or a different position within the industry. I think we're going to have issues as we move forward because there has been such a pent-up demand for construction."

"Infrastructure is just one example. You're going to see it across the board in a lot of the vertical markets over the next 10 years, and there just won't be the people to build the buildings."

Another position experiencing shortages: superintendents. When Stemler asserts that the average age of an on-site superintendent is 50 and older, Hagerman nods in agreement and adds.

"Their position description has changed, and I think that's created some of the challenge," he muses. "Ten, 15, 20 years ago, a lot of those folks came up through the trades, came up through the field. And now with technology and the (qualifications) we're requiring of our superintendents (regarding) communication and education, those kids are now having to come out of schools. It's tough to find that because, again, counselors and everybody else are saying, 'You don't want to be field based; you want to be office based.'"

Skillman chimes in, "Which is a dirty little secret. That's the best job. You want to be a superintendent."

Patarino calls attention to a positive development that's presented opportunities and obstacles.

"The economy has been coming back. The number of unemployed has been going down and what we have found is retention of people is becoming harder and harder now because salaries are starting to go up, compensation packages are going up and everybody is starting to steal everybody else's really good staff."

"So to compete, we have to start giving higher salaries. We've got to start looking at our bonus structures, our additional compensation, incentives, health care, all of that. And when we lose somebody good based on some of those



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Jeff Hagerman

issues, it's very tough to try to pull somebody from – I hate to say it – another company. Or, we even look out of state to try to pull people into Indiana, which is always a positive thing: to drive people back here."

Skillman takes it a step further, maintaining that talent is an integral part of any successful growth strategy.

"You always have to have an R&D budget, and you need good people and a strong balance sheet in order to grow. If you do a good job, the growth will come, your clients will take care of you, your existing clients will grow with you and you'll be fortunate."

"We always look (at R&D investments), no matter what kind of year we've had. In 2007-2008 when everybody was struggling, we still had the R&D budget. You don't cut that."

"You're constantly evaluating your people and their qualifications," he contends. "Every organization has 'A' players. Every organization has 'B' players and 'C' players. But you have to be honest with yourself and say, 'Who are we going to invest in for the future? Who are the ones that when things get tight, we're going to protect no matter what? What are we going to do to constantly evaluate?'"

"You have to do that during the up times. At the same time, you do that in the down markets."

Talking trends

If there's one thing that keeps Stemler up at night, or at least vexes him during the day, it's the troublesome permitting process at all levels.

"I can work around weather. I can't control it, but I can anticipate it," he declares. "I can kind of manage it. But I can't work around the bureaucratic process – whether

it's corps (U.S. Army Corps of) engineers, whether it's the state, whether it's whoever."

Attesting that "it's a bigger problem for us than it's ever been in my lifetime," he wonders aloud if his fellow panelists confront similar challenges.

Hagerman is the first to jump in.

"The process has gotten so encumbered to build even the simplest facilities anymore," he concurs. "You're exactly right. It's so hard to get commitments from any of these municipalities – whether they be federal, state or local (regarding) when you'll get permits, when you get any type of release.

"You made all these commitments to clients, and sometimes you have to go back and say, 'I'm sorry, but it's going to be three more weeks before we can get a permit.'"

Another consideration involves controlling growth. One strategy Keystone employs is balancing development and construction offerings.

Patarino provides an example: "How many construction companies – you probably bump into a lot of them that are starting to add development services to what they're doing, because this allows you to control your growth a lot better," he notes. "We're always trying to go with a 50-50 mix of having outside clients and doing stuff internally, in trying to find that balance to control the growth.

"Over the last eight years, a lot of contractors went out of business – in '07, '08 and '09 – but out of that, over the last three or four years, there's been a lot of new companies that have formed and gone into the business. That creates more competition and is still helping to drive fees very competitively these days. ... The fees are starting to come back some, but they're still so competitive"

In addition, increased access to funding is providing a boost.

"We're seeing it in almost all of the markets we work in – available funds, whether they be through private equity or even through the financial institutions," Hagerman affirms. "There's a willingness to invest in the majority of the projects we're targeting."

At the same time, Stemler observes: "There's a lot of businesses that want to expand, but just – whether it's our national politics or whatever – aren't making investments."

It's an insight that resonates with Skillman.

"That's a great point," he observes. "We're seeing that, 'Yes, I'll hire people, but I won't

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Brad Skillman

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Roundtable

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make capital investments in some of the capital equipment and some of those other things to really take it to the next level.' Everybody's dipping their toe."

Skillman says the scenario reminds him of the Great Recession.

"The reason why several of our companies got involved (in 2007 and 2008) with some real estate and picked the partners they did was because we had to buy our own work," he explains. "So in 2010, '11 and '12, when no one else had a project, we were getting together with developers, and the successful construction companies were using their balance sheets to bring partners to the table to co-fund projects that we could then build."

Leaving a legacy

Projects that make a long-term impact – business-wise and beyond – are the ones that these leaders carry closest to their hearts.

Stemler, in one of his many civic roles, was instrumental in the long-awaited Ohio River Bridges Project (see story on Page 46).

"The amount of activity in River Ridge Commerce Center, once the Ohio River

Bridges Project certainly became a reality – it's a 2.3 billion dollar infrastructure project – it changed how everybody looked at that Louisville region because it solved a problem, and that was a huge investment."

Skillman points to a \$150 million facilities plan launched by Valparaiso Community Schools of which he's especially proud. In addition, he describes a special revitalization project in and around the Gary area.

"(As part of the team), you get to refurbish in neighborhoods that don't get a lot of attention that all of a sudden do get that attention. It makes a significant impact and it acts as the economic catalyst in that community and as a sense of pride for a community," he remarks. "It was just a neat project to be a part of."

Patarino offers a closing perspective:

"I'm turning 53 this summer, and what I find getting up every single morning is that I know I'm affecting and changing people's lives every single day. The mentoring, the coaching of staff, training people, seeing the light bulb go off for them, and helping people achieve success personally and individually; for me, I get real jazzed by that."

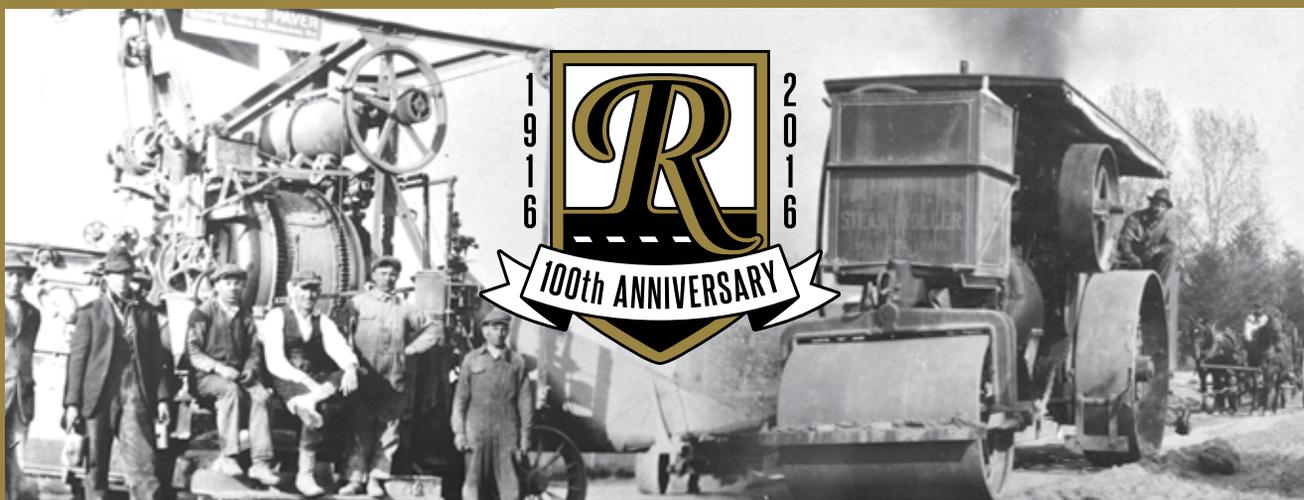


"What I'm a firm believer of, in this country, is if we build infrastructure that really does make a change, you'll spur development like you've never seen before. We're (the Ohio River Bridges project) a living example."

Kerry Stemler



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The employee-owners of Rieth-Riley would like to thank the public and our valued customers, subcontractors and suppliers for trusting and supporting us for 100 years. We will continue to maintain the reputation upon which you have come to know and depend.

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