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Geographic Strategy: In Texas, as Elsewhere, All Construction Is Local

By Mike Clancy

A few years ago, a marketing campaign for the state of Texas used as its tag line the phrase, "Texas: It's Like a Whole Different Country."

While the tongue-in-cheek point of the statement was the diverse nature of this state and its imposing breadth and scope, it also has an interesting second definition. Many of the trends and market conditions operative here in the Lone Star State are a microcosm of the broader national picture—which is not surprising, since Texas' $1.65 trillion economy is only a little smaller than that of Canada. With an economy that large, and with that much complexity, what lessons can contractors draw from Texas that can be applied on a broader scale? While this issue of the "Quarterly" addresses several strategic questions, one which may be interesting is the extent to which, even within a single state, construction remains largely a local business.

Thinking Locally, Acting Globally

Historically, local market dynamics made it difficult to achieve scale in the construction industry. Particularly with respect to the private market, local incumbents were often the natural favorites due to their relationships and local area knowledge. Through the first half of the 20th century, local firms heavily drove construction and even major public works projects often went to the local incumbents. Apart from relatively few firms that were largely focused on major government and energy projects or significant private projects, construction was local in nature.

Starting in the 1950s, however, the increasing complexity of projects and their growth in size and scope caused regional and national players to multiply and expand. Today, the top-20 firms perform over 10% of the nation's construction volume. This trend has accelerated in the past two decades, introducing an entirely new set of strategic dynamics to our industry. Particularly for small and midsized firms, the impact of increasing consolidation at the top of the industry presents obvious concerns about future competitive dynamics.

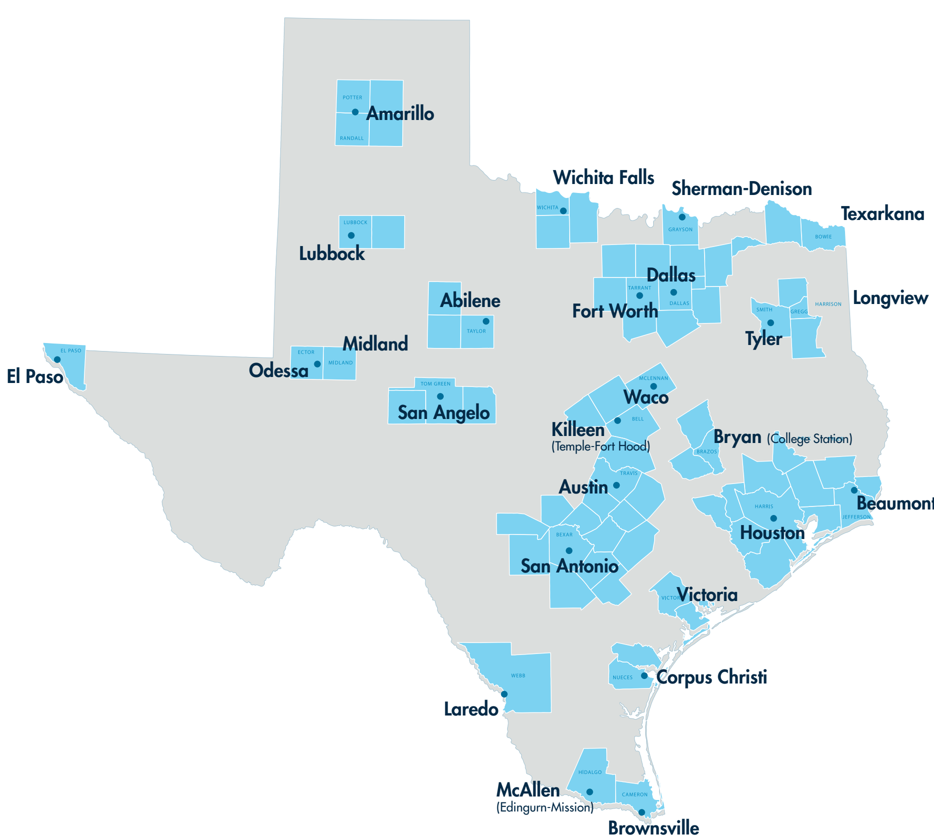
However, it is abundantly clear—from looking at the Texas construction industry as an analogue for the broader market—that this remains a business where local presence is critical. Perhaps that is not surprising, given the varied cultures and geographic distances between the largest Texas metropolitan areas, but this has interesting parallels in other parts of the country. As someone who cut his teeth in South Florida's construction industry, for example, it was often harder for firms from Fort Lauderdale to compete in Miami than it was for national or international firms—and vice versa—even though the two cities are only 30 miles apart. Likewise, here in Texas, companies often need operations in each of the major cities if they want to be taken seriously.

Culture Varies by Geography and Can Make the Difference

Because the major cities in Texas are dramatically different culturally, and with accordingly different market dynamics, firms need to have operations in multiple locations. Each of these cities has its own key industries, so firms that wish to serve those industries need to be present to win.

Houston's status as America's energy hub is well-known. The city's heart beats with the oil and gas markets, and its culture is accordingly driven by risk-taking entrepreneurs. This has led to a boom-and-bust marketplace, where projects can dry up as the price per barrel goes down. However, as the fourth-largest U.S. city by population, Houston is also home to significant investments in education construction and an impressive medical spend

Exhibit 1. Texas Metropolitan Areas



Data source: ESRI, 2017

driven by the downtown medical district. As a result, general building contractors have felt the need to have offices in Houston alongside their peers serving the industrial, refining and energy spaces. Accordingly, every one of the country's top-10 contractors has significant operations in the Houston metro area, and a quarter of the region's largest contractors have their regional or national headquarters there.

On the other hand, the Dallas metroplex, which includes neighboring Fort Worth and Irvine, is the commercial and financial capital of Texas. When combined with its neighbors, the Dallas metro area surpasses its "grown-up little brother" Houston as the fourth largest in the country. Dallas is home to many corporate headquarters and is seen as the established, mature market for the state. As one might expect, many regional and national firms with a long history in Texas house their operations in and around Dallas. Additionally, firms with a focus on corporate clients tend to find their best fit there.

Austin is home to the state capitol, and so, historically, firms that had a lot of business with the state government (particularly its Department of Transportation) found it necessary to have offices there to support that significant customer. The higher education market, embodied in the University of Texas, also drew its share of contractors seeking to be close to their clients. In recent years, though, Austin has experienced surging growth in a younger, more diverse population, driven by a significant number of technology-oriented employers that located in and around the city. So firms that work in the multifamily space, serve the technology industry or whose corporate cultures tend to favor a millennial workforce have found Austin to be a welcoming base of operations.

In addition to these cities, San Antonio and El Paso round out the list of six Texas cities in the top 20 for population size nationally and host their share of national and regional firms.

As Always, Strategy Is About Saying "No"

With so many different business cultures across such a broad geography, the challenges of serving the Texas market are obvious. Companies in other parts of the country face similar challenges, namely: How can a single firm serve multiple market sectors and geographies effectively, short of opening dozens of offices everywhere it seeks to do business?

The short answer is that it isn't possible for most firms to serve every market and geography in a place like Texas. More importantly, most firms probably shouldn't even try. This also holds true for other parts of the world. Strategy is about the opportunities a firm chooses to say "no" to as much as those it chooses to pursue. Therefore, the best strategic choice is to identify those market sectors and geographies most aligned with the firm's culture and capabilities and focus on them. Firms engaged in the energy space might focus their efforts on Houston and Midland, as one example.

But what about when your firm sees good opportunities in multiple geographies? What can you learn and apply from the companies that have been successful working across the 270,000 square miles of Texas? Here are a few good strategies to keep in mind:

1. **Align office culture with local culture.** As Henry Ford is credited with saying, "Culture eats strategy for breakfast." If this statement is true in the positive, it will also be true in the negative. In other words, if you have the best strategic reasons in the world for being in a geography, but your culture is incompatible with the culture of that geography, success will be tough to achieve.

2. **If you're unsure, look for low-cost options.** If you aren't completely certain that a new geographic opportunity is the way you want to grow your business, look for lower-investment ways to enter in the short term. Joint venture partnerships are often attractive for this reason, but other moves short of establishing a regional office can also be an effective way to "try before you buy."

3. **Don't force the issue.** Companies often follow good clients to a geography that seems like an attractive location for expansion. While this may appear to be a low-risk way to get into a new market, it can sometimes lead firms to pursue noncore work in an effort to remain in the geography, particularly if the office is led by local hires or if the geography is a desirable place to live in. Forcing the issue can lead to winning work that causes the company to lose—financially, reputationally and culturally.

4. **Be willing to "burn the ships" if necessary.** On the other hand, having a toe in a market in perpetuity is a surefire way to guarantee your firm is never seen as a truly local player. Attitudes towards "carpetbaggers" haven't changed much since the 1860s, but they now cross geographic and cultural lines. So if you've decided a specific geography is important to your firm's future success, follow Hernan Cortes' approach and burn the ships. Go all in by investing in research to understand the market, relocating key leaders from the corporate home who can drive the culture, hiring local experts, and supporting the effort with leadership from the home office.

Understanding Local Dynamics

The lessons learned while operating across a sizable geography such as Texas, with its accompanying cultural and market sector diversity, can have broad applicability for contractors across the country. Understanding the local dynamics, ensuring the geography and its associated opportunities are aligned to company culture, and making appropriate investment decisions remain critical strategic disciplines. In short, making the right decisions by knowing when to say "no" will always matter, regardless of where your strategy leads you. And, if it leads you to Texas, remember—it really is like a whole other country here.

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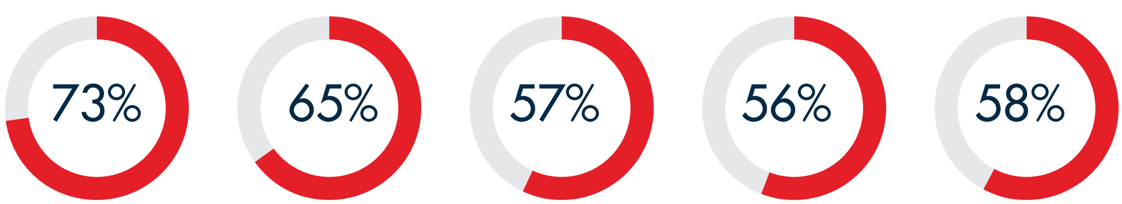

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