

Currie road  
construction limited  
recommendation  
essay sample



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BUSTER**

Currie Road Construction Ltd should enter the US market (Houston, Texas) by setting up a wholly owned subsidiary, and will be involved in road maintenance. While Currie can make the most of the \$880 million stimulus that the BC government is considering, by expanding into the Texan market, it will be able to earn additional cash flows over and above the ones earned from BC operations. Currie is projected to earn more revenues from road maintenance \$1751. 24 as opposed to road construction, which is projected to yield \$ 832. 65.

### Strategy Formulation

Currie Construction has a number of options laid down before them. As a trusted advisor, three options were narrowed down to after understanding Currie Construction current position (refer to Exhibit 1&2) and the pros and cons of each were discussed to find out the best possible route to take.

### Stay in Canadian market

Like the US government, the BC government is also considering spending more than \$880 million in infrastructure spending. This would give a boost to the recession-ridden road builders and heavy construction companies. As per our estimates (refer to Exhibit 3), this stimulus would augment the revenues of Currie and despite them holding a 2. 7% market share, which is relatively small compared to the other big players in the market, it would be able to earn \$93220 million in 2009 (refer to Exhibit 3).

However, this option is not a viable one for Currie, who wants continued success, as the stimulus of \$880 million is an uncertainty and we cannot rely

on it and there is no guarantee that we will maintain our market share post the stimulus, as the top 3 companies, who presumably have larger asset base and capacity, will be in a better position to take advantage of the demand as opposed to us, where we are limited by our capacity. Also, since the BC market is fragmented and has fierce competition, it would be difficult for Currie to maintain healthy margins while competing for a favourable chunk of the stimulus.

### Road construction in Texas

The TxDOT is anxious to identify shovel ready projects and has scheduled nearly \$2.75 billion worth of project bids for April 2009. Through our analysis we identified that only 32% of the infrastructure projects were for construction, while 68% were for road maintenance. This would translate into a projected revenue of \$832.65 million for Currie (refer to Exhibit 3). If this option is pursued, Currie will have to invest in buying new equipment, as its current equipment is old and breaks down often. Investing in new equipment would amount to a substantial capital expenditure, and Currie may not be in a position to finance this over and above financing the setting up of a wholly owned subsidiary.

Currie is anticipating making more than 4% net profit on revenues with the new equipment, as abnormal profits seemed to be present in the Texan market. However, what these abnormal profits range to is more of a guess than a fact. Currie does not have complete understanding of the market and the customers. Currie, being a relatively smaller player will also have to take into account the fierce competition it will face from the established

construction companies in Texas, once the ban on them is lifted (for price-fixing).

### Road reconstruction and maintenance in Texas

Currie's primary strength is in road maintenance activities of pavement grinding and scarifying operations. Currie already has a good idea about this market as it had previously worked in the US as a subcontractor on several road rehabilitation projects. With 68% of the maintenance project bids, Currie is projected to earn \$ 1751. 24 million of revenues in one month (refer to Exhibit 3).

Maintenance is a viable and a safer option to exercise, as it will give Currie a feel of the Texan construction industry and evaluate whether they can serve this market profitably. Also, since the number of bidders in the Texan market is less compared to the BC market, despite the likelihood of fierce competition, Currie, on the strength of its superior quality is better positioned to be competitive.

### The way forward

Currie Construction will set up its Houston division, which will be wholly owned subsidiary and focus on road maintenance, which is its core competency and also its competitive edge. Though this means that there will a substantial resource commitment, Currie will be able to finance to this expansion by taking a loan from the bank, by keeping as collateral its valuable pieces of real estate (eg, two golf courses) whose potential value is

enormous. Since the Texan market has low entry barriers (refer to Exhibit 4), it will not be difficult to set shop there.

Though the company is still clearing its outstanding debt, Currie is optimistic that they are headed in the right direction. With this new venture, we are assuming that since the TxDOT is has expressed enthusiasm in Currie entering the market, we would be able to gain some subsidies from the government in setting up the wholly owned subsidiary and revenues earned from the new venture, would be able to cover the interest expense on the new loan. We could have sold some of our property to finance the wholly owned subsidiary, but due to recession, it would be tough to find the right buyer and a right price.

Currie will have to follow the red ocean strategy of competing in the existing market. It will have to differentiate itself on the basis of advanced road maintenance techniques than those in use in Texas and make them available at a low cost. In order to make the most of the stimulus made available for infrastructure upgrading, Currie will have to bid aggressively and have multiple maintenance projects in its portfolio. Even if the stimulus does not come through, government of Texas had budgeted UD \$ 1400 million a year towards infrastructure upgrading. This makes road maintenance in Texas a lucrative option, which will help improve Currie's profit margins in the long run, that are currently depressed (refer to Exhibit 1).

The low labour cost will also improve the margins. Currie will have to make a value-cost tradeoff, by creating greater value for its customers at a higher cost. By demonstrating their merits to the key government contacts, it would

be in a better position to establish itself as a quality leader, which will benefit Currie in bagging more contracts and strengthening its position.

Instead of moving its specialised machinery from BC to Texas, Currie could lease and/or rent these machines from the companies that are currently facing the ban. Since their capacity is lying idle, they might be willing to negotiate a reasonable leasing/renting cost. This will save Currie the money and effort of moving its grinding machines and scarifiers and instead it could explore customers that could lease these machines during the lean winter months from Currie. This will lead to additional revenue stream for Currie.

Implementation Plan Schedule:

1st year| |

| Since Brad Carlyle lacks civil engineering background and relevant experience, Currier will have to find a suitable manager to run the Houston division. Currie can take advantage of the low labour cost in Texas and due to rising unemployment; it will not be difficult finding a manager.| | Involve Carlyle in building valuable contacts within both the government and the construction industry. Capitalize Carlyle's knowledge in understand how the Houston market operates. | | Carlyle can be entrusted with the responsibility of training the new manager and staff| | |

3rd year| Evaluate projected revenue growth (refer to Exhibit 4) and review any changes that need to be made to the operations.| | Based on the performance of the current and ongoing projects review if BC operations can be reproduced in Texas. | | By now Currie should have made strengthened its

position in Texas, and should either explore a partner to diversify into new construction segment or serve the market on its own. It should try to compete in surrounding states of Florida, Georgia, North and South Carolina, Tennessee, Alabama and Louisiana. |

## Exhibits

### 1. Base case analysis

Profitability| Financial Position| Market Performance|

Gross Profit margin 2007 2. 582008|

1. 59|

| Interest Coverage Ratio 20070. 542008|

0. 44|

| Ranks 10th in the market and has 2. 7% market share|

Return on Current Assets 2007 0. 122008|

0. 05|

| Net Income 2007-0. 472008|

-0. 35|

| |

Current Ratio 20072. 582008|

1. 59|

| Growth in revenues 2007 0. 162008|

0. 17|

| |

\* It is difficult to make rational conclusions from these numbers as the industry average/benchmark is not provided. Also, since the company went through restructuring recently and the economy is in recession, these <https://assignbuster.com/currie-road-construction-limited-recommendation-essay-sample/>

numbers are not representative of the Currie's actual potential. \* Despite the Current Ratio dropping from 2.58 to 1.59, it is still a decent ratio, as anything above 1 is safe. \* Net income showed marginal improvement because due to the fragmented nature of the market coupled with recession and the burden of the interest coverage expense.

## 2. Management preferences:

Aggressive and competitive, committed to leadership, diversification of product and services.

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## Diamond-E framework

### Environment:

Fragmented market, fierce competition, limited growth. BC government considering stimulus

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### Strategy:

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Diversification

### Organization:

Recently restructured. Lean and aggressive



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**Resources:**

Backward integration, technologically advanced, fully integrated accounting system

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**3. Alternatives Evaluation**

| Stay in Canada | US maintain | US build |

Projected Revenue | \$ 2,376.00 (880\*2.7) | \$ 1,751.24 (87561884\*0.

02/1000) | \$ 832.65(41632302\*0.02/1000) | Total Projected Revenue | \$ 93,

220.62 (81842\*1.11+2376) | \$ 83,593.24 (1751.24+81842) | \$ 82,674.65

(81842+832.65) | Profit Margin Average | 6.125% | 7.00% | 6% | Projected

Income | \$ 5,710.07(93220\*6.125%) | \$ 5,135.68(81842\*6.125%+83593.

24\*7%) | \$ 5,063.05(81842\*6.125%+82674.65\*6%) |

The average revenue growth rate is calculated to be 1.11%. Total revenues are the addition of last year's revenues \$81842 + projected revenue of \$2376. The total infrastructure projects scheduled to for bidding in Texas during April 2009 were segregated into Maintain and Build projects. Total of Maintain were calculated to be \$ 87561884 and total of Build were calculated to be \$ 41632302.

**Assumptions:**

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\* It is assumed that on entering the US market we should be able to capture a 2% market share, as we currently have 2.7% market share with more number of bidders and by operating in a mature market which has limited growth. So it is assumed that in a market like US (Texas), which is growing and has lesser competition, we should be able to capture 2% of the market in both the cases- maintain and build respectively. \* In case of profit margin (maintain), it is assumed that Currie will enjoy 1% growth in margins to 7% because it is assumed that we will be operating at full capacity, cheap labour availability which will boost our profit margins. \* In case of profit margin (build) it is assumed that profit margin average to be 6%, since Currie could make more than 4% in net profit on revenue.

#### 4. PEST analysis:

POLITICAL -BC-Economic recession causing downturn in government revenues.-Unclear if MTI would be in a position to continue funding major improvements to BC road infrastructure.-Canadian law makers considering stimulus of \$880 Million in infrastructure spending.-Implementation not as aggressive as Texas.| POLITICAL- TEXAS-US federal law makers considering unprecedented stimulus spending.-To inject \$100 Billion into infrastructure spending. Approx \$27 Billion earmarked for highway and bridge construction.-More than \$4.5 Billion stated for projects approved by TXDOT-Shovel ready projects TXDOT to allocate \$2.75 Billion.| ECONOMIC-BC- Approximately 100 road construction and maintenance companies.

-Fierce competition and fragmented market.-10 companies bid on one job at a time in BC to gain market share.- High entry barriers-Shift from road

constructions to reconstruction and road maintenance. | ECONOMIC TEXAS- Mostly family owned, cash rich, companies-Due to collusion- Competition limited-Average number of contractors bidding per job was approximately 4.- Due to broad economic slowdown, fierce competition expected.-Low entry barriers.| SOCIAL- BC-Labour intensive-Higher wage rate than Texas| SOCIAL- Texas-Labour intensive-Ease of locating supervisors and equipment operators due to rising unemployment.

-Large population growth and minor labour unions.-Hire blue collar employees at half the wage rate that curie was paying In BC-Internal contacts with government officials and construction industry prove beneficial.| TECHNOLOGY- BC-Road maintenance which Currie possessed more advanced than those in Texas.-Old equipment prone to breakdown causing delay and high over run costs affecting profit margins| TECHNOLOGY- BCCurrently no vertical integrated companies.|