

How do the competitive dynamics differ between concentrated markets with few contractors, like hospital construction, versus fragmented markets with many contractors, like residential work?

Hypothesis: Larger contractors can secure projects not only on their bidding potential but also on their business context, while smaller contractors rely heavily on bidding to secure jobs. Larger contractors have to pay higher wages because the task of building larger constructions requires higher skill sets, including Superintendents, project managers, and some contractors. Unlike smaller contractors, who hire cheaper labor to reduce costs, given the smaller returns on those smaller construction sites. Larger contractors can buy larger assets and materials at lower cost, giving them a quantity advantage, while small contractors have to rent and buy materials at higher cost due to smaller contract size.

Research question

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Real world connection(ENR 2024)

According to the ENR, 75 percent of the top 400 contractors are 75-150 years old, while only 5-10 percent are under 40. Contrast that with the Fortune 500 companies: only 15-20 percent are 75-150 years old, while 45-50 percent are under 40. This raises the question: why are the top contractors' ages not commensurate with the overall economy, and whether it's possible to become a young contractor on the ENR list?

3 text book examples

Oligophy and strategic behaviors

Wage determination

Business and the cost of procurement

Chapter 13 — Oligopoly and Strategic Behavior

The larger the project, the fewer contractors have the capability to build it. The barriers to entry are much higher as you reach those bigger projections. Some examples are surety bonding, which is a guarantee that the job will be finished. Also, experience requirements for an architect who designs a house and a hospital have 2 different skill sets. Contractors also compete with their brand. When they get to that level, they don't necessarily win the job because of the bid; they win because their name carries weight.

Chapter 17 — Wage Determination

The increase in scarcity of trade jobs has driven up labor costs. Larger contractors can absorb these pay increases because of the job's size, while smaller contractors bear a larger share of those costs.

Chapter 9 — Businesses and the Cost of Production

Bigger contractors can purchase in bulk, reducing the price per unit, while smaller contractors cannot. Larger contractors have the capital to purchase their equipment, which reduces machinery costs; smaller contractors have to rent their equipment, which eats into their costs over time. These cost gaps compound over time, making it hard for smaller contractors to grow.

close

In conclusion, larger contractors can dominate the industry because of their scale, reputation, and resources. The question is: can you become a top contractor under 40? It's extremely difficult given what makes a top contractor a top contractor. The only way is to start in a fragmented market like residential and grow into niche contracted ones to leverage their reputations.