50 LESSONS LEARNED IN 50 YEARS

THIS QUARTER

Thought Leadership 4
by Jerry Jackson

OPPOSING VIEWPOINTS

Implementing Best Practices Through Creative Leadership 7
by Ralph James

Best Practices? Bottoms Up! 9
by Jerry Jackson

DEPARTMENTS

A brief look at current trends from FMI's key service and market areas.

Markets

BASIC MATERIALS

Consolidation in the Ready-Mixed Concrete Industry 12
By Jim Short and George H. Reddin

CONTRACTORS

Real Risks and Returns for Design/Build: The Future is Now 13
By Hank Harris

ENGINEERS AND ARCHITECTS

Six Interesting Trends for A&E Firms in 2003 15
By Jim Krug

MANUFACTURERS/RETAIL/DISTRIBUTORS

Construction Products and Equipment Suppliers: A Focus on Channel Effectiveness 16
By John Hughes

OWNERS

Healthcare Design and Construction — Trends from the Industry Leaders 17
By Gretchen McComb

TRADE CONTRACTORS

Trade Contractors Focus on Responsible Growth 18
By Stuart Deibel

Services

FMI CAPITAL
Five Reasons to Consider Private Equity 20
By Kevin J. Mitchell

MARKETING AND SALES
Does Marketing Really Work? 21
By Cynthia Paul

MERGERS AND ACQUISITIONS
Priorities: Management Succession, Ownership Transfer 23
By Ben Brahinsky

PROJECT DELIVERY
How to Upgrade Your Project Managers 25
By David Stone and Rick Reese

STRATEGY
Back to the Strategy Drawing Boards 26
By Jerry Jackson and Ken Roper

TRAINING
A Change in Thinking: Making a Training Investment 27
By Ken Wilson

FMI'S 50 LESSONS LEARNED IN 50 YEARS

Achieve a high level of buy-in from project stakeholders during the scheduling process. 32

Acquire a company only as part of a strategic direction. 34

Acquire competitive knowledge. 36

Avoid adversarial behavior. 38

Base price on value, not simply costs. 40

Capitalize on market information and data. 42

Consider the cultural fit challenge of acquisition integration before buying or selling a company. 44

Coach for leader development. 46

Collect receivables on time. 48

Communicate, communicate, communicate! 50

Competitors' costs aren't the same as yours. 52

Continually evaluate management succession issues. 54

Continually evaluate ownership transfer issues. 56

Create an organization capable of rapid change. 58

Develop a profit attitude. 60

Develop *best* people through great training. 62

Develop customers by intent, not accident. 64

Differentiate the company's services. 66

Embrace generational differences. 68

Follow up on training and calculate your return on investment. 70

Foster teamwork. 72

Hire the best and brightest. 74

Hold daily huddles. 76

Install a system of integrity. 78
Invest in extensive project manager development. 80
Keep good people. 82
Keep your surety fully informed. 84
Know your costs; price for profit. 86
Link compensation to your strategic vision. 88
Make every project manager a business manager. 90
Make presentations that sell for you. 92
Manage cash before earnings. 94
Manage time effectively. 96
Measure what matters. 98
Negotiate with a win-win approach. 100
Obsessively execute plans. 102
Partner for profits. 104
Plan your strategy; plan your business. 106
Plan, plan, plan! 108
Profit is not a dirty word. 110
Provide superior customer service. 112
Renew leadership. 114
See your company through your customers' and employees' eyes. 116
Seek out opportunities for improvement from the front line. 118
Share best practices through peer groups. 120
Understand your core competence. 122
Use an accurate process for cost-to-complete projections. 124
Use structured planning. 126
Volume kills; profit thrills. 128
Work for good clients under good contracts. 130

Publisher & Senior Editor
Jerry Jackson

Editor & Project Manager
Alison Carrara

Marketing Manager
Sally Hulick

Graphic Designer
Mary Humphrey

Board of Directors

Hugh Rice
Managing Director

Robert (Chip) Andrews
Chairman

Jerry Jackson
Chairman

Hank Harris
John Hughes
John Lamberson
Kevin Mitchell
George Reddin
Ken Wilson
Bob Wright

Departmental Editors

Markets

Basic Materials
George Reddin

Contractors
Hank Harris

Engineers & Architects
Jim Krug

Heavy Highway
Scott Humrickhouse

Manufacturers & Distributors
John Hughes

Owner Services
Gretchen McComb

Trade Contractors
Stuart Deibel

Services

FMI Capital
Kevin Mitchell

Leadership
Ron Magnus

Marketing & Sales
Cynthia Paul

Mergers & Acquisitions
Stuart Phoenix

Project Delivery
David Stone

Strategy
Jerry Jackson

Training
Ken Wilson

CONTACT US AT:

www.fminet.com

quarterly_info@fminet.com

Contributors

Brisbane Brown
bbrown@ufl.edu

Michael Colburn
bpicolburn@aol.com

Bill Moore
usbuildlaw@aol.com

This Quarter: Thought Leadership

Dear Construction Executive:

Thought leadership.

That's what we plan to bring to you each quarter with the *FMI Quarterly*. Our premise is ambitious, given the many sources of data and information available within the construction industry as well as the flood of general business management writings.

For 35 years, we've brought you subscription-based writings directed to management. First, with *The Executive Program* (1968–1984), and most recently, *The Contractors Management Journal* (1985–2003). With each change, we've attempted to step up the quality of our content and your subscription value to a higher level. The *FMI Quarterly* continues that tradition.

In this, our inaugural issue, we're providing you both a test-drive of this new vehicle and a compilation of 50 lessons from our 50 years of service to the world-wide construction industry. In future editions, we'll explore just a handful of issues in-depth. We'll profile interesting industry figures. We'll also provide you with editorial commentary, observation of trends, and explicit advice from up to 14 departments.

Six of the 14 departments will draw from FMI's key services:

- Leader & Organizational Development
- Marketing & Selling
- Mergers & Acquisitions
- Project Delivery
- Strategy Development & Implementation
- Training

Periodically, we will report on key issues and trends within eight of our targeted market sectors:

Capital Markets
Construction Materials Producers
Construction Product Manufacturers, Distributors, & Retailers
Engineers & Architects
Facility Owners, Managers, & Developers
General Contractors
Heavy, Highway, & Civil Contractors
Trade Contractors

As your interests and our services change, we'll modify these departmental offerings.

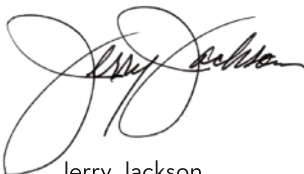
We want our new format to be user-friendly and content-rich. We want you to count on the *FMI Quarterly* for broad perspectives and keen insights, along with provocative and innovative thoughts.

A web-based version is in the works that will repeat some of the copy from our print version. Non-subscribers will be able to access one article each quarter, while subscribers will have online access to most of the content in the print version. Once the electronic version is lauched, it will lag our print publication by 60 days.

Thought leadership. That's an egocentric notion. But we believe that we have a unique opportunity to capture the best of the thinking from industry leaders and from FMI, then deliver it to you in a compact, highly useful manner. And if our thoughts only serve to provoke strong thinking and resulting action on your part, then we've also served our purpose.

We count on your thoughts to help make the *FMI Quarterly* a construction industry institution. Feedback truly is the breakfast of champions, and we continuously seek yours.

Sincerely,



Jerry Jackson
FMI Chairman
FMI Quarterly Publisher and Senior Editor

Opposing Viewpoints: How to Implement Best Practices Within a Company

In this issue, we are presenting you with 50 best practices we've learned in 50 years of consulting work in the world-wide construction industry. Some of them, you might already be practicing. Good for you! Others you may deem worthwhile and decide to implement. But wait — implement, how do you do that?

Implementation of best practices is a vital component to any programmatic effort to spread the use of better business practices throughout the organization. And two main approaches exist for accomplishing this. One method involves the top-down approach. Creative leaders decide which best practices are worthy of implementing and dictate that these practices be used and followed. Senior consultant Ralph James takes this approach in our op-ed section.

FMI Chairman, Jerry Jackson, takes the counterpoint in this controversy, arguing that a bottoms-up approach is best. Using centers of excellence to identify best practices creates the necessary buy-in for long-lasting change, according to Jackson.

We hope these two opposing viewpoints will spark some debate within your own ranks and enable faster, more effective implementation of best practices.

Implementing Best Practices Through Creative Leadership

By Ralph James

Best practices represent a programmatic effort to spread the use of better business practices throughout the contracting organization. Construction organizations are naturally diverse. Unlike a manufacturing facility that's contained under one roof, jobs and the home office are all business centers. If we develop or discover a best practice at one center, its transportability to another center is a challenge — barriers must be overcome.

BARRIERS TO IMPLEMENTING BEST PRACTICES

Barrier One — The "not invented here" syndrome.

Pride can be subtle or brash. "All our methods should be considered, not just John's best practice." Or more brashly, "Our method works better than John's." Overcoming prideful "not invented here" feelings becomes especially difficult if John's method has received the Best Practice of the Year award and we feel, down deep, that we should have won. After all we know our method — we have been doing it for years — if it ain't broke why "fix it" with John's best practice?

Barrier Two — Lack of training.

They told us to start using John's short-interval scheduling system, but no one provided sufficient training. The memo from John that the best practices committee adopted only outlined the method. No one came to our job and really trained us in the finer points, especially the daily update on the computer.

Barrier Three — Our priorities are different.

On John's job they are behind schedule, and short-interval scheduling provided a way to catch up. But our problem is this picky owner. We are ahead of schedule, but he is driving us crazy with his pickiness, and he's pushing us toward a cost overrun. If we take time out to do John's best practice, the owner will have a fit — he's high maintenance.

John's best practice may be excellent for his job, but it just does not fit our situation. We are open to the best practice committee's recommendations because we are good team players, but right now John's best practice would do us more harm than good.

These are natural, human reactions to the center of excellence approach to best practice implementation. Many programmatic efforts by contractors have hit upon these barrier rocks, but there is hope and a better method of implementation.

BEST PRACTICE IMPLEMENTATION THROUGH CREATIVE LEADERSHIP

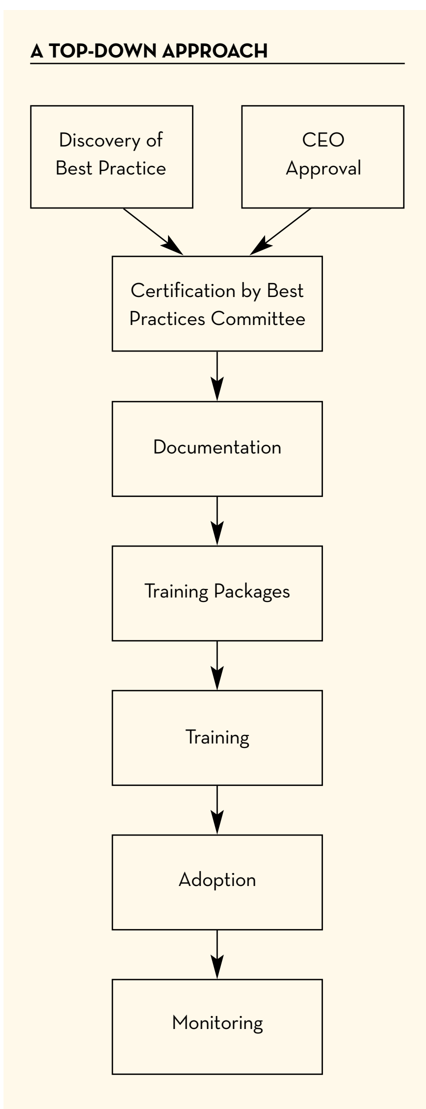
If the leader of a construction company truly believes in a program such as best practices, its implementation rests on his or her shoulders. Vice presidents, project managers, and superintendents who have a full plate, usually believe they are already doing a great job, and can always find ready excuses for not implementing new programs. To paraphrase poet Robert Frost, it's in them and the situation.

Change in the organization must come from the top down. It starts with strong, creative leadership that exercises unity of command.

Unity of command in construction stems from the fact that we can get all the work we want at some price — sometimes just before we go broke. Construction's price sensitivity requires strong, enforced guidelines on pricing and bidding policy. The pressure on estimators is to get jobs. It is the responsibility of senior managers to enforce margin discipline. Creative leadership might dictate an occasional purchase of market share, but pricing discipline, especially on smaller jobs that use relatively more overhead, is essential.

But unity of command also means risk management. Every experienced contractor knows jobs can get out of control with blinding speed. Risk management requires strict adherence to proper business practices as defined by senior management. Persuading and encouraging one business unit or job to follow our best practices is an intolerable risk. Perhaps John's short-interval scheduling tool must be adapted to our local situation, but refusal to adopt is not an option if we have certified this particular best practice as necessary for risk management.

Creative leaders demand unity while insisting on diversity. Otherwise we could never develop better practices. As Collins and Porras showed in *Built to Last,* enduring enterprises try things. Every construction project is an R&D project, because no design is perfect, and every muddy job site is far from perfect. As we move down the learning curve of how to do concrete forming on one job, subtle nuances may not change our basic forming method, but they may take 3% of the cost out. If these nuances are properly documented and certified by the best practices committee, then this cost savings no longer remains an option to use on other jobs. Construction margins are too thin to allow optional adoption of proven cost saving methods. Ultimately the only one who can enforce this risk management, this benefit of diversity, is the senior leader.



Naturally, senior leadership bares the responsibility of proper implementation of any change.

In the heyday of total quality management implementation, one CEO read an article about TQM and issued a memo proclaiming that everyone would immediately implement these good ideas. Unfortunately, the program failed, because no one had a clue what he was talking about — much less how to do it.

Big Tim, our oldest superintendent, has learned how to get along by going along. He has finessed many fine programs trotted out by those screwballs in the office. We keep him around because

his jobs make money, but he would not think of using "one of those darned computers." "Going along" means using the new forming nuances that the best practices committee (and CEO) insisted upon, but it does not mean using a computer for that other thing — you know, those fancy short-interval schedules. Big Tim will use a pencil schedule, but that computer scares him.

Every contractor recognizes the old guard vs. new technology challenge. Creative leaders implement best practices without firing the old guard whose experience they desperately need. It was just this kind of challenge that caused the invention of project managers — superintendents both hated and could not handle the growing amount of paperwork. Perhaps we implement the short-interval schedule through the computer skills of the project manager. He or she works closely with the superintendent as they do their best practices together. The superintendent provides detailed updates from the field and the project manager keeps the computer running in the job trailer.

Accommodation of individual capabilities is the only way senior management can implement change. But notice that this top-down approach does not surrender to higher risk and cost because of non-acceptance of the program. Creative leaders find a way to make things happen. They do not hope everyone will see some shining example. They monitor and enforce programs that are known to be beneficial, but they also remain open to suggestions for continuous improvement. They recognize the reality of barriers such as the "not invented here syndrome" and create corporate cultures in which the search for better construction methods both inside and outside the company is encouraged.

Ancient Greece was indeed the cradle of democracy. Every citizen was to be respected, but some confused democracy with license and suddenly no one felt like picking up the garbage. This smelly situation became an early stimulus for representative democracy. And today our efforts to implement best practices must again avoid the risk and cost of license through creative leadership that makes things happen. ■

Best Practices? Bottoms Up!

By Jerry Jackson

The toughest element of change management is getting people to want to change. Even in a high command-control environment, if the "want-to" is missing, then you may have grudging or even malicious compliance. This "want-to" is just another way of saying that you need buy-in to get the best and fastest change management.

You may not think of something like standardizing project management processes as needing change management. It seems simple enough: find the best practices in project management and inflict those best practices on the rest of the organization. Write a memo. Maybe even call a project management meeting, then just lay down the law, right?

You need change management all right, and you need a bottom-up approach. In today's world, top-down just doesn't get it — even if you long for the "good old days!"

OBSTACLES TO ADOPTING BEST PRACTICES

Pride of Authorship.

By changing what I do, you're anointing someone else as having the "right" answer. You're putting me down! Look, I've been in this business awhile. I didn't just

fall off the turnip truck. My way of running work usually works. I've made a fair amount of money for the company over the years. Now you're going to tell me that Harry's ways are "best practices?" No way!

Perceived Loss of Productivity.

Look, I know and my team knows the way that we do things on my jobs. If we go changing the system, we're going to lose the ability to work together as a well-oiled team. You can't minimize the time that it's going to take for us to learn a new system. And anyway, if we have to learn a new system, let's start it on the next job. After all, we're six months into this one.

WIFM?

What's in it for me? Why should I change my project management practices? Oh, I see. I get to keep my job. Look, if that's the way this is going, you can take this job and…. The thing is, if I can't play the game my way, I just may pack up my toys and go home.

Old Habits Die Hard.

Even if we were to agree to do things differently, we have to affect a lot of behaviors beyond our own. We would have to change the interface that we have with the owner, with the designer, with upstream and downstream contractors … this stuff won't be easy. Our organizational memory will keep pulling us back to the way we used to do things. This is not going to be a fast process, this business of changing our workflow.

It's Too Complex.

This is a simple business. You are complicating it beyond belief by putting all this regimentation, regulation, and bureaucracy in place. Since I don't really want to change anything, I only partially listened and partially read what you've given me so far. It seems like it's going to be really time-consuming, and not focused on the key points to running a successful project.

CHANGE PRACTICES WITH CENTERS OF EXCELLENCE

The previous obstacles are real and will derail most attempts to "command" a new way of project management or any other significant process change. Take a somewhat slower approach, introduce the concept of centers of excellence, and pull off lasting change through a bottom-up approach to change management. Here are a few principles.

Build a Case for Change.

It's a good idea to develop some fact-based reasons for any significant change. Looking at the volatility of actual costs vs. estimated costs on completed jobs might give one reason for standardizing project management procedures. Companies who have frequent reassignments of project team members to new teams can benefit from standardization. Slippage on project schedules may indicate a need for process change. If some project managers never make bad subcontractor or procurement decisions and others seem to have more than their share of "bad luck" you may need to change the project management process. And, if you're going to standardize, why change to any system other than one based upon best practices?

Get Early Involvement.

Wait a minute. Are you going to build the case for change yourself? You could and then start getting involvement by asking a group of people, "What do we do about this?" Or, you could back up a step and ask a team to study project management results (if you sense a need for process improvement), identify issues, and propose solutions. You can call this group a committee, a task force, or a project team. But, you could also identify the members as "Centers of Excellence" and explain that you want their participation because they are good at what they do. With very light steering on your part, you should get the group to conclude that some adoption of "best practices" is needed.

Surface Best Practices.

Assuming that some changes are needed, the "Centers of Excellence" should be encouraged to share methods and processes used in project management. This is not a fast process, nor is it a one-time meeting. In fact, if you want to go deep and wide, you will probably put a process into place that takes months to complete. At issue is the need to exchange a lot of information, some of which is written or codified and easy to share. Other information is tacit and deals in experiences, anecdotes, or stories. It takes awhile to exchange this information. You have to encourage a significant amount of time together so that both tacit and codified information can be exchanged.

Avoid Laws.

Where possible, best practices of your "Centers of Excellence" should be allowed to bubble up so that people adopt what works well for others. This takes awhile as well. However, the elective, free-will adoption of someone else's best practices is far superior to a "cram-down." The very elective nature assures that adopting project teams don't engage in malicious compliance. Since it's their idea to implement the changes, the inattention that would be given a top-down order doesn't exist in this case. It does take longer for best practices to be embraced in this fashion. However, the increased waiting period for adoption is more than made up for in the speed and effectiveness of post-adoption implementation.

Reward Success.

Rewards are always an effective reinforcement technique. Rewards don't have to be monetary. You can start by recognizing the work of the "Centers of Excellence" team in identifying needed changes in project management processes. Resist the temptation to criticize their work as incomplete. Give them praise for what they DID, not complaints for what they didn't do. Next, reward through recognizing any center of excellence with a best practice. Best practice in sub procurement? Acknowledge! Best practice in job closeout? Acknowledge! Then, find a way to recognize early adopters of best practices. These are the project teams who shift from their old ways to a new best practice. Finally, continue to salute and recognize the ongoing work of your "Centers of Excellence" for project management.

Bottoms up best practices. It takes longer but it works so much better in today's world. It's really a simple process of involvement, education through sharing, decision making, action, and rewards for reinforcement. What you lose in time, you'll gain in the "stickiness" of the change. And wasn't lasting change what we wanted? ■

Departments: Markets

BASIC MATERIALS

Consolidation in the Ready-Mixed Concrete Industry

The recent merger and acquisition activity in the ready-mixed concrete industry is no surprise. The industry's characteristics are similar to other industries in which consolidation is occurring. Indicators that consolidation is likely to occur, include the product becoming a commodity, which is the case with ready-mixed concrete. While many companies have differentiated their products though value-added concepts and services, many customers are interested in price alone and make purchase decisions based solely on low price. An additional characteristic of a consolidating industry is when processes can be standardized to increase the potential for higher productivity and greater economies of scale and knowledge.

For the ready-mixed concrete industry, the past 10-year upward economic trend produced a period of exceptional prosperity, which was evidenced by the large number of companies that experienced record sales and profits. This prosperity sparked a significant amount of consolidation activity as many ready-mixed companies sought to expand.

However, we are in a cyclical industry that over the past 40 years has seen an average economic cycle of approximately six years in residential construction. Currently, we are in the downward portion of the construction cycle. With the burst of the technology bubble and an overcapacity in manufacturing, construction activity has slowed dramatically. The slowdown of the national economy has placed burdens on many state budgets. Consequently, many public construction projects have been delayed or cancelled. This slowdown in the economy has created a slowdown in consolidation activity.

The ready-mixed concrete industry is a mature industry, characterized by a low growth rate. On a national average, this industry can be expected to grow at the same rate as the overall construction industry, which experienced a 1.3% annual growth rate in constant dollars from 1984–1999. For the period from 1991–2001, the compound annual growth rate (CAGR) for total construction dollars was 6.2%. Volumes of ready-mixed concrete grew at a CAGR of 6.3% for the same period, but the price of ready-mixed concrete grew at a CAGR of 2.7%.

Given the industry's low growth conditions, it is difficult for a company to achieve significant growth internally. One of the principle metrics Wall Street business analysts and investors use to determine if a company is a good potential investment is the projected growth rate for an industry. Key questions analysts ask include: "Is your firm able to sustain an annual growth rate above your peers in the industry?" And

more importantly: "How does your industry's growth rate compare to the growth rate for other potential investment opportunities?" Smaller producers may be able to respond positively because high growth projections are more easily attainable if the company begins with a smaller base; however, in many markets, sustaining this level of organic growth would be impossible while still maintaining an acceptable level of profitability. For example, a company with a $100,000 revenue base would need to increase the prior year's sales by $15,000 to sustain the 15% annual growth. If, however, the company begins with a $10 million revenue base, they must add $1.5 million in sales to maintain a 15% growth rate. More importantly than just growth in revenue, analysts want to see growth in earnings. While the market grows at 6% and the price may go up 2% to 3%, best-of-class producers may pick up additional earnings with productivity improvements.

But even with the accumulative effect of these factors, a large company must consider growth through acquisition as well as organic growth in order to achieve its targeted earnings growth rate.

Another factor that impacts the growth rate of the ready-mixed industry is competition from other building materials such as hot-mix asphalt, wood, plastic, and steel. The ready-mixed industry has responded to this competition with a strong and effective marketing effort; however, it is unlikely that the industry will achieve high growth rates due to the mature nature of the construction industry.

Overall, market conditions in the ready-mixed industry make it highly favorable for consolidation activity to continue, although the nation's economic slowdown has slightly dampened the type and size of this activity. This may continue the industry's trend toward tuck-in or bolt-on acquisitions that are more strategic in nature than those we have seen in the past. In addition, we expect that the market will remain a buyer's market, as opposed to the seller's market that we saw a few years ago. Despite the changing market, many business owners will continue to need viable exit strategies, and selling to an outside buyer may be the best option for many owners. On the buyer's side, many companies will want to supplement organic growth as well as have a dominant position in their markets, which can be achieved only through acquisition. Thus, we believe that the outlook is positive for continued consolidation in the ready-mixed industry, although we believe this activity will be at a slower pace in the near-term than we have seen over the past five years. ■

Jim Short *is a senior consultant with FMI's Mergers and Acquisitions Group. He can be reached at 303.398.7264 or by e-mail at jshort@fminet.com.* ***George Reddin*** *is on the board of directors of FMI. He can be reached at 919.785.9286 or by e-mail at greddin@fminet.com.*

CONTRACTORS

Real Risks and Returns for Design/Build: The Future is Now

While design-build delivery of projects is not totally new, the degree of fervor for it in the U.S. construction market is a relatively recent and growing phenomena. According to the Design-Build Institute of America, this form of delivery accounted for 5% of the U.S. market in 1985. Today, it's approximately one-third of the market and is expected to be one-half of it by 2005. However, design-build can mean different things to different people. Designers, contractors, and other entities are actively planning to expand or diversify into design-build.

A major challenge for all of these firms, as well as for some existing providers, will be to establish just what design-build will truly consist of and how it will return satisfactory value to the firms for the additional risks they assume.

Clients will obviously differ in their specific needs and interests, but design-build hits several common hot-buttons. Probably the most common of these is schedule compression. Studies indicate that design-build saves an average of 33% on the total process schedule. In today's increasingly fast-paced economy, the cost to many owners of being inoperative is huge compared to their investment in capital programs. Other owners are interested in capping their financial exposure early in the project development process. The ability to nail down financing or know that a total pro forma will work is a sufficient gain for them to commit to a design-build process. Some owners are simply seeking something different or better than "business as usual." Quite often, these owners want to be involved in the project process, but they are fatigued by the warfare created in low-bid construction. Other motivations abound, but the key is to pick the clients that have sufficient motivation. This does not include clients that:

- Will not pay anything for pre-construction and design services
- Think the concept is interesting, so seek to pair you with a teammate that they like and you don't know
- Seek to reduce the choice of a design-build entity to a price basis.

For some reason, in the mind of the U.S. public, the built environment evokes price as the major issue. Americans do not buy heart surgery, legal defense, or IPO underwriting this way, yet mention "construction" and the average American registers "bid." Thus, the right client for your design-build initiative is not the average American. The right client is going to be tired of business as usual. The right client is going to be enlightened to the fact that fees or profits of the service providers are an insignificant fraction of overall costs. Such a client is also able to develop trusting relationships, which are key to the successful functioning of any design-build effort. Establishing a tight profile of the right client and sticking to it are important ingredients of success in the design-build arena.

A battle is currently being waged in the world of large capital projects. It's a multi-participant, marketing battle that has A/E firms, contractors, program managers, construction managers, owners' representatives, bridging consultants, and even large accounting firms all vying for the same prize — the trust of the owner. Alternative delivery methods and alternative service providers are proliferating as different players seek to establish a differentiated place on the playing field. Design-build offers a differentiated position — especially for marketing-driven firms that are able to aggressively package and sell services. These firms convince clients to invest up front. They are selected for their qualifications, not just price.

No one knows for sure how far the design-build movement will go in the United States. However, the fragmentation of the U.S. market almost guarantees unqualified entrants will get involved at an increasing rate — making it hard for it to go as far here as it has in other global markets. However, with design-build growth projected to grow from one-third of the domestic market to one-half, the opportunity exists for qualified companies to succeed with design-build. If you aspire to this success, carefully consider your design-build strategy. If it is not at least doubling your margins, change it. You can't justify the increased risk without the upside reward. Above all, avoid jumping on the bandwagon just to say that you are on it. Do not stake out a strategy position until

you make sure that the results will justify the efforts. Then move swiftly to create a capability that will win. The margins will tell you if you are on the right track. Remember, when it comes to capturing high returns with design-build, the future is now. ■

Hank Harris *is on the board of directors of FMI. He can be reached at 919.785.9228 or by e-mail at hharris@fminet.com.*

ENGINEERS AND ARCHITECTS

Six Interesting Trends for A&E Firms in 2003

A continuing question we are being asked by clients is, "What do you see happening in the A&E industry in 2003?" Obviously, the war on terrorism, Iraq, Enron, etc. has caused a great deal of anxiety and concern about the year ahead. Business as usual is out and a trend toward really taking a hard look at your business strategy is in. The go-go years of the 1990s are over, and many firms that prospered in great economic times are struggling with the changes in the business landscape.

The following are a few trends to watch for in 2003:

Firms continue to shift from practice-centered firms to business-centered practices. There is a movement toward firms knowing as much about their client's business as they do about their own. For instance, a county commissioner recently stated he always calls a particular firm with airport expertise first, before he calls the FAA with a question. "Those guys know that stuff better than some of the folks I talked to in Washington."

It's a two-tier market. The largest firms and the small, niche firms are in the best position. Large firms have the advantage of a broad resource base, and smaller firms are defined. However, some large firms went on a buying frenzy and have assumed massive debt loads. These firms may unravel if the bank calls the loans. Midsize firms are getting caught in the economic squeeze. In many pockets of the industry it is a "buy or be bought" mentality. What is your strategy to buy? What is your strategy to sell if the phone rings?

Firms are seeking to "decommodify" themselves. A&E firms need to move out of the "commodity" mode and into a value-added mindset. If you look in the yellow pages in any city in the United States, there are plenty of A&E firms listed. Why not call them all and get the lowest price? Every firm talks about being different, but few take the time to really define what that means in the eyes of the customer.

Increases in a firm's equity are not guaranteed. Most of us have witnessed a huge decrease in our 401k plans; the equity markets have been hammered on Wall Street the past two years. Some firms still believe the value of their firm increases automatically every year a certain set percentage. Make sure you have a quality valuation each year that is comprehensive and not the cheapest you can find.

Many specialty firms are going to have to learn to surf this year. If you are a "highway" firm or a "water resource firm," you have had a decade of increased state funding, increased federal funding (TEA), etc. Most states however are now hurting with fallen tax revenues compared to the 1990s, and federal funding is up in the air. Not everyone can be or should be a military contractor. What can you do to surf through these next few years and maintain your core practices?

There are always opportunities if you let go of the past. Too many of us long for the "good old days" and lament the current business conditions. However, the really good strategic firms are moving quickly to adjust to the new business climate. What

new practice or service can you provide to existing clients? What does your market research tell you about the factors clients would use to buy more of your services?

Predicting the future is a risky business. But the trends above should give you some insight into the current and future status of the A&E industry. ■

__Jim Krug__ is a senior consultant with FMI. He can be reach at 303.398.7280 or by e-mail at jkrug@fminet.com

MANUFACTURERS/RETAIL/DISTRIBUTORS

Construction Products and Equipment Suppliers: A Focus on Channel Effectiveness

As uncertainty continues in many sectors of the U.S. economy, business leaders continue to reassess their plans and direction. Manufacturers supplying the construction industry are certainly no exception.

While some segments, particularly those oriented toward the residential sector, have experienced unexpected continuing strong demand, others have been severely challenged with deteriorating market demand and intense competition. Regardless of the market, one shared emphasis of these product and equipment suppliers is a renewed focus on channel effectiveness. How they go to market, who they do business with, and the nature of their customer relationships are being closely examined with an intensity not previously experienced.

This focus on channel effectiveness will continue the trend of formalized "customer tiering" with the likely outcome of doing more business with fewer, highly targeted and well-supported channel partners. In some cases, this means "firing" long-standing customers who no longer meet the requirements of today's preferred customer. Regardless of the channel to market — direct, one-step, two-step — the concentration of buying influence will necessitate a more closely linked, strategic relationship between these firms.

Industry suppliers will become more proactive in creating true alliance relationships with a small number of firms that represent a significant portion of their business. To that end, both parties in the strategic alliance will be

CHANNEL PARTNER EXAMPLE CRITERIA

Tier 1:

- Material staging
- Financing
- Design assistance
- Consultative sales approach
- Long-term collaborative relationships with end users
- EDI links

Manufacturer response: Provide advanced level of support, including training and development, customized advertising/promotions, and joint planning with defined goals and objectives.

Tier 2:

- Material staging
- Long-term cooperative relationships with end users
- Interest in developing into a Tier 1 partner

Manufacturer response: Provide intermediate level of support and develop joint plan to elevate channel partner to Tier 1 within a defined time period.

Tier 3:

- Low price
- Adversarial relationships with end users
- No interest in developing into a Tier 2 partner

Manufacturer response: Provide low level of support with no joint planning.

challenged to find ways to effectively support each other, take costs out of the current process, increase market penetration, and build value for the end customer. For those firms that are truly committed to this effort, the role of the sales force will evolve to one of a consultant, the procurement system will be streamlined, communications will be enhanced, customer satisfaction will improve, and value will be added throughout the channel.

Channel partners who wish to make the cut will add tangible value to the end user. Distributors who already provide better service such as material staging and delivery, financing, and design assistance, for example, are best positioned to be the "Tier 1" partners for building product and equipment manufacturers. Low price alone will not carry the day. Today's outstanding channel partners must be able to deliver competitive pricing as only one facet of a high value bundle of products and services.

As the construction market slowly rebounds, look for a few suppliers to emerge as segment leaders working closely with a smaller number of more effective, more focused channel partners — leading the way to higher performance levels. ■

John Hughes *is on the board of directors of FMI. He may be reached at 919.785.9224 or by e-mail at jhughes@fminet.com.*

OWNER SERVICES

Healthcare Design and Construction — Trends from the Industry Leaders

Key decision-makers in the healthcare industry are facing increasing pressure to deliver their capital projects on time and within budget. Admissions growth in hospitals in the United States is booming, and design and construction executives are "anteing up" their efforts to overcome the challenges facing the healthcare industry. FMI recently surveyed a number of healthcare design and construction executives to determine best practices and critical issues. Their responses lend insight into where our industry is currently and where the future is taking us.

SURVEY BACKGROUND

Respondents to the survey, including vice presidents and directors within healthcare organizations, are primarily spending $125 million to $600 million annually. Over half of the respondents reported that hospitals are their primary program spending. Other areas include nursing homes, assisted living facilities, and medical office buildings. The geography of the respondents includes the Northeast, Southeast, Southwest, and Midwest regions of the country.

TRENDS

Project Delivery Methodology

It is not surprising that 100% of the design and construction executives surveyed typically use design-bid-build as their project delivery method. Respondents indicate that the healthcare industry has been slow to adopt the design-build delivery method due to the complexity of hospital projects and a perception of lower quality. A/E/C service providers must continue to prove that an integrated design-build team can meet the challenges of ever-changing user needs and medical technology advancements.

Approximately one-third of the respondents use a GC lead team 100% of the time, while the other two-thirds use a mix of GC, CM agency, and CM at risk. Program management is outsourced by 43% of the respondents, and 29% outsource project

management — in line with other industries. Most owner organizations find that they are being asked to deliver more construction with fewer people, and that challenge not only drives outsourcing but a need to develop stronger, more trusting relationships with service providers.

Strategic Alliances

Of particular interest, 100% of the respondents indicated using alliances with architectural and/or engineering firms. One respondent, when asked about his alliance relationships with A&E firms stated, "We get better results from a quality, cost, and time standpoint." Looking at the design-bid-build methodology, design improvements during construction are quite costly and time-consuming. Yet, respondents only use contractor alliances 71% of the time. All of the respondents are using some type of prequalification process for all service providers. Interestingly, 29% of the respondents indicated they do no type of partnering on their construction projects despite the fact that, when properly utilized, partnering has proven to improve project performance across many industries.

It is clear from this survey that there is a need for strong relationships with the right service providers, effective preconstruction planning and owner-need identification, and tools such as technology to control change. There is no perfect combination of project delivery, contracting, and outsourcing methodologies. The key is to focus on continuous improvement in the capital delivery process. ■

__Gretchen McComb__ is a director in FMI's Denver office. She may be reached at 303.398.7203 or by e-mail at gmccomb@fminet.com. __Andrea Schmidt__ is a marketing coordinator in FMI's Denver office. She can be reached at 303.398.7205, or by e-mail at aschmidt@fminet.com.

TRADE CONTRACTORS

Trade Contractors Focus on Responsible Growth

Trade contractors are focusing on responsible growth for the 21st century. The frenzy of the 1990s is long gone, and contractors now have the opportunity to concentrate on successfully finishing the current job rather than moving onto the next job. As competition tightens, smart contractors will learn to differentiate themselves and to do business in a slightly different way.

Subcontractors as a group are diverse and unique. The market challenges, economic drivers, and strategies for the future differ based on specialty. But similarities are also shared. We see these main issues impacting specialty and trade contractors as a group.

MARKETING AND BUSINESS DEVELOPMENT

Subcontractors who focus on public work have faced increasingly steep competition as the private construction market cooled in late 2001 and 2002, and margins are down for fiscal year 2002. Many projects earlier in the year were put on hold, and some were even cancelled. The result is that subcontractors are scrambling to find work, putting downward pressure on prices. Not finding the plentiful work of a few years ago, subcontractors chasing private work have stepped back into hard-bid, public construction in an attempt to keep their people busy and fill gaping holes in backlog. Six to 10 bidders typically bid on a public project, and that number is growing. This growing competition will affect profit margins. At the level of 10 bidders, the probability of achieving a margin is close to negligible.

Backlog is holding within 20% of the record-high year's volume. The challenge is that profit margins for backlog work are down. Subcontractors are looking for opportunities to grow profit margins through up-selling options on projects, pursuing change orders, and continuing to elevate field productivity. The market pinch for subcontractors will ease in 2003. In most parts of the country, subcontractors will enjoy a recovery in late 2003 and early 2004.

Some customers, also impacted by the soft economy, are asking subcontractors with which they've had long-term negotiated relationships to bid jobs. Budget crunches have encouraged some customers to ask general contractors to bid on projects that would have been negotiated in the past. Motivated by the bid competition, general contractors and construction managers are putting additional pressure on subcontractors to cut profit margins and shorten the construction timeframe.

The softened economy has reduced revenues for most subcontractors. However, although it is easy to slip into concern over the financial health of a company due to the revenue lost, most subcontractors will enjoy one of their best years on record in 2003. For other subcontractors, their 2003 revenue will more closely reflect 1998 and 1999 — the 2003 market will be down from the prior year but still remain strong. The current challenges of getting work will be short-lived and provide subcontractors an opportunity to refine their effectiveness at getting work.

The frenzy of the 1990s is long gone, and contractors now have the opportunity to concentrate on successfully finishing the current job rather than moving onto the next job.

The business development sophistication of specialty contractors has grown tremendously over the past several years. Today subcontractors create proposals and presentations that "sell" their proposed solution to the customer and general contractor. Proposals have grown beyond simple responses to RFPs to become a robust sales tool positioning the value-added services being provided.

The increasing cost of insurance and bonding is limiting the profits on projects. Used to the ease of getting bonds on projects, many successful subcontractors are facing a challenge not experienced in the past decade — lack of bonding capacity. Some subcontractors are pursuing joint venture relationships in order to get access to bonding capacity. Those with sufficient capacity find themselves with a short-term market advantage over competitors because bonding is an entry barrier to many big projects.

Subcontractors need to be proactively working to build strong relationships with their bonding, insurance, and banking representatives. Now is the time to expand these relationships outside traditional providers so there are backup plans in the event the primary relationships quickly change. ■

Stuart Deibel *is a senior consultant with FMI. He may be reached at 919.785.9239 or by e-mail at sdeibel@fminet.com.*

Departments: Services

FMI CAPITAL

Five Reasons to Consider Private Equity

Private equity is an exit alternative that has only been available to engineering and construction companies in recent years. The prolonged economic boom of the late 1990s and the unprecedented financial success of many companies in our industry caused private equity investors to gain substantial interest in the engineering and construction industry. As the economy has slowed, many firms in our industry have continued to prosper, which has only furthered the interest of outside investors. Private equity firms make investments in operating companies for three to seven years with capital they raise through institutions, businesses, and wealthy individuals. Private equity can be an excellent interim step for an owner who is not ready to sell his business yet, but may be ready to sell in the next five years. Outlined below are five reasons to consider private equity as an exit alternative.

REASON #1 — SUBSTANTIAL LIQUIDITY

Private equity transactions are an excellent way for owners wanting to remain private to obtain significant liquidity at an attractive valuation without having to transact an outright sale. Most private equity firms prefer to purchase over 50% of the equity in a typical transaction. This can generate substantial liquidity for the owners to "take some chips off the table" and diversify their net worth, while maintaining significant ongoing ownership. This also allows new ownership opportunities to be developed and day-to-day operational control to be maintained.

REASON #2 — GROWTH CAPITAL

In addition to providing liquidity for the selling shareholders, private equity firms will provide additional debt and equity capital for internal and external growth opportunities. In many businesses, the management team has excellent growth plans but does not have the capital or is not willing to "bet the farm" to execute a strategy. This could include opening branch offices, entering a new product or service line, or making select acquisitions of marketplace competitors. Private equity investors are more than willing to provide the capital necessary to execute growth plans that make strategic sense.

REASON #3 — ELIMINATE PERSONAL GUARANTEES AND RETAIN OPERATIONAL CONTROL

Many owners have created substantial personal wealth and are looking to eliminate

personal guarantees to the bonding companies and banks. In the past, this was difficult to do without selling the business to a competitor and giving up control to a larger company. In a typical private equity transaction, all shareholder guarantees are eliminated, and day-to-day control remains with the management team. While most investors prefer to purchase over 50% of the equity, they have no interest in running the business on a daily basis. Private equity firms will have approval rights on major issues such as new acquisitions, capital raises, strategic plans, and future liquidity events but investors will leave the daily operation of the business in the hands of the management team.

REASON #4 — OBTAIN A STRONG PARTNER WITH ALIGNED GOALS

Private equity professionals not only bring financial strength to help finance the business, they traditionally possess relationships and contacts that can help generate new customers and new supplier relationships. The investors will participate in the business at the board of director level and many possess significant operational expertise and have extensive merger and acquisition experience. The investors also have many other portfolio companies that could be facing similar growth issues or could provide a complementary service or customer or supplier relationship. Furthermore, the goal of a private equity investor is to maximize the value of their investment in the company that in-turn maximizes the management's ownership interest in the company.

REASON #5 — "SECOND BITE AT THE APPLE"

In a typical private equity transaction, the management team will still own a large percentage of the business (10% to 50%) through a combination of retained ownership and new stock options granted by the investor. Therefore, in three to seven years when the outside investor is ready to exit their investment, the management team will receive substantial additional value for the business. Hopefully, since the initial investment, the business will have grown and retired debt and will be worth much more than the original valuation. In many instances, owners can receive more money from the "second bite at the apple" than from the first.

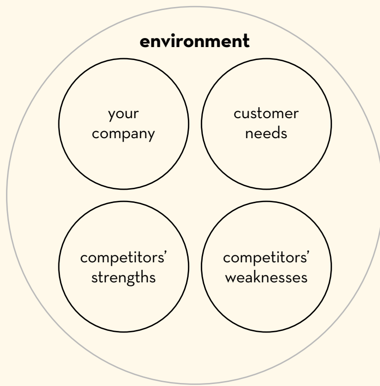
As mentioned earlier, the engineering and construction industry has held up surprisingly well through the current recession. For many owners this phenomenon is generating tremendous opportunities to achieve maximum value for the businesses they have built. A sale to a private equity investor may be an ideal way for your firm to transfer ownership, achieve significant liquidity, and remain involved in day-to-day operations. ■

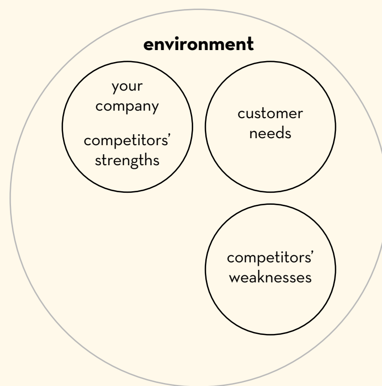
Kevin Mitchell *is on the board of directors of FMI. He may be reached at 303.398.7213 or by e-mail at kmitchell@fminet.com.*

MARKETING AND SALES

Does Marketing Really Work?

Sitting in the back of the room at a regional convention for contractors, I heard a guest speaker state emphatically that marketing doesn't work! Knowing heads bobbed up and down to the soft music in the background. Based on the speaker's research, the more money an architect or engineer spends on marketing, the less profitable they are. He said that he *actually* read that somewhere. If that is true, what if that truth was also applied to contractors? Could it be that marketing doesn't work for contractors either?





The message resonated with the audience. Contractors are struggling to decide first what "marketing" is, and second, what costs should really be charged to the marketing effort. Clarifying these two problems will shed light on the validity of the speaker's statement. In other words, we need to define both the term and the process in order to allocate spending and decide if the costs are justified by higher profits. Spending marketing resources unwisely will reduce bottom-line profitability without achieving the goal of the marketing process — capturing customer preference.

Most contractors underspend on marketing strategy and overspend on promotional tools. The same can be said for architects and engineers. The challenge, then, if we want to be able to say that marketing really does work, is to target our precious resources such that profitability increases. Putting your logo on baseball caps, golf balls, and notebooks is marketing, after all, but it's only a small part of the marketing puzzle.

Marketing strategy is the key to a profitable marketing effort. If you have a clear marketing strategy, rather than just a bunch of marketing things you do every year that cost you money, then the money spent will be an investment and not just another profit-eating expense. That investment should pay off by increasing the number of future projects and loyal customers and by giving your company customer preference on new projects. Marketing strategy answers the fundamental question "How are we going to achieve our vision for the future?" For too many contractors, that vision is fuzzy, which means they need some corrective lenses if they are going to use it to steer their business development and marketing programs in a profitable direction.

Marketing strategy starts with knowing the marketing environment. That means knowing who the customers are, what the customers want from a contractor, and who your competition is. With those pieces of the puzzle, the strategy is easy to figure out.

Giving a prospective customer your new baseball cap will not create the loyalty you need to get a preference on their future project even if it does look great on a shelf. When you are working from a clear strategy, you will use a balanced mix of available marketing communications tools, logo items, public relations, corporate brochures, web site, etc. That communications mix must be designed to position your company in the minds of the "right" customers, customers who value the services or products you have to offer.

Exhibit one demonstrates the way most people think about marketing strategy. It is something that is created without the benefit of understanding what is important to the customer, other than price, that is. Nor does it pay particular attention to what the competition is doing. This thinking treats these issues as separate entities, just floating around in the market environment.

Too often contractors tell customers what they offer, making sure to work the following phrases at least once into everything a potential customer might read:

1. "On time"
2. "On budget"
3. "Safety"
4. "Good people"
5. "Quality"

That's what all the other contractors are saying, too. It might not be true, but to a customer who doesn't know better, it sounds like all contractors offer the same things.

Exhibit two demonstrates the problem. As long as you are saying, we have "all the above," you share all the strengths of your competitors. You might think that that says you are as good as any of your competitors, but the customer doesn't make the distinction that way. The customer sees that what they are buying is a commodity. That subtle distinction narrows any negotiations to the basis of price and price alone.

To avoid the commodity trap, you need to set up a dialog with the marketplace that focuses the conversation on customer needs. What do you do to meet those needs that your competitors don't do or can't do? Shore up any areas where you aren't meeting those needs now, and minimize any of your competitors' strengths, while you subtly highlight their weaknesses. Where all those actions overlap, you have the opportunity to craft a marketing strategy that sells your company on value — not on price.

Was the speaker at the convention right? Does marketing adversely affect your bottom line? No. Plan on spending more on your marketing strategy next year and less on marketing communication tools, and the proof of that assertion will show up on your bottom line. ■

Cynthia Paul *is an FMI director. She can be reached at 303.398.7206 or cpaul@fminet.com.*

MERGERS AND ACQUISITIONS

Priorities: Management Succession, Ownership Transfer

Exiting your business through an internal sale sounds easier than it actually is. The process generally involves two parts: the technical transfer of stock and removal of equity (ownership transfer) and the people-oriented transfer of leadership and

management (management succession). The financial aspects of value, stock transfer and techniques, and estate and insurance issues can consume business owners. However, the mechanics of ownership transfer are often easier to address than those involving people — namely management and leadership.

It's no doubt that ownership transfer planning involves resolving complicated tax and mechanical issues. Your stock has to be valued, and the company's ongoing funding requirements for operations and growth must be met. Compensation, risk, and control during ownership transition are also sensitive subjects that must be addressed. These concerns are vital in building the framework of your plan before the economics can begin to work.

However, given the importance your managers and employees have in producing profits, focusing on management successors as the foundation of an exit strategy seems obvious. Most business owners, however, spend limited time and energy concentrating on the management succession process and often fail to develop successors and a sound management succession strategy.

Unlike ownership transfer planning, which is numbers-oriented and primarily objective, management succession planning involves people and can be extremely emotional, subjective, and complicated.

Unlike ownership transfer planning, which is numbers-oriented and primarily objective, management succession planning involves people and can be extremely emotional, subjective, and complicated. Roles and responsibilities have to be defined and transferred. Leaders must emerge and keep employees working together. If key people decide to leave during the transition or strong and effective decision makers do not assert themselves, the business may lose momentum, profits may fall, and the ownership transfer plan may be undermined.

To avoid this potential outcome, you should develop a formal, written management succession plan with enough lead-time to address current challenges, prepare for any surprises, and allow the economics to work. Details, documentation, and drive are key. Leaders should be designated, and the roles and responsibilities of everyone involved should be discussed and revisited annually.

Choosing and developing leaders is a daunting task. A gradual transition generally works best with future leaders shadowing current leaders for some time whenever possible. Training and development of your successors is essential and takes time as well as attention to detail. Defining your role and how you will eventually cede leadership is also crucial. Specific action steps and dates for completion of action steps should be set so that your plan may be monitored and modified periodically.

A well-developed plan will include the goals, input, and feedback of all parties: you, your future leaders, and other office and field employees. Although personal objectives can and will often conflict with one another, no one should lose sight of the overriding needs of the company.

Communicating regularly with your employees during the planning process is an

important tool for preventing potential problems from emerging and for obtaining the buy-in that is necessary for your plan to accomplish its objectives. Making management succession a priority in business succession planning is the best way to ensure that you are able to retire and enjoy the rewards of your labor without sacrificing the health and longevity of the company. ■

Ben Brahinsky *is a director of FMI, located in the Denver office. He can be reached at 303.398.7210 or by e-mail at bbranhinsky@fminet.com.*

PROJECT DELIVERY

A New Project Management Model

Plenty of lip service. Not much performance.

That would be a concise summary of the history of project management in the construction industry. Everybody knows it's important. Few have made the commitment to do it well.

But perhaps we're seeing a change in attitude as the risk shift accelerates away from owners and design firms and onto contractors and design/build teams. In a work-smarter-not-harder world, a realization is on the rise that project management is the secret success ingredient.

Don't look for yesterday's project manager, though. The new model is a high-powered, hands-on activist with a mission. Bridging the gulf between operations and management, this new project manager looks and acts more like a shareholder with a fire-in-the-belly commitment to customer satisfaction and company success. Along the way, he builds a rock-solid team and a mighty fine project too.

The day of the "project witness" — the uninvolved bystander who records the mayhem — is on the way out. No mere administrator, your new project manager takes personal responsibility for the success of the job. He thinks and acts like an entrepreneur with full responsibility for strategy, customer service, financial performance, employee relations, and procedures. His project is his own small business.

He knows that it takes a team to build a project and this cat-herder's first priority is to motivate everyone to move in the same direction and work toward the same goals.

Can your existing project managers be upgraded to the new model? Some yes, some no. Too many project managers wear the title because "we were desperate and he was next in line." He brings little in the way of qualifications or temperament. Companies serious about building project management capability are following a new set of instructions.

Step 1: It's all about communication. And we're not talking e-mail. The best project managers have always been great communicators. They listen well, they provide feedback, and they ensure that the message gets through and understood.

There has never been a problem on a project that couldn't have been dramatically reduced or completely eliminated through better communication. But when groups of construction project managers are evaluated in standard personality tests, their communication skills usually rank as high as their knack for knitting.

Step 2: Pre-screen the candidates. Best-of-class companies run their project management candidates through 360 degree feedback and behavioral preference tests. They provide coaching in identified areas of weakness and work to balance the necessary skill sets. They'll take team building, leadership, and communication skills

over construction smarts any day of the week. They can find a superintendent who knows how to put up a building. They need a leader who can motivate a team.

Step 3: Train them, educate them, evaluate them, grow them. You can't compete in the mainstream of tomorrow's construction industry without a major commitment to training and development. Best-in-class companies have permanent, in-house universities that grow their own project managers. They define the requirements and establish the standards. They're not content with whatever washes in over the transom.

A recent class of young project managers discovered that they could double their profits by finding just six minutes of productivity each hour. They endured three hours of tough questions and some very personal feedback to face down the personality quirks that keep them from doing the best job possible. They busted their behinds for four days to learn that planning is almost more important than execution; that cash flow is their life-blood and they can control it; that schedules are powerful management tools that can be played like a fine instrument; that fine communication means success.

They left that class pumped, ready to rock, and just itching for a chance to bid against you. Are you ready? ■

David Stone *is a senior consultant for FMI. He may be reached at 919.785.9306 or by e-mail at dstone@fminet.com.*

Rick Reese *is a consultant for FMI. He can be reached at 919.785.9294 or by e-mail at rreese@fminet.com.*

STRATEGY

Back to the Strategy Drawing Boards

Sniff a little change in the economic wind and strategy gets second (and third) looks. Rather than use the current market malaise as proof that you really can't plan anything, as was often the case during the market dip 10 years ago, more construction business leaders are saying, "back to the (strategy) drawing boards." Our strategy consultants are active throughout our marketplace with both modification and maintenance of existing plans as well as leading late adopters into strategy development and implementation.

We're seeing not only people hunkering down for a pitched battle over market turf, but we're also seeing some fledgling land grabs in the works. Growth through acquisition during soft markets is a contrarian's strategy for building an arsenal for the good times. As J. Paul Getty once said during a public market burn-off, "Sell, hell! I'm buying."

> **Growth through acquisition during soft markets is a contrarian's strategy for building an arsenal for the good times.**

A few companies, long operating too lean from a skilled supervision and management standpoint, are rubbing their hands over the possibilities of using softer markets to build a stable of key staff. After a decade-long erosion of return on staff, created by throwing more and more people with fewer and fewer skills at substantial backlog increases, company strategists are

saying, "Now's the time to get our skill set and supervisory sophistication matched up with our work program." This translates into more spending on internal training and development of people than we've seen in the last five market downturns.

Bonding capacity issues have coupled with weaker construction demand to cause some companies to re-examine their classic notion of revenue growth as an essential benchmark of management success. Doing more and more work with more and more strangers for less and less take-home really doesn't make a lot of sense. "Volume kills. Profit thrills," has been a mantra of FMI for decades. While it has always been true, there will be another generation of believers created as the morbidity rates of construction enterprises climbs during the two years following the market's low ebb.

Here are a few strategic questions to contemplate:

1. Are we growing or destroying corporate value?
2. Are we serving the right markets in today's climate?
3. Are we serving the right customers in those markets?
4. Are we widening our competitive advantages in those markets?
5. Are we continuously increasing the core competence necessary to sustain that competitive advantage?
6. Are we clearly communicating our business direction within our organization and within our markets?
7. Are we pursuing measurable, ambitious, and well-communicated goals?
8. Are we recognizing and rewarding appropriate behavior?
9. Are we holding ourselves accountable for results?
10. Are we recognizing and rewarding team and individual results?

Among larger companies, we're seeing stark recognition that cultural integration of various business units is both real — and really difficult. As multi-location companies, often assembled through acquisition, strive to develop a single brand, they're finding that rebranding and culture-shifting is a painful and expensive process. Even with Greenfield growth disparate cultures develop, eventually needing to be melded into a "one-company" behavior. Done well, business culture integration is time-consuming and can pay both economic and emotional dividends. Done poorly or simply with lip-service, sloppy integration efforts can even destroy companies. We have several engagements in the works aimed at pain-management and process improvement for integrating organizations. ■

Jerry Jackson *is an FMI chairman. He can be reached at 919.785.9222 or by e-mail at jjackson@fminet.com.* ***Ken Roper*** *is a director located in FMI's Denver office. He can be reached at 303.398.7218.*

TRAINING

A Change in Thinking: Making a Training Investment

In this uncertain economic environment, we would expect the first budget cuts to be the funding of company training programs. After all, training is not necessary to keep the doors open when new projects start to be delayed or cancelled. Some of us remember the construction industry downturn of the early 1990s when we laid off solid project managers and they not only left our companies, they left the industry — for good. They went to find jobs in other industry sectors where they also expected to

Leading companies are making a long-term commitment to their people, and the results are significant. People are learning skills that are directly tied to the strategic goals of their companies.

find some stability and a career path with training and skills development that would provide them with a long-term future.

Well, here we are again facing a difficult economy and trying to find ways to cut costs and maintain a productive work team during these challenging times. But this time it seems to be different. Leading companies are making a long-term commitment to their people, and the results are significant. People are learning skills that are directly tied to the strategic goals of their companies. There is more complete understanding of the connection between these new skills and how people can personally impact the profitability of their companies.

For example, many firms are building programs for their project managers that include business best practices. These courses are designed to expand their capabilities beyond their traditional project management skills. This trend is a response to increased demands from clients to have people managing their projects that are business savvy. A typical curriculum might include these related topics:

- Competitive Strategies
- Marketing Process & Tools
- Managing Client/Project Data
- Discovering Client Needs
- Relationship Selling
- Structured Selling Skills
- Communication Skills
- Negotiating Skills
- Building Project Value
- Team Presentations Skills
- Building Winning Proposals
- Pre-construction Services
- Cross Selling
- Customer Satisfaction
- Forecasting
- Managing Project Cash Flow
- Budgeting
- Cost-to-Complete Accounting

In addition, contractors are including all of their team members in a comprehensive customer relationship process. Although this typically includes everyone from the receptionist to the front line supervisor, it is particularly important for foremen and superintendents. Let's face it, who has a greater opportunity to impact long-term success than the foreman and superintendent out on the project? They control the largest portion of costs and can significantly increase profitability by making fairly small increases in field productivity.

Conversely, they can wipe out years of effort in building a strong relationship with a key client in a few minutes by doing what they thought was the right thing. That is, protecting our company interests by refusing to budge in a conflict situation on the job. We owe it to this important group of people to provide them with training in customer satisfaction skills and to help them understand when it is appropriate to negotiate to keep a happy customer happy.

The bottom line for many contractors has taken on a new meaning. The concept

of training as an overhead expense has now transitioned to the recognition that it can be a smart investment in future client satisfaction. Although this is sometimes difficult to measure, one California-based highway contractor knows how to translate this investment into real dollars. The week after conducting an in-house training program on negotiating skills for his operations team, one of his project managers resolved an old change order and saved the company $50,000!

However, the real payback is more difficult to measure since it is spread over many years. That is the loyalty and employee retention that results from making this long-term commitment to your people. ■

Ken Wilson *is on the board of directors of FMI. He can be reached at 919.785.9238 or by e-mail at kwilson@fminet.com.*

Achieve a high level of buy-in from project stakeholders during the scheduling process.

1

Best-of-class contractors jointly create project schedules with field and office personnel, along with major subcontractors. This process creates a high level of buy-in among project stakeholders.

The construction marketplace is inundated with software vendors pushing the newest technology. And scheduling software is no exception. While it may seem that this software is the magic pill for an efficient and profitable job based on a solid schedule, there's still no substitute for a project manager's expertise. Software is simply a tool to make the documentation and administration of the schedule easier. The real work remains in the process that goes into the plan, including determining the logic of the schedule and finding the inefficiencies in it that can be eliminated. This thought process can be achieved through the use of an extremely low-tech approach — note cards on a wall.

The schedule is one of the main communication vehicles for the construction project. It graphically illustrates the construction process to all involved parties. It denotes the incremental installation deadlines leading to the completion date. Items such as material lead times, installation labor time, and milestone dates should be detailed in the schedule. The following is a how-to approach for creating a solid, working schedule.

EXHIBIT I

A schedule should include the following:
- Tangible deliverables
- Specific dates
- Defined activities
- Resources such as labor hours & equipment
- Budget
- Method of construction.

These work items represent:
- Money
- Material
- Machinery
- Manpower
- Methods.

CREATING THE SCHEDULE

The scheduling process should include the field, office, and subcontractor management. Supplier management may also be involved, when appropriate. Using this group of project participants creates a higher level of buy-in for the project as well as a more detailed schedule. The following steps will lead to a superior end product built on paper.

Step 1: Determine a time, date, and place for the appropriate participants to meet to create the schedule. You will need a room with a large wall, an ample supply of 5"x 8" index cards, colored markers, and tape.

Step 2: Prior to the meeting, lay out preliminary cards containing the project milestones on the large blank wall. Remember to establish shorthand labels for the schedule

components, if this step has not already been done. Both of these items will save time.

Make sure everyone involved in the meeting has a complete and detailed understanding of the project demands and resources available. The 5 Ms (outlined in Exhibit 1) must be addressed before the project schedule is started.

The preliminary project milestones may make up 25% of your schedule. Having these preliminary milestones in place on the wall before you start will allow the group to focus on the details of the job. These milestones may include work items such as:

- Mobilizing the project
- Setting forms for the foundation
- Topping out
- Drying in
- Starting drywall
- Completing the project.

Step 3: Hold the scheduling meeting. Finish posting the activity cards on the wall. Items such as submittals and material lead-times should be included.

Step 4: With the group, establish logical progressions of work such as excavate building pad, dig footings, form footings, rough-in electrical, and rough-in plumbing systems. Arrange the cards on the wall to match this logic.

Step 5: Set durations for each work activity. Use normal crew sizes.

Step 6: Review the durations to ensure the same time units are used throughout, such as shifts, hours, days, or weeks.

Step 7: Add time durations to the schedule.

Add the days to find the project duration of the job as you scheduled it. If entire days of work need to be trimmed from the schedule, start compressing the schedule in this order:

- Shorten activity durations
- Overlap activities with others
- Run activities parallel with others
- Increase the amount of equipment used
- Increase the size and/or number of crews
- Increase the number of hours worked.

Step 8: Input the paper schedule into the computer software. This note card process of scheduling gives order to the schedule. Pull the cards off the wall and input their order and information into the project scheduling software.

Step 9: Create and review "earliest start times," "earliest finish times," "latest start times," and "latest finish times" for each activity. Consider normal rainfall, snow days, holidays, etc. In this way, review the schedule again to uncover the critical path. The critical path is the shortest path to complete the job.

Step 10: Establish calendar dates for work starts, milestones, and work completion.

Step 11: Load the schedule with manpower, materials, and machinery. Load them with specific dates and hours needed to perform the work. Estimate labor hours work to work.

Step 12: Load the schedule with cash flow projections.

Step 13: Print, review, and return to steps 3-7 until a satisfactory schedule is created.

Remember that scheduling is not just about software. Schedule creation is still about field experience, market conditions, and project knowledge. An effective schedule takes into consideration all of these. On your next project, try this note-card approach to scheduling. ■

Acquire a company only as part of a strategic direction.

2

Acquiring a company can play a key part in several potential strategies. Acquisitions that have no strategic purpose should be avoided. Acquisition has become a predominant method for growing or building a contracting company; however, there have been more failures than successes in acquisitions. The failures have many causes, but most of them can be traced to buyers ignoring some fundamentals of the contracting business and the effects of acquiring a contractor.

Acquisition as a strategy in itself is invariably a bad strategy. Strategies for contractors should read more like, "We will grow company revenues 20% by expanding our core capabilities or increasing our geographic markets in 20XX." In this growth scenario, acquiring a company or companies is a tactic that supports the strategies for achieving the goal. Acquisition can play a key part in several different strategies, and so can selling your company or division. This may seem obvious, but we have noted over the years that when some companies start to think about acquisition, they often appear to forget the underlying strategy that started them on the road to growth.

STRATEGY AND ACQUISITION

One of the reasons companies lose sight of their strategy when they start to think about acquisitions is that growth by acquiring a company is so much more dramatic and sudden than organic growth. Twenty years ago, it was the norm in the industry to assign an estimator or project team to a new geography or type of project. After a successful bid or sales effort, a project was obtained, the organization was built, and a new initiative was started. This process was notably slow and sometimes expensive. Over the last 20 years, however, acquisition has been the preferred alternative to organic growth as an entry vehicle into new markets. However, firms often tend to start their discussions with the acquisition criteria for expansion or companies that are available and fail to adequately analyze what they want to accomplish with an acquisition, such as their growth objectives. They also fail to discuss the impact the acquisition will have on both organizations and the implications of the acquisition on ownership and management succession issues. The acquisition becomes the strategy, whereas the original strategy was to enter a new market or to grow.

Planning an acquisition should begin with discussion of corporate strategy in which other tactics to achieve corporate goals are considered and rejected if inappropriate. Time-frame considerations often lead companies to determine that a strategy calls for acquisition. Once you determine that the strategy calls for acquisition, the acquisition process itself must be planned and periodically monitored for fit with the overall strategy within your company's mission.

PLANNING FOR ACQUISITIONS — FUNDAMENTALS FOR CONTRACTING

Contracting is a tough business, as most businesses are; however, there are some fundamental characteristics of construction companies to consider when the idea of growth by acquisition is on the table. Here are a few observations from our mergers and acquisitions work with contractors:

Contracting is fragmented for a reason.

The ENR 400 performs less than 50% of construction in the United States. Besides the top 400, there are hundreds of thousands of contractors. Some of the reasons the industry is so fragmented include:

- *Geography* — The ability to travel is limited for most contractors.
- *Lack of economies of scale* — Contractors don't necessarily gain efficiencies or buying power with size.
- *Propensity of the business of larger firms to unravel* — As contractors grow, they often lose focus and discipline at the project level.

A construction company is principally a group of people who know how to procure, perform, and get paid for construction services.

Take a few top people out of most construction companies, and the company loses focus quickly. Key people can lose motivation, go to competitors, or even start new competitors. So, the phrase, "Our people are our key asset," is particularly true for construction companies.

Market opportunities come in waves.

Five years is an eternity for planning in the contracting business. It is not so much that the technology changes, but what is built does. Construction may grow overall with gross domestic product, but within the market for construction, sectors are going up and down, sometimes radically. Therefore, a contractor cannot rely on the work it does today to grow consistently in the future.

Contractors do not do very well in downturns.

Construction suffered severe downturns in the early 1980s as interest rates soared and in the early 1990s in the wake of the savings and loan crisis. These downturns bankrupted many developers and contractors. Perhaps the current downturn will be less onerous for contractors, but generally, a lot of contractors do not do well in a downturn. In fact, one sign of a savvy contractor is the ability to earn profits when economic conditions are weak. Other considerations for contractors in downturns include:

- Falling backlogs cause contractors to reduce margins.
- Bad projects, bad contracts, and bad clients may be pursued.
- Contractors avoid layoffs, fearing these people will be needed in an upturn.
- Banks and bonding companies periodically embrace, then later turn away from the industry.

Acquisitions are fun, challenging, potentially profitable — and potentially a mistake. Don't ignore the fundamentals of contracting in making your acquisition. Remember that acquisitions are a means to fulfilling strategy and that letting the acquisition itself become the strategy is an expensive one. ■

Acquire competitive knowledge.

3

To be an effective player in your market, you've got to know what's going on with your competition. While it's never wise to always be in a reactive mode — making all your decisions based on what someone else is doing — it's also unwise to ignore your competitors.

KEEPING A DOSSIER

Every contractor should maintain a file on each of their main competitors. In it you should have a printout of their current web sites, copies of their brochures, and a list of their partners and key employees along with their outline resumes. You should also add any other pertinent information you can discover, such as key clients, project histories, known strengths and weaknesses, recent hires, and those who have left the company.

While it sounds like an impossible task to gather this information, it is not as difficult as it seems. The construction business is a relatively small world. It's highly likely that someone who is working in your firm has spent time working for your competitor. Interview them. Find out why they left. Ask what is good and bad about their former employer. Your clients and partners also have information about them.

Don't waste time worrying about whether or not word will get back to the competitor that you have been asking about them — it will. But so what? It's just part of doing business.

What should you do with the information you gather?

In the long term, it's vital that you maintain strong differentiation in the market. If other firms are looking more and more like yours, it may be complimentary but it's bad for business.

AVOIDING THE STATUS QUO

In the long term, it's vital that you maintain strong differentiation in the market. If other firms are looking more and more like yours, it may be complimentary but it's bad for business.

In the short term, you want this information to help you get more closely "wired" to your clients. Let's say you know that you are going up against a certain competitor when chasing a certain project. Using information about the

CONTENTS OF YOUR DOSSIER

Include this information in your files on competitors.

1. Printout of current website
2. Copy of their brochures
3. List of their partners
4. List of key employees
5. Copy of resumes of No. 3 and No. 4
6. Any other pertinent information.

competition, you can fine-tune your effort to either take advantage of a weakness or guard against a strength.

For example, suppose you have decided to chase a new water treatment plant project for a local municipality. Your research has told you that one of your main competitors has recently given a seminar at the regional American Public Works Association conference and was very well received. This could give them a strong advantage since the local public works director would be impressed with their obvious expertise. With this knowledge you could:

- Mount an extra effort to build on your personal relationship with the public works director
- Conduct a short, direct-mail program in which you send a series of tips on state-of-the-art treatment plant maintenance and technology to the 10 public works directors within a 25-mile radius
- Investigate the idea of pursuing the project as a joint venture with the competitor
- Look outside your area to connect with a nationally known consultant who has presented an even more impressive seminar.

There may be other strategies you can implement, but the point is, each of these strategies acknowledges the reality of the marketplace. Without this information, you would walk in blind and then wonder why the other firm won. ■

Avoid adversarial behavior.

4

Every day, contractors and owners spend countless dollars on conflict, wasted time, money, and expertise. Eliminate the unnecessary costs of adversarial behavior by working collaboratively. Every project really is different. By working together in a trusting and collaborative environment, owners, suppliers, contractors, and subcontractors can realize major cost savings. Each job demands a fresh commitment to challenge the last project's approach. In the 1980s, construction professionals looked for new means to achieve project goals of finishing on time, on budget, and safely, and partnering was one of these means.

WHERE DOES YOUR TEAM STAND?

Exhibit 1 reflects FMI's "Levels of Team Building," a method for evaluating every project team on any construction job. The table has four columns. The column on the far left represents the increasing levels of team building. The second column, "Relationship," reflects the type of rapport under which the team operates. The third column, "Team Culture," indicates how problems are solved throughout the project team. The fourth column, "Team Focus/Results," represents the focus of the team when driving toward the finish line of the project.

The Baseline Level

The "baseline level" can be defined as how the construction industry has typically done business historically. Most project teams default to this level when a project is just beginning. For teams operating at this level, the project is like a poker game. ("I'm going to hold my cards as long as I can and hope that you fold so I can take a big share of the pot.")

Level 1

At Level 1, teams take a step toward building a collaborative solution to finish the project. The team offers a minimal effort to mutually assure fellow team members' success on the project. Most teams made up of quality contractors, subcontractors, designers, and owners operate at this level.

Level 2

Project teams that actively seek to build high-quality working relationships with their other team members can progress to Level 2. At this stage, teams are focused on not only meeting the project goals, but also on potentially beating them. Additionally, there is active involvement at the project sponsorship (executive) level.

Level 3

In FMI's experience, less than 5% of all project teams rise to Level 3 during the course of a project. Several factors contribute to this low percentage, but teams can aspire to achieve this level.

ASSESSING YOUR TEAM

Look back at the table, and think about your current team. In each of those three columns (Relationship, Team Culture, Team Focus/Results), place a check mark next to where you believe your project team is today. What are the areas in which you lack? At what level would you like your project teams to perform? Is Level 3 attainable for your teams? No matter where you assess the performance of your project teams, there is always room for improvement.

BUILDING YOUR TEAM FOR SUCCESS

Success breeds success, and once you have one project team that rises to Level 3, you'll want every team to operate at the top of their game. But don't be fooled. Moving from the baseline or Level 1 to Level 3 is very difficult and will take a serious commitment of time and resources. Two critical factors should be considered when deciding what level of partnering you want to develop on your project: first, your team's past partnering experience, and, second, the complexity of the project. Teams with some partnering experience will be more likely to make a fast progression up the levels of team building. Project complexity can also play a critical role. The more complex the project, the more likely you need to consider moving toward a high-performance team.

FMI's experience and research in the construction industry has shown that less than 5% of all teams achieve Level 3 status during a project, and once achieved it must be worked at to be maintained. But if you think about where you put those check marks on the levels of team building, do you believe that your teams can improve? If so, decide which tools you need to take that step forward, commit to the process, and move forward toward building that success. ■

EXHIBIT 1: FOUR LEVELS OF TEAM BUILDING

	Relationship	*Team Culture*	*Team Focus/Results*
Level 3	**Total organizational commitment** Seamless integration	**Cross-organizational problem solving** Craft workers Inspector/owner representatives Discipline engineers	**Major innovative breakthroughs**
Level 2	**Shared accountability** Structured reporting process	**Senior-level "sponsors"** Proactive vs. reactive	**Improved contract performance**
Level 1	**Commitment to mutual goals**	**Early identification and intervention**	**Achievement of project goals; no claims**
Baseline	**Client monitors and inspects contractor**	**Reactive; blame assigned**	**Contractual rights and responsibilities**

Base price on value, not simply costs.

5

What's the price?" is one of the first questions most prospective customers will ask you. And as soon as you tell them how much it will be, they say: "It's too much." They think of construction as a commodity, and they want the lowest price they can get.

But what you want to do is sell on value — not on price. You can do that by understanding customer "hot buttons." To gain that understanding, you've got to postpone the price conversation. Once price hits the table, value building is done. It's critical to establish a dialogue with prospective customers before you tell them a price.

Ask the right questions to get the answers you need. To focus on value, ask probing questions about the project scope. For example:

- What's the business need for the project?
- What alternatives have they considered?
- What special features do they require?
- Who will be using the finished product?
- What problems have they had with similar projects in the past?

Of course, you will also need to know basic information about size, schedule, timing, and so forth.

Through such question-and-answer sessions, you should uncover customers' needs and get them to begin focusing on value rather than price. The answers to your questions will help you figure out how to differentiate your company to them and give them a reason to buy on something other than price.

But don't just ask about needs. You should also ask customers what they want. And you should ask them what they're not satisfied with. These wants and dissatisfactions are their hot buttons — the things that will get them to buy on value.

Needs are the bare minimum — what customers have to have. Wants are the things they don't have to have but that will make them truly satisfied. To illustrate, a sport utility vehicle has both needs (utility) and wants (sport). Needs are the basic things required for the vehicle to function, including tires, a transmission, manual roll-up windows, a windshield, and a little cargo space. Wants, however, might include running boards, a CD player, surround sound, automatic windows, leather seats, and a global positioning system. It's the wants that people are willing to spend more money on. Solving wants creates long-term customer satisfaction.

Dissatisfactions are the things that customers are frustrated about now. You need to get your customers to tell you what these things are because if you can't establish that

they have some problems that need to be fixed, then it becomes much more difficult to sell on value. Find out what their dissatisfactions are and show them how you can resolve their dissatisfaction.

To find out customers' needs, wants, and dissatisfactions, you've got to listen intently as you ask your questions about scope. Focusing on what customers are saying helps you know exactly what they're trying to accomplish and how you can satisfy them.

The more you listen, the more opportunities to create value you will discover. There is a direct relationship between the amount of time spent discovering customers' needs, wants, and dissatisfactions and the amount of value that they perceive in you.

EXPLAIN WHAT YOUR COMPANY CAN DO FOR THEM

Once you have listened closely and understand how you can please a customer, you can talk about relevant features and capabilities of your organization. You should mention specific things that arouse the customer's interest based on what you've learned from asking questions and listening. No customer will be interested in all the features and capabilities of your company; the challenge is to find the few that they are interested in. And then you have to convince them that those features and capabilities will benefit them. You need to address the "What's in it for me?" question. Telling customers that you've been in business for 11 years doesn't build value in their eyes. You have to tell them that because you've been in business for 11 years, you understand the challenges they have, you've already gone down the learning curve, and you will be able to solve their unique problems before those problems cost them money. If you can make the customer understand that, you can sell on value rather than price.

> **The more you listen, the more opportunities to create value you will discover.**

The more specific you can be about the benefits you can offer customers, the more value they perceive. Simply saying, "It saves you money," is not enough. You have to pinpoint the benefit to the customer. If it really does save money, quantify exactly how much. Tell them exactly what your organization can do better than the competition. That's how you build value in the customer's eyes.

CONVINCE CUSTOMERS TO SPEND MORE NOW TO BE HAPPY LATER

It's easy to focus on needs — the minimum a customer has to have — because of sensitivity to price. You know the customer is thinking about price, so you try to keep the price as low as you can. Therefore, you don't try to sell them things to satisfy their wants and to remedy their dissatisfactions. But sometimes the absolute best thing we can do for our customers is to help them spend more money so that they're going to be satisfied in the long term.

For example, all you really need in an SUV is a plastic bench seat. But every time you sit on that plastic bench seat on a hot summer day in a pair of shorts, you're not going to be happy with that vehicle. The short-term savings from not buying a more-expensive seat resulted in a long-term dissatisfaction. It's no different with construction. You've got to help your customers spend their money more wisely, and in many cases that means you're going to be educating them on the long-term value of what you can provide them. The end result is a more-satisfied customer and a greater profit opportunity for you. ■

Capitalize on market information and data.

6

Smart firms use market information to make sound business decisions. For example, before entering a market, these firms will learn all about the potential markets' dynamics, including the market's competitors, customers, demographics, regulatory environment, and other relevant factors. Before entering a market, these firms have a solid understanding of the opportunities and threats associated with it.

Before now, tremendous growth in the construction industry through the 1990s offered many firms a measure of forgiveness for otherwise under-informed decisions. But that is no longer the case. Highly successful firms in the industry note three critical shifts in the collection and application of market information.

INFORMATION IS NOW MORE CRITICAL

As markets tighten, competition intensifies, and in many cases, resources are constrained. Critical business decisions must be made, but it has become increasingly important that the information to support those decisions be accurate, complete, and timely. Moreover, these difficult markets require that management focus resources and make decisions with higher success probabilities. That typically translates to a need for better information.

Market information is critical to making informed business decisions. Successful contractors will use all available resources to gather information before making any decision.

MARKET DATA IS NOW MORE READILY AVAILABLE

Internet technology and faster connections provide access to incredible amounts of data. Market economics, demographics, expenditures, awards, leading industry contacts, market size — it's all available, scattered across thousands of individual web sites. The U.S. government alone offers access to millions of pages of pertinent industry information through agencies such as the Department of Commerce, the Department of Housing and Urban Development, the Federal Highway Administration, and the Bureau of Labor Statistics, to name a few. Young college graduates and interns are well prepared to surf their way to

pertinent data. But increased access and volumes of data have raised new issues, such as whether the search should be done in-house or contracted out, and whether the data is credible.

MARKET DATA AND MARKET INFORMATION

You must distinguish between market data and market information. Companies are defining market data as quantitative sets with statistical relevance. Market data can provide valuable information where the database supports quantitative analysis. Examples include government census data or consumer research such as taste tests. However, in the construction industry, the issues to be addressed are often far more subjective and qualitative. In some cases, decisions must be made based on the input of a very limited group of critical stakeholders. In other cases, pockets of available data simply aren't credible or can't be reconciled with industry benchmarks. Market information differs from data in that it considers the broader relationships between pieces of data, the underlying drivers, and the overall market dynamics. Market information is developed through experienced interpretation of the pieces of data.

The industry's focus on the concept of market information vs. market data is grounded in the types of research projects that have become most prevalent. For example:

- *Strategic planning* typically includes assessment of underlying trends and drivers, as well as potential points of differentiation.
- *Business development* work requires a deep understanding of customer needs, motivations, buying practices, and "points of pain."
- *Geographic expansion projects* demand a rich background in local market dynamics, politics, and provinciality.
- *Product expansion research and channels analyses* normally include detailed review of the value proposition and may draw on broader industry experiences and case studies.
- *Competitive research* that may be associated with mergers and acquisitions or any of the other areas above generally includes management skills, core competencies, and apparent strategies as key elements.

In each case, these critical projects require analysis of underlying, qualitative information, and its interpretation in the context of industry experience. Market information is critical to making informed business decisions. Successful contractors will use all available resources to gather information before making any strategic marketing decision. ■

Consider the cultural fit challenge of acquisition integration before buying or selling a company.

7

More than half of all acquisitions in the construction industry don't work, and this is usually due to people issues. If the corporate cultures of two companies are dissimilar, merging them together is an extremely difficult task. Smart companies thoroughly evaluate the cultural fit before agreeing to join with another construction firm.

WHAT IS A CORPORATE CULTURE?

Groups of people with routine interaction among its members will, over time, establish a collective identity, much like each of us has his or her own personality. In the business world, this is commonly referred to as a corporate culture. The key components of a corporate culture are the three P's: People, Policies, and Perceptions.

The makeup of the people in the organization influences its culture because organizations tend to attract and retain people with common traits. Begin to list common traits and important needs that exist in the members of your management team and you will begin to define the type of individual that is drawn to, and is successful in, your company.

Policies represent the next segment of a corporate culture and are the corporate version of laws. How a nation creates, structures, and enforces its laws tends to define that nation in the eyes of others. The same is true of policies. An organization with a large number of specific policies, including a procedure for enforcement of those policies, obviously creates a different culture than an organization that has little or no corporate policies with selective enforcement. Policies in this context also need to be thought of in broad terms to include items like the decision-making process, how layoffs are conducted, and how, or if, financial results are shared.

Finally, corporate cultures are largely formed by perceptions. Studies have shown that employees tend to formulate a perception of the culture of an organization in the first year of employment and that those perceptions change little after the initial creation period. This is why it is such a huge management challenge to change a corporate culture once it is established. Perception is perhaps the biggest component of a corporate culture because it is all encompassing. Simply stated, employees form perceptions about everything from the performance review process to the brand of coffee used in the break room.

When you add up the three P's of people, policies, and perceptions you have a corporate culture. In some cases, exceptional leaders have managed these areas to create a specific culture. In many other cases however, this is not the case and organizations tend to wander until, over time, a culture emerges that usually has several traits that can be tied directly back to the individual traits of the leader, founder, or the organization.

HOW TO DETERMINE IF CULTURES MATCH

Understanding the importance of corporate culture compatibility in a merger is easy, determining if the cultures match is the challenge. The challenge is further compounded by the fact that most mergers and acquisitions involve relatively few individuals in an organization so it is difficult for both parties to truly gain an understanding of the others' culture. Executives involved in the transaction usually get a sense of the culture, but it is generally an intuitive judgement rather than one based upon any deliberate research. Because of this, it usually ends up as a "best guess" on both parties' behalf as to how well the cultures match up.

There is another way to more accurately determine cultural match, but it requires two steps. First, you must truly understand your own company's culture. This involves self-examination to accurately describe your own corporate culture. The second step is to profile aspects of your culture against the organization you are looking to join with. One method of doing this is to create a cultural fit scorecard. The scorecard consists of a series of questions that revolve around people, policies, and perceptions in the form of very direct questions. You can tailor make your scorecard such that it has a list of traits that would be commonplace in your organization that can be posed to employees of the proposed partner organization.

So how does this scorecard help? For example, a scorecard question might be "Are post-job reviews routinely conducted?" This is something that is always done in your organization and is relied upon as a significant tool for continuous improvement. However, to an organization that does not perform post-job reviews they can be perceived as "witch hunts" and are only used to punish managers of poor performing jobs. Imagine the impact to the culture of the newly acquired organization when a simple memorandum is passed out informing that post-job reviews will be conducted on every job. From your perception you are doing more of a good thing, from their perspective, the witch hunts have begun. This is the essence of cultures clashing.

The scorecard can be used during the due diligence process of an acquisition, as this is when the broadest array of exposure between organizations takes place prior to the consummation of the deal. Encourage your proposed partner to also examine your organization in the same manner. By compiling the scorecard responses, patterns will emerge and a better understanding of the cultural fit will be revealed.

The next obvious question is what if they do not match? The good news is you now have a tool in place that will tell you where they do not match and you and your proposed partner will know where the "minefields" are and can jointly take steps to adjust the cultures towards a common alignment in those areas. Sometimes the gap is just too wide however, and at that point, each party must assess the risk involved and decide whether to withdraw or go forward despite the incompatibility of cultures.

Corporate culture is powerful, extremely powerful. So why leave such an important aspect of a transaction to intuition? Development and use of a cultural fit scorecard in a proposed merger will bring value to the transaction and may keep your organization on the favorable side of the merger and acquisition success rate statistics. ■

If the corporate cultures of two companies are dissimilar, merging them together is an extremely difficult task.

Coach for leader development.

8

Today many successful organizations use coaching as a strategy to develop their leaders — from the field level to the senior executive level. Is it possible that one technique could be so powerful that it is useful for so many people? We think so.

WHAT IS COACHING?

Coaching is a strategic method to help high-potential employees and key executives continue their professional development in a targeted, specific, and meaningful way. Many organizations are finding that coaching initiatives help to increase retention, reduce turnover, impact the bottom line positively, and aid in management succession programs. Organizations are discovering that coaching is one of the best ways to show employees that they are willing to invest in the employees' development. Executives realize that coaching is one of the best ways to accomplish these goals in a convenient, personal, timely, and effective manner.

Yet even with coaching's recent gains in popularity as a strategic organizational initiative, there is still confusion about what coaching is and is not. Many professionals define coaching in slightly different ways. We define coaching as…

A collaborative relationship focused on equipping people to more fully develop themselves and to facilitate a shift in their knowledge and behavior.

BUSINESS REASONS FOR COACHING

Not only do we think that coaching is a powerful development technique, but so do the experts and executives who are reaping huge benefits from executive and company-wide coaching programs.

Retention and Turnover

Coaching is being viewed as a tool to help decrease turnover and retain key talent. High-potential employees are increasingly looking for continuing development opportunities, and coaching is one way to offer those opportunities in an effective, high-impact manner. Consider this startling statistic: in the past 10 years, the average number of companies that an executive will work for in his or her career has gone from 2.9 to 6.9. Companies are experiencing higher levels of senior level turnover, and figuring out how to retain management talent is becoming a vital question to answer. Visionary companies use coaching to develop and retain these key organizational leaders.

This retention and turnover issue applies to the field-supervisor and emerging-leader levels as well. An FMI industry survey found that construction firms investing more in training trade and craft personnel experience less turnover. Companies that spent less

than $250 in training had an average increased rate of turnover of 15%. Companies that spent up to $499 in training had an increase of only 6%. And firms that invest up to $999 or $1,999 kept the turnover increase to just 1%! Many organizations are now realizing that the cost of investing in development opportunities such as coaching is minimal when compared to the cost of finding and hiring a replacement for a key contributor.

An FMI industry survey found that construction firms investing more in training trade and craft personnel experience less turnover.

Impact on the Bottom Line

As construction, architecture, and engineering firms look for ways to increase productivity, sales effectiveness, and profitability, they are looking for innovative ways to help their key contributors become even more productive, effective, and successful. Coaching is a method to deliver "just-in-time" training and development for those individuals.

Research has shown that companies that invest more in the training and development of their leaders realize higher earnings per employee than those that don't invest in such programs. For example, FMI's study found that organizations that spent $900 per employee per year saw a 57% higher return than companies that spent only $275 per person. When *Training Magazine* conducted a similar survey, it found that, in general, companies that invest more in training saw 37% higher profits per employee.

Management Succession

Coaching is a critical component of any management succession program. Many organizations today are faced with a "graying" workforce and are struggling to determine who the future leaders of the company will be. In fact, some estimations are that the number of 35- to 44-year-old executives will decrease by 15% per year over the next 15 years. After identifying up-and-coming individuals and determining what skill and knowledge gaps need to be filled in to get them to the next level, many senior leaders have turned to coaching to help bring those high-potential employees up to speed.

BEFORE BEGINNING ANY COACHING INITIATIVE

It is important to understand that coaching is not a one-size-fits-all concept. In fact, there are some fundamental questions that your organization should be asking before implementing any type of coaching program:

- What are the expected outcomes (improved skills, increased productivity, better work/life balance, or increased recruiting and retention rates)?
- Do you want to develop coaches inside the organization or do you want to bring in external coaches?
- Who will receive coaching? New hires? High performers? Senior Leaders?

Answering these questions will help your organization succeed with its coaching program. Although coaching may take on different shapes and sizes, the overall objective remains the same — to help you and the other leaders in your organization become exceptional. ■

Collect receivables on time.

9

It doesn't do much good to complete a great job if you're not going to be paid for it. The collection process begins well before the final billing. Contractors should ensure that owners understand their payment expectations; this is critical to successfully being paid for the work done.

A major factor in the success of your contracting company is *cash*. Your eventual success or failure as a contractor may rest upon how effective you are in managing the cash in your company. You must be concerned with the management of accounts receivable — a major portion of cash tied up in your business. In fact, an average of 30% to 50% of a contractor's total assets is tied up in the form of accounts receivable. Management of accounts receivable primarily requires policies and procedures that govern the granting of credit and the collecting of receivables.

THE CASH CONVERSION CYCLE

Cash in a business moves through the cash conversion cycle. Cash is invested in inventory, which later becomes work-in-process costs. When billed, work-in-process costs become accounts receivable. When the receivables are collected, the original cash plus profit, is returned to cash. This cycle, the source of a company's economic growth, is the heart of profit making.

The average age of accounts receivable is usually the most significant factor affecting the cash conversion period. If the average age of receivables can be reduced, the cash conversion period will decrease, providing additional cash for turnover during the year.

The level of efficiency in the cash conversion period is measured by the speed with which a contractor can move cash through the cash conversion cycle. If the average age of accounts receivable exceeds a reasonable average age, too much cash is tied up in receivables and is not available to fund more work. Clearly, the means to reduce the average age of accounts receivable, and therefore the cash conversion period, is an effective credit and collections system.

COLLECTION PROCEDURES

Once the contractor establishes terms of sale, it expects its customer to fulfill the agreement. And yet, the typical contractor who requests payment 10 days following completed work may have an average age of accounts receivable of 45 days; many others range as high as 90 days. Much of this slowness in receivables can be traced to *collection procedures.*

One point to remember in any discussion of collection receivables is that the contracting company is competing for payment with all of its customers, other suppliers,

or subcontractors. Since many companies operate in a continually tight cash position, payment is usually a case of, "The wheel that squeaks the loudest gets the grease." Every periodic confirmation of accounts receivable by an independent accounting firm can have a beneficial effect in reducing balances.

Considering the importance of collections to working capital, cashflow, and net profit, the contractor should have a well-defined set of policy statements regarding collections. Such a policy may be "to enforce my terms of sale through a systematic method of collections, which will ensure prompt payment while maintaining customer goodwill for future sales." This statement defines a general policy regarding collections. Yet without clear, quantitative means of enforcing that policy, the contractor's good intention is no more than that. Both a time and an action must be specified to ensure that prompt payment for work is made.

Consideration should be given to the impact of a tougher credit policy on sales volume, of course. If your terms are too tough, will you lose repeat customers?

Let us assume that a contractor establishes terms of sale as follows: "Payment for services rendered is due and payable when the job or phase is complete." Next, it must establish a plan of action to enforce that policy, such as the following:

1. On the day that the work or phase is completed, the customer is presented an invoice. Leave the invoice if money is not collected and get a payment date commitment. Report the date to an accounts receivable clerk.
2. Seven days after the promised payment date, the accounts receivable clerk telephones the account and reminds the customer that payment is overdue.
3. Fourteen days after the due date, the project manager sends a letter to the customer, together with a duplicate invoice marked "overdue."
4. Twenty-one days after the due date — the account is now 30 days old — the project manager calls the account and gets a payment date commitment.
5. Thirty days after the due date, *the contractor* writes a letter to the account: send payment or the account will be turned over to a third party (or work will be stopped on the job).
6. Forty-five days after the due date, the contractor writes the company's attorney, providing all correspondence, contracts, and telephone logs, and copying the customer.

The contractor has given the client 45 days from the job's completion (or substantial progress) to pay the account. Those 45 days' worth of credit have cost the contractor many opportunity dollars.

Perhaps not all contractors could enforce such a collections policy. Those who have many small accounts may not be able to control accounts receivable as closely as the example contractor can. In those cases, credit-granting policies should be more strict. In any case, it is much less painful to say no to a prospective customer than to hear no from the customer. Let the customer assume the burden of establishing good creditworthiness *before* granting credit.

The contractor whose type of work dictates a small number of customers has absolutely no excuse for not exercising close control over accounts receivable.

For those contractors who use progress payments or cycle billing for collections, these suggested policies and procedures can be adapted to their cycles. But once a client is billed, the collections procedure of follow-up must be implemented. ■

Communicate, communicate, communicate!

10

Establish excellent lines of communication throughout the organization. Leaders communicate strategy and direction throughout the company, and ideas percolate up from all directions. Good communication allows information to flow — fostering both short-term and long-term success.

Vision is the ability to see what others have not yet seen. Your role as a leader is to add meaning and purpose to the day-to-day work. There is a proverb that states, "A people without vision will perish." Leadership that lacks a clear vision of the future lacks excitement, a reason to work at peak performance, and offers lots of reasons to complain.

Why does your company exist? People need a sense of importance in their work. They need a vision of the future. They seek meaning in how they spend their time. The vision for individual work units should be supportive of the corporate vision; the vision shouldn't be just a description of services.

How about, "We exist to serve our customers?" This includes all customers, not just the external customers. Would job cost clerks view their jobs differently if they focused on how their efforts are the foundation for improved estimates to win more profitable work? Suppose each person's role was linked to the department and corporate vision? Could that linkage create a sense of personal worth?

> **Good communication allows information to flow — fostering both short-term and long-term success.**

Too many people spend too much time just getting through their day. Excellent leaders help people see the meaning in it all. Does the vision your team has articulated impact the emotion of your people?

ESTABLISH THE VISION

Painting a picture of some desired future and even setting some short-term and long-term goals won't cause major changes in the ways your people approach their jobs. Determining how to close the gaps between the way things are and the way we'd like them to be calls for creative strategies.

Develop long lists of possible strategies without judging any of the suggestions. A clear vision springs out of an understanding of what is core to the business and team. Discussing your values — what you truly believe in — helps drive discussion. If your team is passionate about integrity then ask the question — what does this look like in our

business? What doesn't it look like? How do we envision a team that is focused on integrity?

If your core value springs out of customer satisfaction, ask yourself what behaviors are driven by this core value. What do we see this value having on our vision for the future? What are the outcomes? Core values are those that you are willing to pay (personally or financially) for.

COMMUNICATING THE VISION

Effective leaders live and breathe their vision — it is not a string of meaningless words written on a plaque. You have to communicate through writing, your speech, and behavior what the vision is. You have to repeat it and make it a part of your everyday vocabulary.

You know when you have communicated and established a clear vision when everyone on the team understands and acts in pursuit of the vision. An effective vision tends to restrict freedom, reduce divisive infighting, and simplify decisions because the direction for the future has been identified and set.

Buy-in is critical in having an effective vision for your company. Involvement of all or many of your people in drafting a vision statement is an excellent learning experience for the participants. This process drives ownership and acceptance.

Vision is the ability to see what others have not yet seen. Your role as a leader is to add meaning and purpose to the day-to-day work.

The process of aligning your company (or department) with a vision is based on your ability to effectively communicate. The most basic rule of communication is that your words make up only 12% to 15% of the communication package. The biggest impact on communication is attitude. Your attitudes communicate loud and clear and will override most of the words that come out of your mouth.

The end result is a team of people who have wrestled with the core meaning of their business. A clear vision for the future allows all team members to make informed and purposeful decisions. Responses to customers and actions displayed can be based on a clear vision and purpose — not just on what the boss says or "this is our policy."

Communication encompasses all aspects of running a construction company. Your people depend on you for direction and information regarding their work. Your customers depend on you for good information about what is happening on their jobs. Some types of information can be communicated through formal, structured channels. Other kinds of information can be communicated only on a person-to-person basis. Whatever the means, your efforts to improve the communication process and to maintain its effectiveness will play a vital role in the successful management of your company. ■

Competitors' costs aren't the same as yours.

11

To be sure, getting work is tough in competitive markets. It's tough even with decent competitors. But when some joker is buying work below your costs, it hurts even more. How can you compete in such a marketplace?

Start by changing your thinking. A competitor's price may be below your costs, yet profitable for that particular contractor. Your costs are different from your competition. Your direct job costs are different, your overhead is different, and your margin requirements are different. Know and control *your* costs.

THINK CREATIVELY AND WIN

One contractor bid $16 million for an earthmoving job, with a built-in 4% net profit. Another contractor bid $14.5 million, won the job, and made a 6% net profit. "That '@!*#' is bidding below costs," cries the losing contractor. Obviously, that's not the case. The winning contractor came up with a creative and cost effective way to solve the problem of moving earth from point A to point B. The losing contractor used conventional thinking to come up with a logical, but losing, bid. The winner exercised good judgment, assumed that the competition also might have a creative solution, and went with a reasonable profit.

Your costs are different from your competition. Your direct job costs are different, your overhead is different, and your margin requirements are different.

Some contractors look for creative solutions on all major projects, viewing creativity as their only sustainable competitive advantage. Creative contractors win…and win big when they compete for common work in uncommon ways.

KNOW YOUR COSTS

Our studies show that some contractors spend up to 30% of their labor costs on the typical job-site in ways that are unnecessary. Reduce recoverable lost time and gain a major cost advantage. Through field productivity improvement programs, quality initiatives, continuous performance improvement, partnering, better pre-job planning, or value engineering, opportunities for job-cost savings abound.

Bad estimates result from not knowing costs. Why do many contractors believe that their production costs are the same as nationally published production rates? In today's climate of low hardware and software costs, link your job-costing system to your estimating. Excellent information systems and project control systems enable low-cost, high-quality performance.

DON'T CUT YOUR OVERHEAD?

Conventional thinking says cut your overhead. By all means, cut your overhead if you are spending ineffecient, ineffective dollars. But consider re-engineering and benchmarking your overhead before slash-and-burn cost reduction.

Some of our clients find low-cost solutions by spending more on overhead and less on direct costs. They use more staff for project control, cost engineering, scheduling, etc. Save significant recoverable lost time at the job-site by spending more on the office support functions.

Allocate overhead to projects based on cost mix, type of work, and size of the job. Losing jobs while still pricing for profit is more often a problem of inefficient cost allocation than incompetent competitors.

MARKETING FOR BETTER JOBS

Put more effort into the job acquistion effort to win more jobs that best fit your company's skills and experience. Effective marketing to targeted customers is a key to profitable application of overhead dollars. Benchmark your marketing costs and strategies with successful non-competitors.

PLAN YOUR WORK, WORK YOUR PLAN

Your business or strategic plan should detail how you will add a competitive advantage by reducing direct costs — how overhead spending can lower field costs and increase margins. Pricing strategies should reflect the planned improvements. Then follow up to ensure that you execute your plan. Internal information systems will verify that the plan is working to your advantage.

THE BOTTOM LINE

Understanding and controlling direct costs is essential. By initiating a permanent process of continuous improvement, you can control costs, reduce price, and make a fair profit. We find that, inevitably, contractors who know their costs and who continually seek better, more creative ways to control them are the most profitable. And that's the name of the game! ■

Continually evaluate management succession issues.

12

A best-of-class contractor has management succession plans in place. Although few owners develop formal management succession plans, a written plan to pass on managerial responsibilities and to develop the next generation of management is necessary to ensure the continuation and future success of the business.

For all construction companies, the issues of business continuity eventually arise. Ensuring that competent management is in place to run the business in the future is the cornerstone of a successful transfer process. There are two key areas that must be addressed for an internal transfer to be successful.

Unfortunately, when contractors devise a continuity plan, much of the energy is focused on the ownership side involving money, tax, legal, and mechanical issues. These complex issues tend to be hard-edged and provide objective answers to specific criteria. The result of this one-sided focus is that the more subjective and delicate issues involving people and management succession often receive inadequate attention.

It is important to realize that management succession (people) and ownership transfer (money) are two separate issues that can, and frequently do, occur on different timelines and have different durations. Ownership transfer can be faster or slower and can occur before, during, or following the management succession process. While these issues frequently overlap, the informed company treats the management succession and ownership transfer components as two distinct and ongoing processes.

MANAGEMENT — THE NEXT GENERATION

Despite the importance of management succession, few owners develop formal management succession plans. A survey completed by FMI indicates that only 39% of the responding companies have a written plan for management succession. More disturbing is the fact that many of these "written plans" do not have a detailed approach for the transition of roles and the development of successor management. A plan to pass on managerial responsibilities and to develop successor management is a necessity. The earlier the process begins, the better the chances of developing a successful transfer plan.

One of the more challenging parts of the process is finding the right candidate. Frequently more than one individual can comprise the next generation of management. Realignment of major responsibilities and roles between two or three key individuals is often the best solution. This realignment does not imply that two or three people can act as president; management by committee usually does not work. Rather, one individual must be the president and must be responsible for setting the tone and the direction of the business. The president must function as the leader with input and support from the management team.

It is interesting to note where most construction companies feel the next generation of managers will come from. In a recent survey, nearly half of the companies identified their successors as being existing employees, and another 33% were planning on family to solve the problem. With 80% relying on existing employees, both family and non-family, the issues of transferring roles and management development become extremely important.

A GRADUAL TRANSFER

Transferring management responsibilities is difficult because it frequently requires addressing many issues head-on pertaining to individuals' styles and abilities. One frequent strategy to ease the turmoil is to utilize a gradual and phased transition.

Phasing in management changes is beneficial for several reasons. First, it allows the apparent heir to receive on-the-job and other training while still under the supervision of the current president. As a result, the individual is not thrust into a position without the necessary time to train and mature.

Secondly, few owners can simply walk into work one day and turn over the reins. Relinquishing management responsibilities requires a tremendous amount of trust. Developing this confidence in family members or employees takes many years and significant effort. Furthermore, external customers, like clients, banks, and bonding institutions, must also be comfortable with the new management.

Finally, for true success, the company's employees must transfer their allegiance to the new generation of managers. Successful continuation is unlikely unless the new managers have the respect and support of both the office and field employees. Changes in style, decision making, and managing the business all take time and must be handled delicately.

WRITE THE PLAN

A successful transition requires developing a written document complete with detailed action plans. Developing an action plan necessitates not only defining the tasks but also putting target dates and individual responsibilities by those tasks.

A comprehensive management succession plan should have the following components: a written list of goals and objectives of current and future management; an understanding of the perceptions and concerns of employees and field personnel regarding future management and the transition; an assessment of the strengths and weaknesses of future management and a program for their training and development; a plan to transfer responsibilities and roles and to modify the organizational structure; a detailed timeline integrated with action steps; and a process to monitor progress and modify as needed.

While there are never any guarantees in dealing with people, a written plan dramatically improves the chances of success. After a plan is developed and during the transition process, a key player may leave or the opinions of management regarding a certain individual may change so that the person is no longer a part of the preferred succession team. It is much better, however, to identify potential problems early and address them while making sure to focus on and support those individuals who stand the best chance of successfully leading and managing the business.

While a careful evaluation of the issues and a detailed plan are important parts of the process, the real key to success is commitment and hard work from both generations of management. Too often management transition does not occur successfully because the owner has not fully committed to the process and feels things will somehow work out. Unfortunately, the result of not addressing the critical area of management succession early means that the internal transition will be more difficult, allow for fewer alternatives, and reduce the chances of long-term success. ■

Continually evaluate ownership transfer issues.

13

The ultimate goal of a typical business owner is to retire and remove his or her investment in the company. Designing and implementing an exit strategy, therefore, is a business owner's final, most important project. However, many business owners don't realize how much time and energy is needed to create a comprehensive, effective ownership transfer plan. Fortunately, owners can approach the planning process one step at a time. These steps include goal setting, valuation, and transfer of ownership.

GOAL SETTING

For an ownership transfer and management succession plan to prove successful, owners must know what they want to achieve in the following areas.

Addressing these issues will help owners develop a framework for their plan.

VALUATION

Once a business owner has a plan outline and knows what the parameters are, he or she must establish a reasonable value for the firm. A company's value depends largely on whom is interested in the business. The IRS, an outside buyer, employees, family, and the owner all will have different objectives and different opinions on the value of a firm. A true corporate valuation is a complex and thorough exercise that is best left to a professional experienced in the valuation of that type of company.

Value assessments can be disparate depending on the perceptions, knowledge, and attitudes of interested parties. Unrealistic expectations will bring the continuity planning process to a halt. It is often helpful for an owner to ask a simple question: "What would I pay for this company if I were just entering the business today?" Once owners have a justifiable value for their firms, they are ready to take their case to the people.

TRANSFER OF OWNERSHIP

Owners have three options for removing the equity from their company: sell the company, give their stock away, or liquidate the assets.

Selling a Company. If owners have management successors firmly in place producing profits, then selling the company as an ongoing entity is a reasonable proposition. If the people and the profits are secure, then the company may attract "outside" buyers. Owners also should consider potential "inside" buyers.

Outside Sales. A thriving economy and the presence of consolidators, rollups, and active buying in the construction industry have created a substantial increase in the number of contractors selling to third parties. Selling to an outside buyer does have its advantages. The seller often is substantially cashed-out at closing, ongoing financial risk

and liability are reduced, and business continuity and management succession issues become the new owner's concern. An outside sale doesn't always preclude a company's existing management team from remaining intact. Generally, an owner-manager will be required to remain with the company for a period of time to train management successors. The flexibility of the buyout structure often provides the owner and successors with exciting challenges and an income stream. Although the number of outside sales is relatively few when compared to other ownership transfer alternatives, a third-party sale is often the best alternative when a buyer can be found.

Inside Sales. Most contractors sell their firms to key employees or family members. Ideally, whether key employees or family members buy a company, the buyers should be individuals who have a direct impact on the firm's day-to-day operations and profitability. Generally, absentee ownership in a closely held firm is not an ingredient for success. For an ownership transfer plan to be successful, all owners need to have the same objectives with regard to managing operations, building equity, and distributing earnings. An internal deal can be an extremely positive and lucrative arrangement for all parties.

GIVING YOUR STOCK AWAY

Gifting is generally used with transitions among family members and often is used in conjunction with a formal personal estate plan. Obviously, gifting is only viable as an ownership transfer technique when the owner doesn't need to convert the equity to cash for retirement or other purposes.

When feasible, gifting can effectively provide for business continuity if family members are actively working in the business, are performing management responsibilities, and have truly earned their positions and the respect of the people in the organization. However, gifting should be used with caution. When given the company, recipients often don't understand the risks and responsibilities of ownership nor the sacrifice and commitment needed to build and maintain a successful business. Gifting usually only works long-term when the recipients have previously earned or justified the gift by making a significant personal investment of sweat equity or actual financial resources.

LIQUIDATING YOUR ASSETS

When in doubt, a business owner can always sell the corporate assets and close down the business. The thought of shutting the company's doors one final time often is difficult for a business owner to handle psychologically and emotionally. However, in many cases, liquidation is the best option for cashing out of the business. Many companies are not marketable to a third party, do not have managers with leadership potential or the desire for ownership, or do not have an owner who can afford to give the company away to provide for continuity.

An owner can lose 50% or more of his or her equity value if the liquidation process is managed poorly. However, if planned carefully, liquidation can be a quick and efficient method of getting most of an owner's equity out of the company and putting an end to the wait, the worry, the risk, and the difficult family and employee issues.

Approaching ownership transfer and management succession one step at a time is an owner's best course of action for developing a comprehensive plan that works for everyone involved and, in the end, achieves the owner's objectives. If owners and their successors have reasonable expectations and make logical financial assumptions, an ownership transfer and management succession plan can be successfully achieved. ■

Create an organization capable of rapid change.

14

Great leaders understand that it takes more than simply informing employees about upcoming changes to ensure successful transitions. Changes must be addressed proactively, and the first step is to recognize that change involves emotional considerations.

Change is never just a simple business decision that needs to be implemented. Yet, too often, managers look only at potential benefits (i.e., this new idea will save the company money and make it more competitive), and management assumes that everyone will be in favor of the change. Well, we all know what assumptions do!

When managers consider making changes, they are thinking logically and assume that people in their company will think the same way. However, people often react to changes emotionally. Their immediate reaction is: "How is this change going to affect me? Will I lose my job? What am I going to have to learn? Will I be able to learn these new requirements and perform well? How much more work will this mean for me?"

If you're considering a change in your company, make sure you have a plan to eliminate and/or answer these questions. This will help employees stay open to the change.

CREATING BUY-IN

Employees that are involved in any change will be much more receptive to the change. Participation allows people to feel that they have some control over their own destiny and the final product.

Problems may arise, however, if management fails to communicate their scope of participation. Make sure that when you invite employees to participate in implementing a change that boundaries, or limits, are established. This will help to avoid a situation where an employee proposes a plan that is beyond the limits of what management is willing to accept.

As participation increases, the resistance to change decreases. Encourage participation up to your established limit.

COMMUNICATION

Good communication is essential for a successful change. You need to "sell" the change in a way that answers the following questions:

1. Why are we making this change?
2. What are the benefits of the change?
3. How will the employee benefit?
4. How will the change affect employees?

5. Will there be any staffing changes, and how will these be handled?
6. Will there be any retraining required, and if so, how will this help employees qualify for a better job (if possible)?
7. When is the change going to be made, and how long will it take to make the change?

A good way to accomplish both goals of communication and participation is to combine the two. For example, when you're selling the change, ask affected employees to help plan the implementation. If it is not practical to involve everyone, create a task force to craft the best implementation plan.

It is equally important to communicate what you are not changing. For example, you might name the departments that will not be affected. This information helps stop a lot of rumors.

FEEDBACK

Communication is two-way, and you will need to establish a feedback system that will tell you how the change is being received. This system can include regular meetings with the affected employees or with the task force you created. Expect some problems and encourage employees to report these. Respond quickly to problems — you'll gain credibility.

RESISTANCE TO CHANGE

Be sure to watch out for signs of resistance to change. If employees are against the idea, their productivity may decrease. Absenteeism is another sign. Examine your "quit" rate vs. the normal turnover, and look for sullenness or hostility among employees. Quarrels are a sure sign that there is increased tension.

Employees that are involved in any change will be much more receptive to the change.

PLANNING FOR CHANGE

It's a good idea to anticipate some of the reactions and problems surrounding your proposed change. Define clearly what is to be changed. Thoroughly study the work environment. Put yourself in your employees' shoes. Consider any cultural barriers to what you want to do. Determine the most probable causes of resistance, and plan a strategy to reduce or remove these. Plan carefully for how and when you will inform people of the change and how you will sell it. Be sensitive to feedback during implementation.

END OF THE CHANGE

It is important to tell your employees when the new policy, technique, or procedure has been fully implemented. This information keeps people from waiting for the other shoe to fall. Write a letter or send an e-mail saying that the change is complete and what the observed benefits are. Give credit to those who helped make it work. Use your imagination as to how this message can best be accomplished, but do not skip this important step.

Changes are inevitable; the wise manager prepares a detailed plan before embarking on any significant change. ■

Develop a profit attitude.

15

Some contractors have discovered that developing a profit attitude among employees can significantly improve an organization's profitability. But attitudes are funny things. They are suggested by the way people walk, the way they smile and react to others, and the effort they put into their work. Attitudes arise from emotions, so they are not rational. They are typically associated with psychological events, meaning they are acquired, not inherited.

Attitudes change over time. They are contagious, and they vary in intensity from situation to situation. For example, some people are far less successful than they should be, simply because they expect to fail. That attitude isn't rational. If those people saw themselves as successful, they would be successful.

Similarly, there are people who are happy most of the time, even when the circumstances of their lives are emotionally devastating. That attitude may not be rational, either, but it's certainly more productive.

Attitudes form the basis of ideas, and from ideas people formulate plans. People act based on the plans they make, and profits — what every contractor wants — are the results of those actions. Attitudes that form the "culture" of a company are the foundation for the success of that company and its long-term profitability.

Attitudes form the basis of ideas, and from ideas people formulate plans. People act based on the plans they make, and profits — what every contractor wants — are the results of those actions.

SHAPING EMPLOYEE ATTITUDES

Employees look to top management to see how they're supposed to "feel" about their company. Employees evaluate the way managers treat employees. They are interested in whether management views them as a long-term investment of value or a disposable tool that could be replaced.

Top-level managers are responsible for setting the examples of the attitudes they want displayed. Managers can teach attitudes and they can speak attitudes.

But the most powerful message managers send about basic attitudes is from their behavior. Managers act out

attitudes. By having straight posture and an energetic walk, managers communicate pride and self-respect. An open office door indicates interest and accessibility. And if words are not consistent with behavior, people will generally believe the behavior.

Employees also look at the way top management treats customers. Are customers always treated as if they're something special or are they treated only as a source of immediate income? Does management speak respectfully of customers? Is the company interested in building long-term stability or a short-term cash flow for the owners?

> **Employees look to top management to see how they're supposed to "feel" about their company.**

ENCOURAGING A CONCERN FOR PROFITS

One of the first things you must do to develop a profit attitude among employees is to make sure all people understand the importance of profits. In many companies the people who are actually responsible for getting the work out don't understand the way the company uses its resources.

Many small business owners don't do a good job of educating employees about what they stand to gain when the company is profitable. Some managers never explain anything about the company's strategy or profit objectives. The result is that employees don't know how they will be able to benefit if the company is profitable. They don't understand the relationship between profits and salaries, or profits and benefits.

So if management wants employees to start thinking profits, it had better start letting employees know what's in it for them. Without profits, the company will cease to exist. Without profits, employees will be out of work.

Management should use profitability as a lever to build pride in the company among employees. The pride developed may well contribute to an even greater profitability in the future. ■

Develop "best" people through great training.

16

Since all contractors are trying to hold onto their good employees, best-of-class contractors hire good talent to begin with and work hard at developing their people with great training programs. We have all heard that the only way for a contractor to differentiate itself from another is through the quality of its people. Best-of-class contractors know this and work hard at developing their people at all levels through development programs.

TRAINING IN TODAY'S BUSINESS ENVIRONMENT

In generations past, construction knowledge was handed down from master to apprentice in the form of lessons learned through years of practice and repetition — and virtually all of the knowledge given was based on the hard skills of the building trade.

Today's construction professional needs to focus more of his or her attention on learning and teaching such soft skills as organization, negotiation, communication, flexibility, and leadership than was ever believed necessary in the master-apprentice days gone by. Not only that, but today's construction professional has to develop both their own skills and the knowledge of those who will follow them into key roles.

Managing the growth of the skills and knowledge of people who report to you has also become an important job — and is a key ingredient in your own professional growth and resulting success.

TRANSFERRING KNOWLEDGE

Managing the growth of the skills and knowledge of people who report to you has also become an important job — and is a key ingredient in your own professional growth and resulting success. As the capabilities of your people increase, so does their (and your) ability to do the job more efficiently and cost-effectively. A workforce possessing a greater degree of expertise in both best practices of the building trades as well as business management best practices is predictably more able to handle demands.

Intellectual equity is a term that refers to the ability of both organizations and individuals to capture, retain, and disseminate essential knowledge to everyone in the

organization who needs it and to be certain that information is learned before it is needed. This process of capture, retention, and dissemination cannot be left to chance to be successful, requiring you to play a vital role in the process.

So, how does an organization develop and execute an effective intellectual equity strategy? More importantly, how can you ensure the success of that strategy, thereby increasing your own value to the company as well as the value of each of your direct reports?

A key first step is to conduct an honest assessment of the characteristics possessed by those who report to you. You are likely to find that they have considerable technical knowledge. You will probably also discover that they are usually eager to learn new skills, especially if they understand the connection between the level of knowledge they possess and their professional growth and ultimate success. A majority of this new knowledge will be in so-called "soft skills" (not directly related to construction techniques), which are critically important today.

Once you know the characteristics of your people, take a good look at the characteristics you would like them to have in order to succeed. Some of the likely needs are:

- Strong organizational skills
- Focus
- Flexibility
- Negotiating competence
- Leadership of small and diverse groups
- Communication
- Marketing knowledge to allow them to create new business
- Networking.

What other characteristics would be useful and productive?

The next step is to determine how to capture, retain, and disseminate that information. For some companies, a formal corporate university may provide the methodology, but most companies will opt for a less formal, but still very structured, approach that gives both the company and the employee a substantial return on a minimal investment. Very often, this less formal effort is left entirely up to you.

One early adopter of a formal intellectual equity strategy pioneered their own in-house training efforts. One of the first lessons learned? Tie the training directly and clearly to the strategic objectives of the company. It is critical that all of the training conducted at any level within the organization should be directly related to one of the stated strategic objectives of the company. If the connection between the training and the objectives isn't perfectly clear, the training may not be in the best interests of your company.

The real strength of any training program is in the mentoring relationship that is developed between employees. Your ability to craft a solid training program is a key ingredient to your success. ■

Develop customers by intent, not accident.

17

How many customers and prospects do you have? Of that number, how many would you define as key customers? As a customer-focused company, you might say all of your customers are important. But upon examination, you will discover some are more important than others. Generally, these key companies are the 20% of your customers that make up 80% of your company's annual volume. However, since purchase cycles for major construction projects and services may be years rather than weeks and months, some customers that should be considered key customers have probably dropped off your radar screen.

Continuously ask customers about their dissatisfactions. Though consultative selling seems contrary to the positive sales approach, we have found careful probing and listening leads to higher profit.

KEY CUSTOMERS VS. GOOD CUSTOMERS

Key customers tend to be your best customers that value having a closer relationship with you. But some of your "good" customers won't see the value of a close relationship. The difference between key customers and a standard good customer is the amount of time and effort you will invest to build value for them. That relationship building process is the simplest way of uncovering unique opportunities to build value and earn business on something other than price.

Your business development department is likely working to find new customers to keep the backlog full for the next six months. Likewise, the estimating and proposal departments are supporting that business development effort, while the customer service department keeps busy responding to the concerns of current customers. So who is looking after key accounts? Hopefully, the business development department is as part of its ongoing marketing efforts. The truth is that everyone in the company who deals directly with customers should be aware of your company's strategy and tactics concerning specific key accounts.

PROVIDING GREAT CUSTOMER SERVICE IS KEY

Many companies are finding that a key account management process can smooth the cyclical nature of sales numbers, reduce the cost of sales, and create valuable long-term customer relationships. While this effort is often lead by business development, the key to managing key accounts is customer service.

Key accounts typically have lower levels of customer satisfaction than do your smallest, less-frequent customers. Sounds crazy, but key accounts are those customers who do a lot of work with you. Anytime there is a lot of contact, there is the potential for customer service challenges. Actively managing customer service is an essential element to effectively creating and maintaining a long-term key relationship with a customer.

SIX STEPS TOWARD BUILDING VALUE WITH KEY ACCOUNTS

1. Establish criteria to evaluate which of your customers should be key accounts.
2. Assess the potential opportunity available with the client vs. the needed level of investment.
3. Conduct a retreat, and build your key account management plan with the customer.
4. Identify additional areas where you can add value to the client by getting cost out of the system, changing the basis of working together, or building synergies between your two organizations.
5. Communicate the plan to everyone in your organization.
6. Construct measurements to monitor customer satisfaction and value creation for both you and the customer.

How do you manage such a relationship? There are four key functions of customer service: retaining clients, building value for existing opportunities, expanding contact throughout the client organization, and delivering service and value.

Keeping clients entails keeping clients happy. What do you do when the client is not in an active building mode? Keep in touch, which may mean writing them a note from time to time and occasionally making calls, as most good marketers will do. But it should also mean a more personal approach. Take the time to understand the customer's business situation and listen for opportunities to relieve the customer's fears and dissatisfactions when buying contracting work. Staying in contact keeps the client warmed up to buy on value when the time does come to build. Sometimes, for market reasons, key accounts might halt their building program. Taking the long-term perspective of maintaining contact is essential to profitably growing the relationship for you and your customer.

Continuously ask customers about their dissatisfactions. Though consultative selling seems contrary to the positive sales approach, we have found careful probing and listening leads to higher profit.

EDUCATE AND INFORM CUSTOMERS

Keep key customers up-to-date on any new services or capabilities you are developing. Remember that customer service is more than handling complaints and fielding questions. Be proactive; look for possible complaints. Do not assume that no calls or complaints means your customer is satisfied. Often the most dissatisfied customers are talking to your competitors. By implementing key account management, you will develop more of a partnering relationship with your customers in which their concerns are your concerns, and their profitability is your profitability. Your key account plan shows the specific steps you need to take to build value for you and your customers. ■

Differentiate the company's services.

18

Buyers of construction services have said that too many construction firms sound alike. During interviews with contractors, they often hear the same refrain: "We build a quality product;" "We offer excellent service;" "We bring the project in on time/on budget;" and "We have experienced and qualified people."

It's easy to see how companies citing similar qualifications are going to occupy the same position in the prospect's mind; they all look and sound alike. What distinguishes one company, one product, or one service from another? Universally, contractors recite these overused and uncreative phrases in trying to win the job and are forced into a "low bid" situation to win the job.

RISE ABOVE THE COMPETITION

Rising above the competition is one of the hardest marketing challenges facing the construction industry in this decade. There is only so much room for information in the buyer's brain. As a way to stand out "from the rest of the pack," contractors need to practice differentiation. By making your company different from your competition, you can make yourself look unique in the eyes of the buyer — and you can win more jobs.

Price is how most contractors differentiate themselves. But price is too easy for a competitor to match or undercut. To set yourself apart, consider adopting strategies — such as the following — that are difficult for the competition to match.

CREATE A LABEL OR NAME

An excellent way to set yourself apart is to give each service or product you offer a marketable or memorable name. One building contractor, for example, calls its punch list the "Rolling Punch List," which is merely its way of compiling the list during the job instead of saving all the items until the end. Another contractor offers a "Pre-Warranty Expiration Date Inspection." Not only is the service unique, it has a name. A special warranty or guarantee can also offset a higher bid.

CREATE A UNIQUE PRODUCT OR METHOD

Always meet with the owner/architect early to discuss the best approach to the job. This value-engineering strategy helps differentiate the service you provide. Your use of creative construction techniques and delivery systems will also cause buyers to view your company more positively than they view your competitors.

EXPAND YOUR SERVICE

To get more work in a competitive environment, you should provide excellent service.

Respond quickly to inquiries. Offer technical expertise. Go beyond the specs and offer a special service that makes your company look good, and give this service a name.

BUILD RELATIONSHIPS

Having a good relationship with the owner or other buyer of your services results in repeat and new business.

Most contractors develop a relationship during the job with the owner or owner's representative, but when the project is over the relationship stops. Don't let relationships with owners slide. Get together with them between projects by meeting for breakfast or lunch. Being proactive in building and maintaining these personal contacts gives your business a competitive edge.

If this kind of relationship-building makes you uncomfortable, create a service that gives you an excuse to meet with the owner between projects. For example, offer a free inspection at 30 or 45 days post-project, and walk the job with the owner.

BUILD A GOOD IMAGE

Relationship building improves your image. Are you perceived as easy to get along with and flexible? Are you a team player, or are you a loner or a change-order pursuer? A good image helps you sell yourself, even if you are not different from your competition in other ways.

Most contractors just pick up the plans or specs, figure a price, and fax a bid back to the owner. Go that extra step, and make a phone call to ask questions. What's important on this job? What services can you provide? What are potential problems, and how can you help the owner avoid them?

Your employees out in the field should be cooperative and easy to work with. This may require in-house customer-relationship training and creating a company culture that emphasizes teamwork.

PROVIDE A MEASURE OF YOUR SUCCESS

In addition to giving each of your services or products a name, give them a measurement.

Consider a scenario in which a buyer asks two different contractors about the quality of their work. "We do good work," says the first, while the other answers, "We have an overall quality rating of 4.4 out of 5 based on 900 customer surveys taken over the last three years." Clearly, the second response provides evidence to back up claims of quality.

After completing a project, have the client respond to a one- or two-page survey about your work. Use the survey data to make positive statements about your company — both in brochures and in meetings. To encourage completion of the survey, deliver it to the client personally, or fax the survey and call to follow up. You must be aggressive to ensure the survey's return.

MAKE A DIFFERENCE

Identifying or creating the differences between you and the competition takes effort. Set aside time with your employees to brainstorm approaches for achieving this goal. Make sure your final ideas are specific and present measurable concepts of your services.

Unfortunately, a lack of time makes it difficult for some contractors to market themselves well. Consider hiring an outside consultant if time is a problem. Remember, investing money in improving your company's image is sure to lead to more business. ■

Embrace generational differences.

19

Every generation has different values and behaviors. Leaders must help their teams leverage the strengths that a generationally diverse workforce can bring to a project while anticipating the barriers presented.

Our industry's future leaders are members of Generation X, and just as with any generation, members of Generation X (those born between 1961 and 1981) don't all share the same attitudes and tendencies. But there are some general characteristics of the generation that current construction-industry leaders need to understand to best prepare Gen Xers for future leadership roles. Today's leaders also need to be aware that the essentials of leadership — clearly setting direction, aligning the right people within the best structure, and motivating and inspiring them to be as creative and productive as possible — are vital to getting the most out of Xers.

SETTING A DIRECTION

Xers need to know and be involved in a company's "vision" or "mission." While they may not call it that, they will constantly ask these questions: Where are we going? Why are we pursuing this? Is it worthy of pursuit? What is my part in the process? If I don't like it can it be changed?

Knowing a company's direction is an emotional issue for this generation — they want to participate in decisions and feel like they are contributing to something bigger than themselves. Xers will leave a company quickly without a clear and challenging vision and purpose. Low barriers exist to change jobs, and Xers don't require the security of older generations.

ALIGNING THE RIGHT PEOPLE WITH THE RIGHT STRUCTURE

Xers will focus a critical eye on how resources are aligned and used, how training is applied, how rewards are distributed, and how strategies are developed. This generation is not inclined to follow blindly — they want to know that significant operating decisions are tied to a clear direction and set of operating values.

If the current leaders are not pulling the organization together, Xers will let them hear about it. Xers have little patience for incompetent leadership. Age, titles, and seniority have to be tied to competence and contribution. This generation can communicate with extreme cynicism and pointed criticism. They have a deep conviction that they can "do it better" and want to see results immediately. Make sure you listen to them and respond.

Be willing to look at your current structure and realign. "We're going to do things the way we always have" is a distasteful business philosophy for this generation. Their

orientation is to do things faster, quicker, and with more efficiency. For example, if a traditional divisional organization is changed to market sector organization — to get closer to customers with more responsive, personal attention — this alignment might better fit the temperament of Xers.

MOTIVATING AND INSPIRING

Xers prefer to learn through mentoring and coaching. They want the information, skills, and competencies that people with more experience have. Their thinking is: "Why should I have to learn something the hard way when you as an experienced manager already know it? Providing this mentoring and coaching to Xers is a difficult obstacle for the construction industry to surmount. Construction is an industry in which "paying your dues" and learning the hard way has been the norm. This mindset will have to change in order for the industry to attract and retain top-quality people. Xers will prefer to learn the construction industry through computer-based training rather than years in the mud — although this will be difficult for people who worked their way up to accept.

Every generation has different values and behaviors. Leaders must help their teams leverage the strengths that a generationally diverse workforce can bring to a project while anticipating the barriers presented.

Spending time with Xers to help them gain skills, insight, and experience will yield great dividends for you and your company. This coaching and mentoring style fosters the continual feedback that Xers so cherish. Xers are independent, but they need a lot of positive strokes. There is a catch: Xers want to be mentored in a style that doesn't dogmatically tell them what to do — they want to process the information through their own perspective. Be careful not to mentor or coach in a condescending way. Xers want to learn from you, but they don't want to be made to feel like they're completely inexperienced. Try to incorporate some of their experiences into the learning process, not just your own.

XERS ARE HERE TO STAY

The fundamental characteristics of a particular generation rarely change much. As a generation advances in age and encounters new demands and responsibilities, there will be necessary adaptation. For the most part, though, the traits and attitudes of the Xers are here to stay. They have affected, and will continue to affect, how the construction industry does business.

Xers are looking for a job that satisfies curiosity, ambition, financial needs, growth desires, and work/life balance. They are looking for freedom to make decisions and choose career opportunities. They want to be innovative, listened to, and able to speak freely.

Don't try to implement all of these principles and ideas at once. Start with a couple and then incorporate others once you have gained consistency. As you develop others and make them more successful, you too will become more successful. ■

Follow up on training and calculate your return on investment.

20

Even the best training programs will be ineffective if the lessons learned aren't reinforced by the company and if acquired skills aren't used. Training should have specific objectives, and best-of-class companies always understand those objectives and measure the results of their training to ensure that it is achieving the intended purpose.

Employee development extends beyond teaching employees new skills and knowledge. The key to achieving success is to ensure employees use the new skills and knowledge when they return to work; it is not enough to send your employees to a training event and expect massive change. Employees will naturally imitate behaviors that receive positive attention — making recognition from the organization an important part of the learning process. Leaders have to seek out, recognize, and praise positive behaviors exhibited by employees.

Calculating the ROI for employee development is an investment in and of itself because of the costs that are involved in collecting detailed data. The process requires enormous time and resources so it is best to keep it simple. However, the training programs that are extremely costly and time-consuming can justifiably be subjected to a more detailed level of analysis.

The following are three approaches for calculating training ROI.

1. COST/BENEFIT RATIO

1. Calculate direct costs — materials, conference fees, trainers' compensation, consultant fees, trainees' wages, travel, meals, and hotels. Divide this number by the number of trainees in the program.
2. Calculate labor costs and profits lost while employees are in training by totaling the employees' pay while training and adding that amount to the company's profit margin lost on each employee hour not worked on the job.
3. Calculate total training program cost.
4. Estimate expected productivity benefit for training (be conservative).
5. Calculate the first-year profit improvement with the productivity increase.
6. Estimate length of time of training effect using a discount rate formula to reduce the value of future years' productivity increases.
7. Calculate total estimated profit increase from training.
8. Calculate total training benefits after training cost.
9. Calculate training ROI.

Cost of Training

Consider a two-day training program for 16 employees. The total training costs would be $33,140.

- If you pay each employee $200 per day, multiply that times two days. You would pay $400 times 16 employees for a total of $6,400.
- Estimated costs for training facilitator, materials, room, a/v equipment, and travel equals $16,500.
- If the company makes 20% profit on each employee hour worked, the loss in employee productivity while in training would be $10,240.

Return on Training Investment

Assume that each of the 16 employees improved productivity, which resulted in an additional 10% of profit per employee. The added profit after the training would equal $122,880 in the first year, which is almost four times the cost of the training.

2. INDIVIDUAL COMMITMENTS

This approach focuses on change and overall business results instead of mathematical projections. The idea is to identify two or three core behaviors that if employed by a specific business unit within the organization would dramatically improve business results. The next step is to provide the training and focus on ensuring that participants who complete the program are truly capable of performing the specified behaviors. Then the participants receive three to six months' worth of reinforcement and support related to the target performance and their subsequent progress. The specific financial impact related to that business unit is compared each month (or week) after the training experience. The impact of implementing the target competencies is determined and evaluated in terms of strategic benefit.

The return on investment process involves the participants and their managers and extends well beyond the learning event. Once the detailed commitments are established, employees submit progress reports. The results of implementing the new skills are directly linked to the business activity.

3. ROOT CAUSE ANALYSIS

1. Identify the root cause of organizational "pain" (e.g., turnover, change orders, or customer service).
2. Determine how much the pain costs. Using turnover as an example, determine the total costs of recruiting, time associated with applicant review and interviewing, bringing candidates in (travel, lodging, etc.), any employment fees, training, and getting new hires up to expectations. (The performance gap between a lost proven performer and a new recruit can be a significant cost for a substantial time period).
3. Design an intervention program — What type of focused training would reduce turnover in your firm, who and how many people would be involved, and what would be the costs associated with it?
4. Develop a cost/benefit ratio — How much is earned by implementing training for retention of current employees vs. how much is spent on training and developing new employees? Also, determine total costs for new hires vs. keeping current employees.

Collecting enough evidence to point to training as the main reason for success will undoubtedly require a great deal of time, calculations, and expertise. Remember that training is an investment in your greatest asset — your employees. Support and accelerate employee learning so that you win business. ■

Foster teamwork.

21

Self-directed work teams are just one form of teamwork. Yet they have proven to be an effective method for improving communication, planning, and employee motivation. This all adds up to improved productivity and margins.

The term "self-directed work team" is used in a variety of contexts with several different meanings in the construction industry. However, there are seven basic characteristics that differentiate a self-directed work team:

1. Self-directed work teams are groups of people who naturally work together.
For example, a paving crew, an accounting group, or a management team work together to complete a work process. They are differentiated in this way from diverse work-function teams that are formed to solve problems or address opportunities for improvement.

2. Self-directed work teams are well educated as to the objectives of their company or division.
Successful organizations have developed a strategic business plan that clearly states the company's overriding objectives, such as to grow the business by 10% annually or to increase net profit by 5% annually. These objectives are easily understood by everyone within the organization so that their efforts may be focused toward achieving these goals.

3. Self-directed work teams develop their own objectives that fit within the larger company objectives.
An accounting staff may have a productivity objective of sending all invoices within the first three days of the month. They understand that this objective, if met, will assist the company in meeting the larger company objective of profitability.

4. Self-directed work teams are knowledgeable regarding measurements in place and how they relate to objectives.
The accounting staff will understand how their productivity is measured and have access to this information. They may even be responsible for calculating and tracking this measurement.

5. Self-directed work teams have input regarding how to accomplish work tasks and meet objectives.
Instead of being directed by a supervisor or manager, the team meets regularly to

discuss specific measurable results and brainstorm suggestions for improvement. The supervisor or manager is a member of this team and participates in these discussions not as a dictator but as a knowledgeable resource.

6. Self-directed work teams are empowered to make certain decisions.
Once this authority level has been well defined, decisions are made on the job in a more timely manner. For example, if the accounting staff realizes they didn't receive the necessary information for an invoice, they can contact the project manager directly, without first contacting their supervisor. The process will take less time.

7. Self-directed work teams increase motivation.
Empowered to make decisions and have input into how work is accomplished, the individuals within the team have a sense of importance and control. Because they have ownership over the objectives set forth by the company and their team, they will be driven to be more productive.

THE PRODUCTIVITY EFFECT

These teams can improve productivity through communication, planning, and employee motivation.

Communication

Communication is improved as these teams are educated as to the mission, vision, goals, and objectives of the organization. As the instigators of the education process, upper management communicates to all employees, creating a well-informed, focused workforce. In turn, the team's goal setting and measurement drive communication in the opposite direction, as information concerning work performance flows to upper management.

Planning

Improvements in communication lead to improved planning, as communication is a key component of sound strategic, business, project, and daily planning. As these teams meet weekly to discuss their objectives and results, they must engage in proactive thinking. Thus the planning process is enhanced through ongoing, structured communication.

Employee Motivation

Motivation is perhaps the most difficult area to address for an organization, and the most satisfying result of self-directed work teams. Many managers incorrectly assume that people are motivated by money, when other factors, such as involvement and praise, play just as important — if not, a more important — role.

Self-directed work teams provide an avenue for employee involvement. Team members are empowered to make decisions involving how work is accomplished, how productivity is measured, and how productivity is improved. The measurement of productivity and implemented improvements provides opportunities for praise, as teams achieve new pinnacles of success.

Team members are empowered to decide how work is accomplished, how productivity is measured, and how productivity is improved.

Productivity improvements occur through more effective planning, communication, and employee motivation, and many tools are available to promote improvement in these areas. One of the most effective tools is the self-directed work team. ■

Hire the best and brightest.

22

Most of us would also probably agree that hiring and keeping the best and brightest are key strategies for the firm's growth and survival. What your company is undoubtedly after is a significant return on its investment in people. The right hiring process can help maximize that return by systematically examining the major components of the right fit. We are going to define that fit as follows:

ROI on People Hires = Talent x Fit;
Where: Talent = Knowledge + Competence and Fit = Behavior + Expectations

Most of us recognize intuitively the need for successful candidates to possess both talent and fit. However, we need to examine each of the subcomponents separately to ensure the proper match.

For example, a person may need only basic knowledge to be competent, but some people can have plenty of knowledge and be totally incompetent. Finding the right talent requires you to enumerate how much of each of these subcomponents is necessary for all dimensions of the position.

Anyone who has been through much hiring can recall experiences where all of the talent questions were answered, but the fit was not right and, as a consequence, the hire did not work out. Fit is one of those soft concepts that we tend to "feel." It's a matter of finding someone who behaves in a way that is compatible with the people already in the company. While not quantifiable per se, those behaviors are tangible and identifiable enough so that you could write them down and use them in the candidate evaluation process.

A second component of fit is the issue of expectations — those of the candidate and those of the company. If the candidate and the company do not thoroughly discuss these expectations during the hiring process, then the potential for a backfire is not too far down the road.

With enough work in setting clear expectations on both sides up-front, a lot of misfires could be averted. The right candidate will demonstrate the right kinds of behaviors that lead to success in your firm. Equally important, you will have reached a clear understanding early in the process regarding the individual and shared expectations.

SETTING UP A BENEFICIAL PROCESS

It is not that difficult to set up a structured process in your organization that can yield tremendous returns on your people investments. The operative words here are "structured process." The worst hiring decisions any of us make are those that are made because we are in pain and act too hastily. A structured process can keep you from making

a hasty decision that you will later regret. Consider a structured process as one that includes these basic elements:

Human Resource Plan — The idea here is to project your people needs as part of your annual business plan. Your annual plan should dedicate a specific section to dealing solely with personnel requirements. You may want to look at past productivity or results by position or category of employee. Most importantly, plan ahead so that you are not forced into a 100% reactive mode when the need arises.

Specifications — For every managerial position, you should list the basic specifications that spell out what you are looking for in the successful candidate. If you want to expand this list to include job description criteria, that's fine, but that is not the point. What you want to do here is to identify between one and five absolute "must-haves" for the position. You must identify and be absolutely dogmatic about sticking with at least one such criterion, or your target market is the entire world.

The "must-haves" are necessary to serve as effective screeners. On the other hand, don't get so carried away that you wind up with 10 or more "musts."

Sources — You need to have identified beforehand and prioritized multiple sources for potential hires. Keep your sources alive, even when you do not need anyone. That way, your options will open up more quickly when you do.

Telephone Interviewing — You can eliminate many candidates in the span of a brief phone conversation. Career counselors hate this technique and advise their clients to dodge these calls whenever possible. These counselors are the same people who advise their clients to "apply anyway, even if you are not qualified." They know that far too many managers do not stick to their "musts" to begin with. Your job is to start here so that you do not waste large blocks of time down the road.

Referencing — You need to fit this step somewhere in the process. If you will have to pay for travel in order to interview the recruit, you may want to make your calls before the first face-to-face meeting. Where references don't check out, you'll save money. Incidentally, there is no reason to check "social" references. They'll always check out.

Interactive interviewing — Eventually, you are going to select the best three to five candidates for personal interviews. This process should involve at least two events or visits and should also involve multiple interviews with different people in your organization (although one at a time, please — we want the candidate to be open, not defensive).

Formal offer — Once you have been through an adequate process and feel as if the decision is clear, then you should move forward with optimism and speed. Make the offer, treat pay and benefits explicitly, pay on the high-side of any range you may have quoted in the early stages of the interview process, and give a deadline for acceptance. Don't negotiate the pay. You can negotiate benefits, starting date, almost anything but the pay. Do it now, and you'll do it again and again!

Obviously, you will have your own technical and fit criteria. If you want the best and you are serious in the belief that people really are your most important assets, then be thorough in your hiring process. It will pay you back many times over. ■

Hold daily huddles.

23

Foremen are trained to lead their crew in identifying safety hazards, opportunities for process improvement, and a production goal for the day. At one company, team members discuss key factors for the day during the daily huddle. Is the proper material on site, are any difficulties on the horizon, and is all safety in place? Work production goals are also determined. At some companies, foremen are also given the labor estimate for the day, so they can compare actual to the estimate at the end of each day.

OBSTACLES TO PLANNING

Even short-term planning in the construction industry seems nearly impossible. Two reasons, managers say, that prevent them from planning are the changing environment and a lack of time. While many aspects of a project cannot be fully controlled on the job site, field managers can effectively manage change and plan work in the construction industry. The Foreman's Daily Huddle (FDH) is a planning strategy used by the best foremen in the industry.

Think about a typical weekly toolbox meeting. It might begin with the foreman yelling, "You people come over here and get this over with." Most likely, the foreman reads a canned, probably irrelevant, safety tip, and thrusts a piece of paper at everyone to sign, indicating they were properly briefed on safety measures. The foreman probably dictates goals and production schedules with no team input. Most likely there is no discussion during the meeting.

Best-of-class construction companies that successfully implement daily huddles have found that the investment can pay tremendous dividends in safety, productivity, and quality.

THE FOREMAN'S DAILY HUDLE

The FDH takes only three to five minutes each morning. Before work begins, the foreman and crew review the previous day's work. Together, they focus on ways to improve quality, safety, and productivity. Finally, they establish performance goals for that day.

These contractors start by sending a field leader/trainer to each crew to explain the three main objectives of daily huddles:

1. Make crews more safety conscious.
2. Create an atmosphere where all crew members are part of a production team, and understand the balance between quality and productivity.
3. Involve crew members in making suggestions for improving productivity and setting daily goals.

It is critical that crew members are taught the process; the steps can be practiced through role play. Then, crew members can alternate the jobs of safety captain and goal captain each week.

The Safety Captain:

- Surveys the job site each morning.
- Notes potential safety hazards and reports them to the crew leader.
- Writes the report on the appropriate form.

The Goal Captain:

- Surveys the job site to determine a goal the crew can reasonably achieve by the end of the day.
- Sets a quality goal that corresponds to the production goal to keep production and quality in proper balance.

Team members should also receive initial job-site training on how to determine quality goals based on work type. They should learn how to write production goals based on four criteria: fairness, challenge, opportunity for participation by all team members, and measurability.

The safety and goal captains conduct huddles each morning. The safety captain points out any safety hazards and warns team members of any new hazards likely to arise during the day. The goal captain reviews daily work challenges and suggests a production and quality goal for the day. Captains are encouraged to seek other crew members' advice and suggestions. The crew leader is responsible for any changes or improvements.

Once the team agrees on safety, production, and quality goals, these are written down. Any ideas for improvement are also noted. At the end of the day, the percent-estimate of work completed is noted and written down to track job progress.

Even short-term planning in the construction industry seems nearly impossible.

OBSERVED BENEFITS

Companies using the daily huddle system often see fewer workers completing more work, a decrease in rework, an increase in crew member involvement, and a decrease in the number of accidents.

The FDH reinforces the notion that each team member contributes to the quality, safety, and productivity of the company — a responsibility traditionally held only by the foreman. The huddle also motivates crews to achieve their goals by involving each team member in the goal-setting process and assigning accountability. Teams work harder to accomplish goals they set for themselves than they do for goals that were set for them.

Additionally, the FDH teaches team members to think independently and function more efficiently in the foreman's absence. Although crews will not always achieve production goals, they should meet or exceed their goals 50% of the time. Goals may be unrealistic if crews do not meet them 50% of the time. When crews meet goals substantially more then 50% of the time, goals may not be challenging enough. The Foreman's Daily Huddle allows field managers to plan work and effectively manage job-site variables. With the FDH, construction teams can be consistent winners. ■

Install a system of integrity.

24

Integrity must be a core value for any construction company that aims to make a profit. Companies that play dishonest games have to work harder to continually earn new business. However, honest companies earn the trust of their customers and ultimately their repeat business. The development of integrity is central to the success of any company — especially in today's business environment.

The following is a brief outline for installing a system of integrity at your firm. This can be accomplished through a five-step process:

1. Announce intent.
2. Organize training in integrity.
3. Post scoreboards (how the job/company is performing).
4. Reinforce integrity.
5. Model integrity.

STEP ONE: TOP MANAGEMENT ANNOUNCEMENT

Management should communicate to the company its desire to install a system of integrity. An announcement can be made, such as: "In order to tell our customers about our repeat business goal, we will all, from this day forward, embrace integrity as our core value. Our customers will see this in our honest, straightforward dealings in all matters. We will walk the talk. In the short run, we may lose a few dollars, perhaps, because we told the whole story, but in the long run trustworthiness will build our reputation in the marketplace and thereby enhance our chances of providing job security. Our respect for ourselves and our company will grow as our reputation for integrity grows."

It is important to explain how integrity must be communicated so that it is both real to us and perceived by the customer.

Because of basic human pride, people tend to keep performance up when they're ahead and feel challenged when they're behind.

STEP TWO: ORGANIZE INTEGRITY TRAINING

Since integrity is both a personal issue and a system issue, training in this area needs to address both dimensions.

Integrity must be a core value for any construction company that aims to make a profit. Companies that play dishonest games have to work harder to continually earn new business.

Develop workshops as part of an ongoing training program to promote the corporate value and structure and strengthen individual responsibility.

STEP THREE: POST SCOREBOARDS

Let everyone know how we are doing, honestly. Telling the field "We're behind!" or "We're over-budget!" when this is untrue only builds cynicism and distrust.

In an integrity-driven culture, how the job is going is accurately posted at the job site. A scoreboard can positively impact productivity just by letting people know how they are doing. Because of basic human pride, people tend to keep performance up when they're ahead and feel challenged when they're behind. This scoreboard can be public because no proprietary pricing information is required for its effectiveness. After all, pricing is not under direct field control. But productivity relative to the estimate is. When serious delays occur beyond the crew's ability to influence, such as weather delays, don't take the scoreboard down. Rather, establish a recovery schedule that's challenging but fair. Do not protect people from the truth — help them understand it.

STEP FOUR: REINFORCE INTEGRITY

Watch for examples of integrity and thank the responsible person. For example, "John, I noticed that you found a misleading phrase in my letter to the customer. Thanks for helping me catch that. It was unintentional." Look for signs of customer appreciation of honest dealings — such as repeat business or willingness to sign change orders — and send a note of thanks to the responsible person.

STEP FIVE: MODEL INTEGRITY

Since we are all human, modeling integrity may be the toughest task of all. Think of this goal as a lifetime journey. We are all trying to learn how to reflect integrity. When managers go to a job meeting, the team will see whether they operate with integrity. When managers discuss quality and safety, the team is watching for levels of sincere commitment. In fact, models of integrity are watched more than they are heard. Modeling integrity is "walking the talk." We all have responsibility to do this. ■

Invest in extensive project manager development.

25

Invest in extensive project manager development so that project managers become the company's most valuable sales asset. Extensive training and internal reward systems can be used to ensure project managers assume responsibility for ongoing business from existing accounts, thereby allowing dedicated business development resources to concentrate on getting new customers into the organization's fold.

DEFINING PROJECT MANAGEMENT

Project management is a broad term, even within the context of the construction industry. Design, construction, and related service providers all employ project managers of some sort. Some firms even sell "project management" as their primary service area. Of course, given the size and fragmentation of the construction industry, what a project manager does, how he or she does it, and what the actual role entails, may very widely from firm to firm. However, in most firms, the project manager is that brave individual willing to accept a job description that basically says "get out there, keep everybody happy, but don't spend any money." As a result, sometimes the only thing consistently discernable in the field of project management is that it's a tough job.

Although many companies and project managers define themselves by technical knowledge and skill, there is ever-increasing awareness that successfully completing projects on time, in budget, and with happy clients is more about the successful orchestration and facilitation of others than it is about personal technical prowess. More companies are looking at each project as a microcosm of an independent business. This is really an appropriate view for many projects. In that context, winning is more about social engineering and less about building engineering. Companies are aggressively seeking to recruit, train, and retain project managers with a "holistic" understanding of how to run a successful business, not just how to get the job built.

And yet most contractors would agree that traditional construction management or engineering programs do not teach negotiation and other business skills. This lack of formal training leaves the development of business skills up to companies and individuals. The amount and form of training varies. Most companies use informal mentoring programs to develop these skills in junior project managers. Some companies also have in-house programs or send their employees to outside seminars. Individual project managers may seek out additional training through books and other resources.

Many contractors believe that negotiating skills are something that an individual either can or can't develop — unlike a new construction method — not everyone can acquire these skills. Therefore, companies should heavily weigh communication skills and business acumen as it evaluates potential project managers to hire. But no matter how

much training is provided in negotiating, customer relations, and finance, some people are just innately better in those areas than others.

PROVIDING CUSTOMER SERVICE

Closely aligned with successful business management is the realization that most industry firms are in the service business. That means project managers have to be more engaged in helping their companies "over serve" customers without giving away the store. More often, firms are promoting the concept that you can give away service, but you can't give away scope. This is a long-standing point of confusion and conflicting opinion in the industry. This relatively simple concept is helping more project managers deal effectively with the ever-present conflict between customer wants and budget constraints.

Project managers are increasingly becoming involved in building and maintaining existing customer relationships. In marketing-driven firms, this is often an important point of leverage for the marketing and sales staff. It helps build a marketing-oriented culture within the firm.

As a whole, today's project managers are some of the best and brightest ever to participate in the built environment. Reflecting society as a whole, they are better educated, more technologically savvy, and have higher expectations for the industry. Coupled with some of the previously noted trends, it is easy to see that companies have their hands full trying to attract and retain the best. As the aging baby boom population moves on to executive positions, project management roles are increasingly held by people from "Generation Y," and even younger groups. The next result of these trends is a project manager who demands to be engaged with the firm and his or her work. It's not enough for these people to simply execute work. They are not sufficiently stimulated and gratified by task-oriented work. They need to see additional context to their work and a broader picture of the business in which they are involved. These people not only require training for skill enhancement and development; they must also be stimulated intellectually in their work environment. Otherwise, they will simply move on.

More companies are looking at each project as a microcosm of an independent business. This is really an appropriate view for many projects.

Perhaps the most critical trend for project managers to recognize is the emergence of absolute accountability for the success of their projects. As with most things in life, reward follows risk. Project managers will be increasingly rewarded in this industry, but the excuses are going away. Systemic change in the industry is eliminating the ability to blame failure on estimating, pre-construction, field supervision, or other parts of the organization. More firms are clearly identifying project management as their most important, and therefore most responsible link. In this increasing "no guts, no glory" environment, the future will be bright if you're a project manager…but only if you're very, very good. ■

Keep good people.

26

It's the last thing you want to hear — an important employee announcing that he or she is leaving your firm. Perhaps it's to join a competitor, or to leave the industry altogether. Whatever the reason, you're going to lose out.

A LAST DITCH EFFORT

After this announcement, you may hastily put together some sort of deal to convince the employee to stay. Many times this tactic succeeds but only because the employee is flattered by all of the sudden attention and because the employer has simply thrown money at the problem. But the attention and the money are only short-term satisfiers. If the employee is dissatisfied with other aspects of the job, it is probably just a matter of time before he or she moves on to another contractor or line of work.

RETENTION STRATEGY

Employee retention efforts should start when people are hired, not when they threaten to leave. Contractors need to recognize what their employees want to achieve and figure out what must be done to help them meet those objectives.

Employee retention efforts should start when people are hired, not when they threaten to leave. Contractors need to recognize what their employees want to achieve and figure out what must be done to help them meet those objectives.

FIRST DAY RITUAL

The employee's first day is the perfect opportunity to remind him or her about all the reasons why your firm is a great place to work, including great people and great customers. Create a first day ritual for all new hires. This should include a more senior-level employee showing the employee around and introducing the employee to all of the current staff. In addition to personal introductions, be sure to introduce the new hire at your firm's staff meeting or via e-mail. Also, consider submitting a press release to local papers on your recent hire. This will make your new

hire feel welcome and special.

The first day ritual is just one part of the new employee orientation. Some larger firms have an official orientation program much like an educational seminar designed to introduce the new employee to the company's various business units, markets, and services. For a smaller company, or a less formal approach, this could be as simple as having the employee sit down and talk with each business unit manager, etc. in the company. Be sure to provide the new employee with written materials that he or she can review later. With all this new information as well as new faces to absorb, the first week at a new job can be a little overwhelming and frightening. Having an organized first-day ritual and orientation program for your new employees will impress your new hires and make a lasting, positive impression in their minds.

MOTIVATORS

Surprisingly, money is not necessarily the most important aspect of a retention strategy. When trying to retain an important employee, the "bigger picture" often counts the most. Many employee attitude surveys show that money is not the leading factor in job satisfaction. Everyone wants more money, of course, but once employees feel relatively secure financially, their needs shift from compensation to enhanced self-esteem and self-actualization. Non-monetary issues — such as a boss who listens, recognition for good work, being informed of what's going on in the firm, opportunities for career advancement, and chances to broaden skills — become more important to many employees than their compensation. So, while money is always important, showing employees their value and potential can be more effective in keeping good people.

You can improve your retention of critical employees by following these guidelines:

- Don't assume anything. Too many managers erroneously assume that they know what motivates their employees. At the beginning of the hiring process, find out what new employees want from their jobs and how they want to grow. Then help them structure a career path.
- The management team should properly evaluate the performance of all employees and set goals and objectives for the performance of key people. Too many employees leave because they feel they never receive proper recognition for what they accomplish.
- Managers must constantly communicate the results of employees' efforts to the employees. They need to feel like they know what's going on in the company.
- Finally, don't overlook money completely. While money is not the only factor in job satisfaction, it is a factor that needs substantial attention. Think not only in terms of salary, but also in terms of total compensation: base pay, incentives, and benefits. Every job is worth a certain amount of money in a certain marketplace. All employers have to determine the value of a job and what they want to pay in their market. Some of this thinking is going to be based on company philosophy. Then the employer must decide what total compensation program will fit all of the employees' needs and the company's budget. ■

Keep your surety fully informed.

27

Meet with your bonding company at least annually to review plans for the next 12 months and to set a reasonable range of expected surety credit needs. The contractor/surety partnership is essential to the growth and development of a contractor. In order to increase your company's backlog and bid larger jobs, contractors need the backing of a financially sound surety company willing to extend the necessary surety credit. Your company's growth potential is inextricably bound to your surety relationship.

In all likelihood, your company's performance is dramatically different than it was just two years ago. These changes in financial performance impact the amount of surety credit a firm is willing to supply, and the surety underwriter must build a clear picture of your company today. The surety market is also changing, and you may be experiencing a situation where surety underwriters are requesting information they had not requested in the past. Underwriters want to know how the business is being run, as well as forecasted future performance. They are becoming as concerned with resumes of key employees and comprehensive business plans as they are with financial statements. In preparation for meeting with a surety, it is important to know not only what the surety company needs, but also why they want it.

Your annual meeting with your surety underwriter and the producer (a.k.a. agent/broker) should focus on updating the surety with your recent performance and a discussion of future plans. Not only are underwriters interested in whether the financial statements are sound, but they also want the assurance that personnel is available to maintain the workload. The company's business plan for the next 12 to 24 months is an extremely important part of developing a surety relationship.

The surety underwriter uses financial statements and business plans, among other factors, to determine the amount of surety credit the surety will extend. The surety needs a clear understanding of your business so they can help you move the firm in the desired direction.

Your company's growth potential is inextricably bound to your surety relationship.

Open communication, timely financial statements, and no surprises are the keys to a good surety relationship. You've probably heard of the three Cs of surety underwriting (capital, capacity, and character). Capacity is quantifiable, either the personnel, experience, and equipment are available to take on a specified workload, or they aren't. Capital is more difficult to assess. The surety underwriter and

producer depend on timely and accurate financial information to forecast whether the appropriate capital will be available.

Maintaining a surety relationship requires open and honest communication with the surety bond producer and surety underwriter. All parties must say what they mean, do what they say, and show results. There should be no surprises from the surety or the contractor.

One critical conduit for communicating to the surety is through the job status report. The job status report is a snapshot of the business through the lens of individual projects, and should be provided to the producer on a bimonthly or quarterly basis to focus for the surety how the company is achieving its goals. The job status report should reflect all jobs undertaken, bonded and non-bonded, and provide consistent and conservative evaluations of ongoing performance.

The surety underwriter analyzes each job status report and tracks a contractor's work history. The underwriter is looking for patterns and project management strategies. The surety realizes problems will occur on a job and expects the contractor to address them. One question you might ask yourself, "When and how will I notify the surety when problems arise?"

A surety company would rather be informed immediately of problems so that they can prepare to help the contractor address payment or performance bond claims, should they arise. The surety should be provided with profit and loss statements based on percentage of completion. Realize that inflated job profit and loss statements with significant profit fade by the end of the project raises a red flag. These concerns could have a significant impact on how much surety credit they are willing to provide.

Maintaining the surety relationship requires trust, mutual respect, and accountability. To maintain and increase surety credit these qualities must be demonstrated over a long period of time. Provide the surety accurate, detailed, and consistent feedback on the business. Over time you will earn the trust and respect of the surety company, which is vital to the surety relationship. So, when increased bonding capacity is needed, the surety will support your growth because the relationship and financial results confirm your company's ability to maintain acceptable performance and margins. ■

SOME QUESTIONS THE SURETY WILL ASK

1. Are there large costs and earnings in excess of billings (underbillings)? If so, the surety will want to know:

- Is the gross profit holding? Fading? Or growing?
- Has the owner failed to pay? Is there some dispute?
- Are progress billings being readily approved?
- Are unapproved change orders being included in the costs or revenue?
- If the job is complete, why hasn't it been fully billed?

2. Are billings in excess of costs (overbillings)?

Overbillings may not be an issue provided the contractor recognizes that the project is overbilled. Substantial overbillings should result in a strong cash balance. If not, this will need to be explained to the surety.

3. Is the profit margin holding?

Sureties understand that some projects may experience profit fade. However, they will show concern when a contractor continually anticipates a high profit margin only to see it dwindle as the project is closed out. There are several explanations for continuous profit fade including:

- Poor job cost procedures and inability to accurately determine cost to complete
- Inability to accurately reevaluate and address problems on a job
- The contractor is withholding information on problems with the project until the end of the job.

Know your costs; price for profit.

28

You probably know at least one firm in your market whose pricing policy leaves you scratching your head. Many contractors price work in a cavalier fashion relative to the contemplated risk. Others price work relative to how hungry they are, what they intuit the market will bear, or their overriding desire to generate revenue and cash flow, regardless of how unattractive the opportunity. In the heat of the battle, the methodologies for doing some of this are much less diligent than the actual estimate of direct costs.

Why? In many cases it is because people are thinking only about the pricing of the job, not about the pricing of the job relative to the rest of the business. However, the pricing policy applied to any project should be firmly rooted in company finance and strategy. The premise of strategic pricing is that you must balance getting a fee vs. losing the business.

Your firm should have a pricing strategy that allows you to break through the clutter, command your share of the profitable work, and make an appropriate return in the process.

BASES FOR FEES

One way to do this is to have an overhead recovery system that helps allocate overhead to various projects and helps track progress throughout the year with respect to total overhead recovery. There are a number of ways to do this. For example, overhead can be allocated as a constant percentage of some cost item (e.g., labor) or a multiple rate system, or simply a flat rate on total cost. Regardless, the method employed should be mathematically sound and should legitimately reflect the financial structure and overhead needs of the firm.

Having some form of overhead recovery system built into the pricing policy has several benefits.

- First, it ensures the logical link between real cost structure and pricing methodology.
- Second, it allows for tracking progress throughout the fiscal year with respect to overhead recovery. It is surprising how many people bid under and over a range of margin that is suitable for break-even or target profit purposes, yet have no means of making sure that all of those different markups tie back to recover the whole.
- Third, an overhead recovery system will force the separation of overhead from profit markups, a result which will help make better quality business decisions on bids and negotiations.

After all, overhead is real cost. The net profit should be a separate issue. It is useful to keep this idea clear in the heat of negotiation. Identifying the real break-even point of a project must, by definition, contain a realistic pro rata share of the overhead costs.

The pricing policy must also be tied into the overall strategy of the business. For example, XYZ firm is absolutely committed to a value-added construction strategy. However, their customers are absolutely committed to buying all construction as if it were a commodity. The result is hard-bid pricing matched to negotiated delivery — and lousy profits.

What is the answer to this from a pricing perspective? Either continue the same policy but switch to a hard-bid delivery, or find another market where the existing policy will work (this is difficult, but the competition seems to have figured it out). The point is simple: you cannot price work under a set of assumptions that do not accurately reflect market reality.

Another example of disconnection between reality and price is the contractor who claims that "we can't include everything in the bid or we won't get the job." Let's face it, it is much better to identify all of the costs as they are likely to be incurred, determine the break-even point, and then make an informed business decision regarding fee and risk. Anything other than that is not only self-deception; it prevents tracking progress points with regard to the preservation of the fee. The bottom line on this is to know your costs so that you can determine if you must deliver as a commodity or strive to earn a fee that reflects a value-added delivery proposition.

SYSTEMATIC STRATEGIES

In the construction industry, price is a perennial issue. However, you can practice a type of "yield management" on fees, relative to the competitive position. In hard-bid work, that means keeping bid tabs on recurring competition. If you can gather low-bid information, there is a substantial amount of gaming theory that can be applied in order to determine optimum markup strategies. Even if that seems too remote as a strategy for your company, you can still make some better bid-day pricing calls if you have some basic feel for the competitive mix involved.

In negotiated or select list work, the competitive maneuvering may involve getting the fee in line with several other factors that range from schedule to team chemistry. In either case, capture information on the competition. Analyze it. Use it. Don't fall into the trap of simply reacting to competitors, but do consider their position in optimizing your yield.

Do not confuse estimating procedures with a strategy to win. Estimating procedures define costs, but they do nothing to identify the right fee or approach in a particular pricing situation. Put some significant time and thought into what edges might be obtained or how to win in a proposal situation.

Consider that "Whatever the Market Will Bear" (WMWB) alone is a lousy means of pricing work. One needs to have a feel for WMWB, because it is part of the yield management and strategy processes, but it is inherently dangerous if used as the only basis for the decision.

In the end, you need to know exactly what the break-even costs, including overhead, are going to be on a project. Based on your appetite for risk, that piece of information then becomes a guidepost around which to build a winning strategy. WMWB has a lot to do with the final price but nothing to do with the final costs. Most contractors are actually in the business of managing risks and dealing with incremental mathematics and strategic pricing. Managing the construction risk-reward ratio requires proficiency in both. ■

Link compensation to your strategic vision.

29

Pay practices based simply upon tenure focus employees' attention on hanging around instead of outmaneuvering the competition. Fortunately, there is another approach.

The underlying premise of most compensation policies is competitive in nature; their aim is to attract and retain key people by offering competitive salary, bonuses, and benefits based on the market range for each position. Consequently, many pay plans have an external focus without a linkage to organizational goals, objectives, and strategies. Too seldom is compensation used to reinforce and motivate company employees to achieve the organization's strategic goals.

STRATEGIC COMPENSATION

A strategically focused compensation program shifts the emphasis from linking compensation to industry norms to using compensation as a tool to reinforce company goals. In addition, employees are made stakeholders in the company. Rather than pay becoming an entitlement regardless of the fortunes of the company, compensation is tied directly to the company's financial performance. Employee income is therefore predicated on company success, causing the employee to approach his or her job as would a shareholder. Under a strategically-focused compensation program, employees are rewarded for their personal as well as their group's contribution to the company's success.

In most construction markets, only the most productive contractors survive and prosper. If production and compensation are not linked, productivity can (and will) fluctuate wildly. Over the long term, compensation tends to climb faster than increases in productivity. That's a sure way to price yourself out of business. The only way to control and improve productivity is to couple the two. If a portion of input can be tied to the level of output, enormous leverage is created in increasing productivity. The key is to tie individual compensation as closely as possible to the results for which the individual or team is responsible.

To implement a strategically focused compensation program, an organization has the following tools at its disposal:

- Base pay (wages or salaries)
- Variable pay (bonuses or incentive compensation)
- Perquisites

Base Pay — Under traditional compensation plans, raises become permanent and thus create significant long-term costs to the organization. Furthermore, these plans are

relatively inflexible in recognizing notable differences in employee performance, and as a result, employees who excel in a given year usually realize only a small pay differential relative to those who simply meet expectations.

In contrast, strategically focused compensation plans typically use pay scales or bands for a given position with specific amounts stipulated for minimum, average, and maximum wages or salaries. As an employee's performance and skill levels increase, compensation increases in line with the pay band. Performance should be assessed by (at least) annual evaluations that objectively measure job performance.

Variable Pay — Many contractors have a variable component to their compensation program in the form of a discretionary year-end bonus. Typically, prior year company financial performance is reviewed, and bonuses are distributed based on an arbitrary assessment of an employee's efforts. Usually, no direct linkage exists between bonuses and other forms of compensation.

The underlying premise is simply to share the wealth of a profitable year according to a subjective look back at the contributions of different individuals. Although clearly a magnanimous and noble gesture, the year-end discretionary bonus ignores the enormous potential that well-defined bonuses have to motivate and influence future behavior.

Variable pay incentive plans are most effective when they are measurable, influenceable, and predictable. A plan is measurable if it is based on an objective, numeric calculation predicated on company, division, project, and/or personal performance. A plan is influenceable if the employee's performance has an impact on the level of variable pay he or she receives. A plan is predictable if the funding of the plan is visible and calculable. Employees should have at least a general idea of the plan and its funding over the course of the year.

The variable pay plan should be explicitly funded by actual company, business unit, or even project profits rather than by a budgetary increase determined at the beginning of the fiscal year or a discretionary distribution of a portion of profits at the end of the year. Finally, it should provide management with significant leverage for affecting employee behavior by providing the opportunity and incentive for individual employees to increase their compensation significantly.

Perquisites — Perquisites are organizational rewards, such as a company vehicle, that are privileges extended to certain employees. Traditionally, perquisites have been rewarded to employees based on their position. Perquisites often then become a matter of rank and are bestowed regardless of individual, group, or even company performance. In addition, these rewards create classes of haves and have-nots. Perquisites, distributed in this manner, seldom enhance individual performance across a broad range of different employees.

Progressive compensation plans use perquisites as a unique opportunity to impact individual and group performance by visibly rewarding employees and demonstrating to the organization appreciation for superior efforts and results. Although some perquisites, particularly company-owned vehicles, increase employee efficiency and ensure that they don't incur business expenses personally, the judicious use of perquisites can have a significant impact on individual and group achievement of company goals.

Compensation is an often-ignored, yet powerful tool to influence employee behavior. In today's volatile and fast moving construction environment, it is essential to maintain flexibility in compensation practices while ensuring that organizational and group success is directly linked to individual pay. A well-designed strategic compensation program is crucial to maintaining a competitive edge in today's turbulent market. ■

Make every project manager a business manager.

30

Although many companies and project managers define themselves by technical knowledge and skill, there is ever-increasing awareness that successfully completing projects on time, in budget, and with happy clients is more about the successful orchestration and facilitation of others than it is about personal technical prowess. The requisite ability to be a business manager is not conferred with some sort of building construction or engineering degree. Technically trained people think technically. They may not think or behave in an entrepreneurial way. They know how to build, but they often do not know how to make money. Thus, the velocity of air through the fan coil unit receives scrupulous attention, while the resulting scope change from the increased unit size goes unnoticed. After awhile, the multiplicative effect of this takes its toll on company performance.

COMMON SYMPTOMS

Whether or not a contractor really has systemic project management problems is often a matter of degree. To be fair, most contracting firms have some of these problems. Here are the main symptoms of those firms that really need to focus on this issue:

- Profit fade on over 20% of the number of jobs in process.
- Losses from diversification of work type.
- Project managers taking a negotiated approach to hard-bid work, and vice versa.
- More than 75% of work-in-process less than 50% complete at any one time.
- Projects past 50% complete with significant under billings.
- No consistent methodology used for establishing percentage of completion.
- No earned value or comparable analytical techniques employed to gauge and monitor percentage of completion.
- Projects that are behind on a cash basis.
- More than 10% of projects have issues that escalate to formal disputes.

Any contracting firm suffering three or more of these symptoms on a consistent basis has a problem. The problem resides in the firm's project management, and it will need to be proactively addressed before things get any better.

SHORT-TERM SOLUTIONS

When a contracting firm recognizes a problem with project management, there are some things that the firm needs to act on immediately in order to mitigate the problem as much as possible. The short-term action should include the following:

1. *Outside Audit* — the contractor needs an informed, objective view of what is really happening. What the project managers are telling top management and reality are almost always at odds. An informed view of the issues and priorities (by someone who understands them) is a paramount first step.
2. *Clear Definition of Problems* — many of the problems are common, but it is important to identify each one clearly and separately, so that ensuing solutions can be measured and monitored for their impact.
3. *Consistent Processes* — inevitably one root cause of this whole syndrome will be the lack of any consistently employed "one way" of doing things. Project managers from disparate backgrounds each using their own preferences and judgements will not solve this problem.
4. *Business-Centered Approach* — deploying a methodology and approach that places business and practical concerns ahead of technical issues is important. Attention to detail is critical, but project managers cannot win if they cannot see the playing field due to vision clouded by overly technical thinking.
5. *Elevated Talent* — most contacting firms have project managers who are doing a lot of different things right. Clear identification of latent strengths that can be quickly leveraged to work for all of the firm's project managers can make a big difference in relatively short order. Utilizing existing (or outside, if need be) talent to raise the bar is the issue here.

LONG-TERM SOLUTIONS

Some things to consider to ensure successful, long-term change is in place:

1. *Best Practices* — as you continue to refine approaches and elevate talent, get all project managers committed to identifying best practices, from inside as well as outside the firm. Use a continuous process improvement team that is ultimately responsible for integrating adapted practices into your system.
2. *Implement a System* — convert the processes and practices that surface through the efforts mentioned above into a firm-wide "system." Adapting project management software tools to aid in the use of your system is fine, but select those after your particular project control system is well defined.
3. *Train, Train, Train* — it's the only way to ensure that the system you work hard to develop is consistently used and becomes a living, breathing part of the organization.
4. *Structure Top Management Interface* — too often, the only meaningful exchange between project managers and top management is done on an episodic basis (i.e., something is wrong), or it occurs through the filter of operational officers. It is important to explicitly structure periodic interface between top management and project management.
5. *Reward Performance* — this is obvious, but significant organizational change is seldom sustained unless it is reinforced. You may need to look not only at project management results, but also at reinforcing the right behaviors and processes if you want them to remain in place.

At the end of the day, you have to develop a project management approach that creates business managers, and not just glorified project reporters. With business managers as your project managers, you will have people in place that really know how to gauge risk, manage it, and work their way successfully through contractual obligations. After all, if your projects are successful, the business will be successful. ■

Make presentations that sell for you.

31

Presenting effectively is actually very simple. All you have to do is tell the customer how you will solve their unique concerns, and you'll most likely win the project. Of course, you also need to deliver the message well.

To deliver effective presentations you need a solid process for discovering customer hot buttons — both those stated in documents and those unstated. Delivering a presentation and saying: "We have good people, we're safe, and we'll deliver the project on time and on budget" is the shortcut to being a commodity that is bought on price.

You will also need a clear win strategy. What reasons have you given the customer for picking you and your team? How are you going to position yourself as the best choice? The win strategy involves what makes you different as a contractor, but it also depends on the competition as well as the needs of the customer. If you're saying you're different in the same way the other contractors are, you're still a commodity. You cannot craft a clear win strategy without looking at the competitive environment in which you're operating.

You'll need to present the strengths of your approach and company, certainly. But you'll also need to mitigate potential perceived weaknesses that your competitors might be pointing out about you. The customer needs to know what you're good at. They also need to know why those other areas that the competitors are talking about are not a problem. Both of these explanations need to be part of your win strategy.

Another problem is that many contractors talk to customers as if customers are contractors. The reality is that most customers really are not interested in construction. For the typical customer, construction is an elaborate hassle. What they want is additional floor space to expand their manufacturing capability, or a better office environment to support the growth of their business, or a distribution system that gets product to their customers when needed. What they don't want is another construction project.

Our work with contractors reveals that the needed level of understanding about the customer is lacking. Too often, contractors' presentations sound more like a "look what we do good" message rather than an explanation of how they can solve customers' problems.

Effective presentations are built before the request for proposal hits the streets. If you're finding out about a project opportunity through an RFP notice, then you're starting one step behind in winning the race to get the project. The real hot buttons of the customer are rarely fully contained in the RFP. You need to find out what business concerns they have and what the true business purpose of the project is. Learn about their past project experience to find out what might be troubling them about picking a new contractor and what was dissatisfying to them about their last construction provider.

Effective presentations are built before the request for proposal hits the streets.

FRAME OF REFERENCE

We all think of our business in great detail. We can recall lots of facts and figures, technical information, market impacts, and people snags. However, in presentations, many contractors discuss customer issues in vague terms. It's not uncommon to hear a contractor say, "We'll get you into the building on time." That's important, but the reason for the urgency of the move-in date is also important. It might be because the customer is operating out of two facilities and one of the leases will be up, and there is no other place to put their people other than the new construction space. Or perhaps the opening date is important because it's a distribution center and the computer system needs to be in then to support the merchandising buildup necessary to open the store. Whatever the reason, tell the customer you can get them in on the right date to meet their needs and say it in the same words that they use internally. If you can do that and deliver the message confidently, you will win their favor.

QUICK TIPS

Here are a few more presentation tips:

1. Plan your presentation to end five minutes early. You'll come across as well organized and prepared.
2. On your team, bring no more than one person less than the customer has. You want to look like you're in an "underdog" position (but do not have an underdog mindset)!
3. Use audiovisuals to keep the customer's attention and to give you an excuse to get to your feet. Standing demonstrates your confidence in your approach.
4. Build your presentation to meet the needs of both technical reviewers and senior managers. Intermix factual information with a big-picture orientation.
5. Simplify your message. Cover only the most pressing issues. Spending more time on fewer issues will position you as the contractor of choice since you're obviously the one that truly understands what the customer wants. Pick the issues based on the customer's hot buttons. Don't worry; all the other items should be contained in your proposal, if you're responsive to the RFP.
6. Use at least three to five different audiovisuals, such as project boards, handouts, samples, brochures, and electronic presentations. Be sure that there is visual connectivity between all modes.
7. Dress appropriately for the audience. Call ahead to see what the typical dress code is. There's no sense showing up in a suit and tie to a casual company. That's lost many contractors projects in the high-tech world, just as underdressing for the occasion can lose projects in the financial community.

Don't talk to customers like they are contractors. Talk to them in their own language, and you'll win more projects. If you do that, you'll find yourself in fewer, better presentations in the future. You'll secure all the work you need from fewer opportunities. Winning consistently on project presentations requires a solid discovery process to find customer hot buttons and craft a win strategy that is unique to the project opportunity at hand. ■

Manage cash before earnings.

32

Most construction companies that fail do so because they run out of cash. Develop detailed cash-flow projections to determine when any shortfalls might occur and plan early to secure a loan to cover the shortage.

Most people believe that profits reflected on an income statement are the ultimate measurement of a company's financial well-being. However, managers can manipulate net income to obtain a number that is acceptable to the banks and bonding company. Remember that cash flows — not profits — give you the ability to pay bills and declare bonuses.

THE CASH FLOW FORECAST

The purpose of a cash flow forecast is to help management see where the shortfalls in cash will occur over the next several months. This process involves more than forecasting cash. It is about understanding the sufficiency of cash flow and examining how efficiently cash is generated.

The contracting company that learns to maximize cash can produce greater profits, grow at a faster pace, and eliminate the cash-flow trap. The contractor who does not do so is likely to wind up as another business failure statistic.

The calculation and analysis of the cash conversion period (the length of time required to move through the cash cycle) are meaningful and beneficial only if the results are applied to the process of projecting future cash requirements. The contracting company that can project its requirements has a much better grasp of possible problems and has time to work toward their elimination.

MOTIVATING FACTORS

Two basic factors drive the need for contractors to project cash flow. First, a majority of the contractors in the United States are undercapitalized and are forced to stretch their cash in order to be profitable and to grow. Second, the seasonal nature of construction work tends to put a strain on available cash during high-volume periods. Sales, represented by billings, climb steadily throughout the early part of the year, peak in the summer months of June, July, or August, then decrease steadily to the end of the year. Since cash collections usually lag billings by 30 to 60 days, cash collections in high-volume months are for work done in lower-volume months. Conversely, cash collections in the early part of the year are for work performed in the higher-volume periods. The contractor often has the greatest strain on cash during the high-volume months and has more cash available in the later months of the year.

The greatest cash problems occur at a time when the contractor can least afford to

spend time with bankers, suppliers, or subcontractors trying to alleviate the company's cash problems. One of the greatest benefits of a cash-flow projection is that it allows you to anticipate the times when a deficiency will exist and to make proper arrangements with your banker. Not only does this provide a time for analysis and planning for future needs, but it also demonstrates that you are aware of future needs — a fact that will impress your banker. The loans needed to carry the firm through periods of cash deficiency are much more likely to be approved when they are based on forethought and planning than when they are expressed after the fact.

Cash-flow projections can be based on monthly budgets or on summarizing cash-flow projections of individual projects. Many contractors will find that a project-based cash-flow projection is superior for their needs because each project has a profound impact on the cash flow of the company. On the other hand, subcontractors may find that the large number of small projects, which they perform, would be overwhelming if approached on a project-level cash-flow basis. For many subcontractors, a cash-flow projection base based on both annual and monthly budgets makes the most sense.

Computer-based spreadsheets can take much of the drudgery out of preparing a cash-flow projection and the supporting working papers. Once you have developed an appropriate format for your use, you can test cash-flow impacts by adjusting any of the many variables in the projection. However, keep in mind that it is much easier to change variables on a spreadsheet than it is to actually affect your company's cash-flow situation.

The contracting company that learns to maximize cash can produce greater profits, grow at a faster pace, and eliminate the cash-flow trap.

Contractors will never be able to predict exact cash requirements with complete accuracy. However, the value of cash planning is that it provides a basis from which you can project a reasonable estimate of future cash needs. This estimate is better than having no idea about future cash requirements. Control of the cash-flow cycle and provision for cash during higher-volume months may mean the difference between your company's success and failure.

If you look at the cash trap you will see that profitability from month to month has very little to do with cash requirements from month to month. This is due to the lag between incurring costs and the time of cash collections. In the short run, net profit has little effect on cash availability and cash requirements.

Cash-flow planning identifies your company's need for cash at various times of the year, a need that can be satisfied only through a reliable cash flow forecast of sales and cash-flow activities apart from normal operations that will affect cash flow. These other activities might include such items as paying off loans, purchasing fixed assets, the sale of assets, and other transactions that involve the movement of cash into or out of the company. ■

Manage time effectively.

33

Contractors live in one of the toughest environments to coordinate time management. However, some contractors manage themselves better — and get more accomplished — than others. They manage time by managing themselves. Managing yourself means setting priorities and following through on those priorities. The following are 10 principles of time management.

Principle #1: You can't manage time. You can only manage yourself with respect to time. So quit trying to "save time." Start thinking about managing yourself. That means managing stress, taking the time for exercise and a few minutes for relaxation. Managing yourself means setting priorities and following through on those priorities.

Principle #2: Importance and urgency aren't the same thing. Sometimes, small unimportant matters will take precedence — they're urgent. Build that kind of urgency into your system for managing yourself. Allow some flexibility for the urgent, but relatively unimportant, matters that arise. But don't allow those unexpected things to undo your mindset about the basic priorities you need to accomplish.

Principle #3: Delegate simple tasks and information gathering. Many of us haven't developed a real talent for delegation. The way to improve your ability to delegate is to delegate things that are easy to delegate and then check the results. We'd build quality support people faster if we'd delegate more. It would help our time management if we'd delegate more. But we know that delegation is difficult. One of the reasons that it's difficult is that we delegate tasks that are people-oriented. When the people doing the task fail, we prove to ourselves that we were right all along — we shouldn't delegate.

Importance and urgency aren't the same thing.

Delegate when you have a need for information. Anytime you need information, let someone else find it for you. That's the easiest way to build delegation skills.

Principle #4: Don't waste time looking for solutions until facts are available. That seems so obvious. Yet we waste a lot of time trying to determine what the problem is when the facts aren't available and aren't going to be available. Forget about looking for or solving that problem. Let it rest for a while.

Principle #5: Making quick decisions doesn't necessarily constitute good time management. Decisions that are made quickly are often changed slowly. If the feedback is initially negative, the executive mindset is "no knee-jerk reaction to initial negative feedback." Suppose you took the productivity level in the first four weeks of a big job

and you extended that productivity over the nine-month expected duration. How many jobs would ever look profitable with that kind of linear speculation? In the first four weeks, productivity hasn't yet risen to an acceptable level. The same thing happens with most of your major decisions. We make quick decisions to save time, and even if it wasn't a good decision, we're slow to change it. Instead, be patient when making important decisions.

A sign of maturity in leadership is the confidence to look someone squarely in the eye and say, "I don't know. I'll find out." You don't always have to have an answer for every question or make an immediate decision.

Principle #6: Don't waste your time doing something someone else can do. Resist the temptation to say, "Get outta the way, kid. Let me show you how to do it." Number one, the kid might figure out a better way. Number two, you don't need to be doing it. Number three, your people should enjoy the opportunity to fail. After all, you learned a lot from your failures. Give them the same opportunity.

Principle #7: When activities involve other people, get them involved as soon as possible. Get their participation in the planning process. Use the planning process to create time for planning. Use the experience of others who are involved and others who were there before you. There's just no reason to reinvent the wheel. Try to capture all the knowledge available about how to do your business. Make it a practice to share information.

Principle #8: Prioritize high-payoff (primary) and low-payoff activities. Divide activities into primary activities and low-payoff activities. Primary activities contribute to a good job (see sidebar). If an activity isn't a primary activity, delay it, put it off, avoid it. If it doesn't matter when it's done, why do anything? Spend your time on activities where the payoff is big.

PAYOFF ACTIVITIES

High-Payoff Activities

Do it myself if:

- It is a primary activity.
- It can't be shifted or delegated.
- It is difficult.
- It is risk-oriented.
- It requires new solutions.
- It may produce a high return for the time invested (multiplies effects of contacts or multi-use ideas).

Low-Payoff Activities

Delay or avoid or put it off if:

- It is not a primary activity.
- It is easy and comfortable.
- It is not creative.
- It is trivial.
- It doesn't matter when it is done.
- It can't be done (as well) without some other information or person.

Principle #9: Prioritize according to risk. Another way to prioritize your activities is to assess the downside risk. What will happen if you don't do it? Maybe nothing. If so, then you certainly don't need to do it now. Will it be easier or harder if you postpone it until later? Sometimes procrastination can be creative. You put it off, and nothing happens. Soon you decide you don't really need to do it at all; it was just a long-standing habit held over from a past situation that's no longer necessary.

Principle #10: Make it a practice to challenge why things are being done. Will there be major negative consequences if you don't do it? It may be okay not to do a lot of things you've been doing. In fact, why don't you think about not doing some more things that you've been doing?

You really can regain control of your personal time. It's not so much an educational problem as it is a motivational problem. The first step is to decide that you're going to regain control of your own agenda and do something about it. It's time well spent. ■

Measure what matters.

34

Tie the goals, objectives, and performance measurements of key employees and teams to the goals, objectives, and performance measurements of the company. Insist on high-level performance.

We have often heard contractors say, "We don't need to measure because our goal is 100%," or "What's the point of measuring? We just do the best we can do." Without clear performance measures, employees will be de-motivated and lose interest in meeting goals and objectives. Annual performance appraisals are not enough to keep employees motivated for a full year and often serve only as a waste of time.

Measurement does matter. Performance measurement is a strong reinforcer of behavior. In other words, people do attempt to perform to higher levels if their performance is measured. They may fret about the fairness of the measures. They may complain about the accuracy of the measures. They may even deny that the measures are worthwhile. But in the long run, people perform to higher levels when their performance is measured.

Consider this example: ABC Contracting was having trouble managing its fleet of equipment. Field managers were supposed to call in their equipment needs a day in advance. However, it was common for crews to be left idle and waiting while the foreman or superintendent tracked down the available equipment. The company decided to address the issue by tracking calls made to the fleet manager. Each week, the results were displayed company-wide. No foreman or superintendent wanted to be last on the list of percentage of compliance. And as a result, performance and productivity at the company improved.

SETTING THE GOAL

To be effective, performance measures should be tied to a specific goal. But even more important, the goal should be challenging, yet still obtainable. Goals that are too much of a stretch will only serve to de-motivate employees, and goals that are too easily reached will bore your employees. One form of goal setting uses benchmarks for comparative measurement.

Benchmarks provide comparisons for performance and also offer a challenge for employees to strive toward. True benchmarks are not an idealized version of what would be nice to achieve in a "perfect world." Benchmarks, to be fair, should be drawn from the real world. However, an "average performance" is seldom considered as a proper benchmark. Good benchmarks are drawn from the performance of best-of-class contractors.

Match benchmarks with the strategic goals of the organization. For example, if you believe that "enthusiastic employees" is a goal of strategic importance, build a system to

measure it. Let's take the strategic objective of "enthusiastic employees." Surely, enthusiasm can't be measured. You'll know it when you see it, right? But to develop a meaningful system of measurement, the measurement must be something more than a few senior managers sitting around a table giving scores to employees. After all, it's the perspective of the employees that is the reality in this case, not the perception by management.

Performance can be measured on a variety of factors, including safety, productivity, and completion times. However, financial results are the most common form of measurement in the construction industry. They are the easiest to measure, the most objective to measure, and they have the greatest impact on the bottom line.

To be effective, performance measures should be tied to a specific goal. But even more important, the goal should be challenging, yet still obtainable.

It is important to consider the purpose of the measurement. What do you want to learn from the performance measure? What do you want the results to be? The answers to these questions will help you craft your unique system of measurement.

TRACKING AND USING THE INFORMATION

Once these objective measures are established, the results should be tracked in a system that is easy to use. This is important to ensure timely analysis and use of the information.

The results should then be systematically fed back to the employee being measured. We can use people's response to performance measurement to reinforce organizational objectives and behaviors aimed at achieving those organizational aims. For reinforcement techniques to be successful, measures must be clear, cause-and-effect must be understood, and people must feel accountable for outcomes. Accountability occurs when there is a consequence to results. People must experience consequences for any measurement system to matter.

The main purpose of implementing performance measures is to gain information that will help you make sound decisions. If no decisions are made based on the results of your measurements, then the measures are simply an exercise of futility.

It might be a good idea to consider implementing just a few measures to start. This will allow you to really focus on a few, important objectives.

Consider the installation of a system of coordinated measurement in your company. If the framework of these coordinated measures is based upon the framework of your strategic plan, your measurement system should be reinforcing the right behaviors needed to achieve your strategic plan. ■

Negotiate with a win-win approach.

35

Negotiations can be won or lost on small, seemingly insignificant elements, so it is essential that in the first few minutes of a negotiation you set the stage for a win-win outcome.

Contractors negotiating with owners too often feel as if they're the underdog — powerless and in a weakened position because the owner controls the purse strings. Yet many owners today want and are looking for contractors with a different philosophy of business. Win-lose relationships built on job sites have too often resulted in both the contractor and the owner getting less value for the time and effort invested. Owners, like contractors, are looking for win-win outcomes to common negotiating situations.

Negotiations that start off awkwardly rarely end up a glowing success for both sides. It's just too easy from that point of departure for the negotiating session to turn to winner takes all, or a win-lose negotiation. Set the stage for success by establishing ground rules for win-win outcomes early in the process.

SETTING THE GROUND RULES

We've developed the following guidelines to help you become a successful negotiator.

Treat each member of the organization team as an equal.

The organizational stature and power of negotiating partners are rarely balanced. Treating each other as equals opens the conversation up and builds a foundation of trust.

Everyone changes his or her mind.

Nothing is finalized until it is written down and removed from the negotiation. Even then, issues like contract terms may resurface for additional conversation. Don't try to pin your negotiating partner down to the first idea offered. Nor should you feel as if you're prohibited from changing your mind on points that have already been discussed. Negotiations are rarely about single

Don't try to pin your negotiating partner down to the first idea offered. Nor should you feel as if you're prohibited from changing your mind on points that have already been discussed.

issues. Due to the complexity of outcomes, you may need to renegotiate a single point repeatedly. Expect your negotiating partners to change their minds and keep your options open to change yours as well.

Negotiations are about exchanging information.

Ask for access to information that your negotiation partner might have. For example, ask an owner for the documentation of the loan agreement if it could have a significant impact on you during the project. Ask for copies of manual acquisitions for owner-supplied material. Be prepared to share your documentation, also. Asking for and exchanging key information during the negotiation strengthens the probability of both parties achieving their goals.

Accept mistakes.

You are human. Mistakes happen, and negotiations are no exception. When an error has been made, point it out graciously and rechart your course. Be careful of negotiators who try to use mistakes as a means of manipulating the outcome.

Uncover each side's priorities.

Too often negotiators argue over key points in a negotiation without ever establishing priorities. Understanding where the other party stands on issues, what they need to achieve to ensure success, and which elements are the most important to their success are essential aspects of any negotiation. Without such an understanding, you may overlook the importance of a key element or spend too much time negotiating a trivial point.

Ask for what you want.

Why do we think that all negotiations need to be cloaked in secrecy? Secrecy is important if selecting a key pick in the football draft. Secrecy isn't important if you're talking to an owner about unforeseen site conditions that are creating a delay on the job. Lay your side of the issue out clearly so that the owner can understand your concerns, and ask the same from the owner. Give the owner enough specifics to make an informed decision. Use the time to build a trusting relationship with a client so that he or she will give you additional business. Don't make the other side read your mind on what it would take to get your agreement.

Decline accepting responsibility for the other side's problem.

It is not your responsibility to solve the other side's problems. Offer mutually agreeable suggestions, but don't make their problems your problem unless there is a way for you to win in the process. Use your creativity to provide ideas on challenges that the other side is experiencing without bringing the problem into the negotiation as your responsibility to resolve.

The rules of primacy and recency ensure that people will remember those events/activities that occur first and those that occur last. Use the first few moments of a negotiation to demonstrate that you want to be helpful and are willing to find alternative plans that work for both sides. Use the last few moments of a negotiation to reinforce the value received by each side for the time and effort invested. ■

Obsessively execute plans.

36

Many contractors are excited after their first strategic planning session, and many do well for the first three months or so. But eventually, most begin to lose focus and don't place enough emphasis from an executive level on holding people accountable for actually executing their portion of the plan. One client has quarterly reviews where each manager must present to the entire executive committee where he or she is in relation to the plan. In addition, each month a written update is sent to the president to update him on each planning participant's progress. That's called focus! It creates an atmosphere of true accountability.

Once the strategic plan is final, the hard work of implementing the plan has just begun. Effective implementation of strategic plans is often what separates "best-of-class" firms from all of the others. When companies complain that their strategic planning failed, more often than not it is their implementation efforts, not the strategic plan itself, that failed. Implementation efforts can fail for a number of reasons: lack of buy-in and commitment from senior management; unrealistic goals or poorly identified strategies; and lack of vision for the company's future.

Managers often say that they are just too busy with their current workload to get to the strategic planning implementation items. This excuse is truly a self-fulfilling prophecy. If people are not committed to expending the effort to implement a strategic plan, they will always be too busy with crisis management, putting out fires, and trying to figure out from where the next billable project is coming.

A good process for strategy implementation involves six steps: communicate, organize, reinforce, train, measure, and control.

COMMUNICATE

Communication is key to implementation. Every person in the organization should know the plan and the changes and impact it will have on the organization. Once the initial roll out is complete, periodic status reports should be made. Also, consideration should be given to how bad news will be handled and by whom.

ORGANIZE

Organize the strategic plan's action plan. This might involve developing a need-based organizational chart by position. Assign individuals to action items; every individual should know his or her assignments relative to the action plan. Look for strong, supportive leaders. Clearly establish expectations and how success will be measured.

The challenge of strategy implementation is to get those people with key responsibilities for taking action to devote time and attention to those actions. Other, existing

responsibilities always seem to take priority. Plus, old habits are hard to break. It takes real effort and maintenance to keep good intentions from stacking up in the corporate bone yard.

REINFORCE

Create incentives and remove disincentives to the plan so that everyone in the organization will have a positive answer to "what's in it for me?" Celebrate early successes, and make sure to find at least one early-win incentive. Use performance reviews and coaching techniques to develop and reward new skills needed for plan implementation.

Different people are moved by different means. Some are motivated by deadlines, some by peer pressure, some by money, some by power or prestige, others by competition, recognition, and so on. Continuous reinforcement is necessary, and creative reinforcement keeps the energy level high.

TRAIN

Identify what skills will be needed, and develop a training plan to develop those skills. Notify participants and secure commitments to the training. Evaluate and modify the training through post-training evaluations and records.

MEASURE

Measure strategy implementation and evaluate progress often. Successes can then be communicated back to the organization and serve as a motivating factor.

CONTROL

Assess what cultural barriers exist to change in the organization, and seek solutions to the barriers. Control the reporting of information so that it is timely, accurate, and plentiful. Understand the reasons for variance between actual and standards. Identify those positive variances as best practices and transfer those to others.

Firms that excel at developing and implementing strategic plans to create competitive advantages share many positive characteristics:

- These companies anticipate and embrace changing market conditions. They are the first to identify new markets and become poised to penetrate those markets before other firms realize their existing markets are declining.
- They enjoy superior financial results over longer periods of time than their poor-planning competitors. They are less subject to the ups and downs of normal economic cycles.
- Because their strategic vision is strong and clearly communicated throughout the organization, they tend to attract and keep high-performing people.
- Communication and teamwork are improved since everyone in the organization is pulling together to accomplish the stated goals.
- Senior managers benefit from substantially less crisis management and have even more time to perform planning. Thus, the cycle of benefits from strategic planning grows larger.

THE SUCCESS IS IN THE IMPLEMENTATION

Just as the strategic plan took careful planning and consideration to develop, so too will the implementation, if it is to be successful. A methodical approach should be applied to the strategic plan's action plan to ensure the organization's goals are achieved. ■

Partner for profits.

37

Approach partnering as a long-term return-on-investment strategy with clients to positively impact safety, quality, schedule, and budget on projects. Enlightened owners and contractors avoid short-term "workshops" and focus on longer-term strategies to optimize collaboration and accountability on projects. Recognizing that shaping behavior and developing a collaborative project culture is a long-term proposition, these owners and contractors identify return-on-investment targets and measure these continuously throughout the duration of the project.

The practice of partnering has been around since the 1980s in one form or another. At one time, it was considered a fad within the industry. But it has maintained its value and utility far past the time its detractors anticipated. When properly developed, it can work and achieve big payoffs for all parties.

Partnering seeks to redirect the attitudes of project personnel from defensive postures to proactive problem solving — not just once but over the course of the whole project.

Partnering seeks to redirect the attitudes of project personnel from defensive postures to proactive problem solving — not just once but over the course of the whole project. Partnering requires the three Cs: commitment to teamwork, compromise, and constructive criticism.

COMMITMENT TO TEAMWORK

Partnering is a process based upon team commitment. While it does not supplant or replace any of the rights and obligations agreed to in formal contract language, partnering provides an optional, parallel course to the contractual "small print" that has become extensive and cumbersome in today's litigious society. Partnering communicates a willingness to approach common goals, issues, and resolution processes under an umbrella encompassing and promoting team success. Working together, instead of being confrontational, partnering becomes the approach to successful project completion.

Partnering seeks common-sense answers to everyday problems. The process involves recognizing common issues that confront the partners on a routine basis. It provides the partners with an appropriate forum to deal with these issues within a team format. It

establishes a working environment that benefits each of the parties involved as well as the overall welfare of the team.

COMPROMISE

Compromise does not always mean meeting in the middle. Achieving the greatest success for the overall team should be the goal of any compromise, but the compromise should not put any team member in an onerous, harmful position.

CONSTRUCTIVE CRITICISM

Criticism is much easier to give than to receive. So a challenge within partnering is being ready to receive criticism. Fair exchanges of constructive criticism among team members provide opportunities to recognize areas for improvement.

A FORMULA FOR SUCCESS

Partnering can be summarized with the following equation:

$$Pt=Pc+Re.$$

Partnering is the sum of the perceptions of team members plus the relationships developed by team members. Perceptions are not just how we view others, but also recognition of how others view us. We need to understand ourselves and how we come across to the group. Before we can begin to address our perceptions of others, we need to understand what drives us individually, what motivates us, and what our fears and concerns are. When we know ourselves, then we can sympathize with the equally important drivers, motivators, and fears of others. Once a real perception of others and ourselves has been achieved, we will have established the basis for dialogue and open communication.

Whereas perceptions must be real, relationships must be honest. Team members must bring truth to the construction table and stop playing “liars’ poker.” For any relationship to be successful, each team member must provide some value to the team. This value comes from an honest, flexible exchange of talents and abilities within the team structure.

To measure if partnering was successful on a specific project, ask yourself: Did the word “we” replace the word “I” and did the word “us” replace the word “them?” ■

Plan your strategy; plan your business.

38

What do you need — a strategic plan or a business plan? Is a strategic plan different from a business plan? You bet. Before comparing the two plans, consider this: Is leadership different from management? Does your company need both? Which is needed more?

LEADERSHIP VS. MANAGEMENT

Management consists of planning, organizing, and controlling the resources of the firm. Leadership involves setting direction, aligning, motivating, and inspiring people. Management, then, is concerned with keeping the organization alive and using its resources well in the short term. Leadership is concerned with the longer term. It is aimed at motivating people to do the right things to accomplish the vision.

Clearly, every company needs both management and leadership. Unfortunately, those two skills don't usually exist in equal proportions. New companies, for example, usually have more leadership than management. The vision is clear, the direction is focused and well communicated. The people are aligned with the company's goals. However, management is often lacking. Detailed planning doesn't exist, the organizational structure is fuzzy, standard procedures and systems are lacking.

In many older companies management exists. Systems are in place. Standard operating procedures have been established. Due to size and loss of energy, perhaps the vision has become unfocused. People are aligned, but they merely report to work. Motivation has been turned over to formal systems of bonus or performance appraisal. So much management is in place that bureaucracy is rearing its ugly head. What's lacking here is leadership. Not that the senior players aren't good leaders…in all likelihood they are great. But the leadership rests primarily on one person. Larger organizations need more leaders, and older organizations tend to need more leadership.

A strategic planning process is a leadership tool. A business planning process is a management tool. If direction, alignment, and motivation are needed, you need a strategic planning effort. If planning, organizing, and controlling are needed, you need a business planning effort.

THE STRATEGIC PLAN

A strategic plan sets goals for the mid- to long-term future. The vision for the company is spelled out. Also included are the mission statement, primary goals, measurable objectives, and basic strategies whereby the vision will be realized. The primary value lies in the process, not in the final product.

Participation of key managers is essential to the success of a strategic planning effort.

This involvement creates a sense of commitment that is all but impossible to achieve with a plan produced by someone else.

Although a participative group process is often used, hard data and research are also a part of the strategic planning process. The company's future should not depend upon a strategic plan built solely upon feelings, impressions, and vague approximations. A strategic plan that provides tools to leadership should also be accompanied by a business plan as a management tool.

THE BUSINESS PLAN

Setting short- or mid-term objectives and defining the steps necessary to achieve those objectives is the purpose of the business plan. A business plan is an essential tool of a business that strives to be well managed. The plan may also be used to reassure sureties, creditors, or other parties critical to the company's success.

Sound business plans can be built by the three people in the firm most involved in work acquisition, money management, and field operations. Groups may get involved in problem-solving sessions to improve tactics for getting work, performing work, and managing money.

The business plan aims to improve the effectiveness of the organization without a significant change in the direction of the business.

Management consists of planning, organizing, and controlling the resources of the firm. Leadership involves setting direction, aligning, motivating, and inspiring people.

THE CONNECTION

The business plan may also be used to translate the strategic plan of the company into a short-term management control tool.

Action plans used to implement strategic plans often have short-term business planning impact. Be sure that costs and revenues associated with action plans of the company's strategic plan find their way into the company's business plan. Sometimes, the business planning process is used to conduct annual reviews and revisions to the action-planning portion of the company's strategic plan.

In any event, the annual business plan should be strongly linked to the strategic plan in terms of work acquisition, financial plans, and changes in human resource requirements.

If you have no real direction for your company, if your people don't know what your vision is, if you're headed in the wrong direction, then you need a strategic plan. If your vision is clear, if your people understand it, if motivation is not a problem, but lack of control is, then you need a business plan.

Deciding that you need either plan or both plans is not a sign of weakness, but rather a sign of enlightenment. During our 50 years of serving the construction industry, we have learned that properly developed and properly executed plans have always been and always will be the key to the survival and success of construction firms. ■

Plan, plan, plan!

39

Conduct comprehensive pre-job and short-interval planning. Best-of-class contractors always save costs through thorough and consistent pre-job planning prior to mobilization. Then they minimize resource-related delays in the field through formal and consistent short-interval planning.

Contractors sometimes get so concerned with putting work in place that they overlook some peripheral areas that have a dramatic influence on productivity. Yet when contractors pay attention to these areas, they realize tremendous dividends.

THE NEED FOR PLANNING

A committed effort to pre-job planning is often bypassed. It's not uncommon for a contractor to believe that if a superintendent isn't on the job site, supervising workers, and getting dirty, he or she isn't really working. In fact, some believe that if the superintendent can install some pipe or form concrete while overseeing the job, so much the better. Yet tight margins dictate that contractors who don't plan adequately in the pre-job stage have lessened their chance for success even before they mobilize for a job.

The truth of the matter is that time spent in the office planning the job may be some of the superintendent's most productive time. Foremen or superintendents need to spend time with the project manager reviewing material placement plans, material delivery schedules, equipment utilization, manpower scheduling, shop drawings, and any of a hundred other details pertinent to the individual job. Developing a complete understanding of the way the job is supposed to be put in place and exploring potential problem areas allow both the project manager and the superintendent to focus on the most critical aspects of the job.

An interesting aspect of the short-interval plan is that its true value comes from preparing it and not so much in how accurate it proves to be.

Planning is an ongoing process. Pre-job planning is just the beginning. As the job moves on toward completion, the planning process must continue. The plan needs to be revised every time the schedule changes. Priorities need to be reestablished.

Many construction companies have processes in place for the systematic start of a job. Still, the time-honored practice of giving a field supervisor an incomplete set of rough drawings, an address, a list

of needed materials and equipment, an approximate labor budget, and a "go get 'em, tiger" is not adequate for today's construction environment. In some companies, the pre-job planning process is covered in elaborate and comprehensive operations manuals; in others, simple checklists of required actions are provided. In some companies, pre-job planning takes the form of extensive hand-off meetings involving estimators, project managers, accounting specialists, and supervisors. In other companies, pre-job planning is more informal and may involve a series of telephone calls.

The real issue is less about what these procedures look like and more about whether the process covers all the bases and whether field supervisors are given sufficient opportunity to be appropriately involved. Fundamental topics typically covered in pre-job planning are predictable: contract terms, scope of work, schedules and work sequencing, labor resource requirements, tool and equipment requirements, site layout, material delivery schedules, permits, and billing cycles. Equally important, but often not given an equal emphasis, are suggestions for alternative work sequencing or construction methods, lessons learned from previous jobs and relationships, potential obstacles and what might be done to avoid them or reduce their impact, estimating assumptions, and labor concerns. Such discussions take time, involve opportunity, and do not guarantee success. But they can substantially reduce the risk of unpleasant surprises.

OBSTACLES TO THE PROCESS

If there is one thing field supervisors dislike more than inaccurate weather forecasts, it is having to deal with paperwork, particularly paperwork they have to create themselves. The short-interval, or weekly, resource plan can be a powerful tool, but only if it is written down. Many supervisors who have used this planning tool for several years have told us that if the short-interval plan isn't committed to writing, it can be considered only a wish. This plan should be prepared at least a week in advance and should include:

- Specific work activities including cost codes, descriptions, and production targets
- Labor requirements: by name or by crew size and skill mix
- Material requirements: order and delivery information
- Equipment and specialty tool requirements: coordination, maintenance, delivery, and pickup
- Subcontractor coordination
- Alternative work plans (a "Plan B")
- Information required from the project manager to achieve the plan.

A frequent point of resistance we encounter with supervisors who are reluctant to start a short-interval planning process has to do with its accuracy and the apparent futility of making an educated guess of what will happen in the future on a construction site. "You're going to have to let me call the Psychic Friends Hot Line to find out what's going to happen on my job next week," one foreman once told us. Another argument we hear is that short-interval planning can't guarantee success; unexpected problems can still occur.

An interesting aspect of the short-interval plan is that its true value comes from preparing it and not so much in how accurate it proves to be. Thinking through the job, checking for material and equipment requirements, calculating progress, and eliminating potential site congestion can dramatically reduce rework, the risk of an expected problem, and lost time. The issues have to be dealt with. When is the better time to solve potential problems? In advance, or as they happen — with an entire crew on the job? ■

Profit is not a dirty word.

40

There is an insidious problem plaguing the industry that is exerting tremendous downward pressure on prices. That problem is the contractor's bias toward ever-increasing volume. When asked how their business is doing, today's typical contractor responds by quoting sales volume or backlog figures. Rarely are profit margins, return on equity, or changes in profitability used to express the condition of the business. Most construction companies are still driven by the idea that bigger is better.

DRIVING FORCES

What is driving this quest for volume at any price? There are several forces at work:

Growth is good — Somewhere in the American psyche there is buried a bias toward growth: "Grow or die." "If you're not going forward, you're going backward." Unfortunately, trying to grow into a stagnant or declining market requires lower and lower margins — ultimately resulting in losses. We need a paradigm shift in the industry from growth in volume to growth in quality, growth in technology, growth in productivity, and growth in profitability. Who cares about volume?

Growth is rewarded — To be fair, a contractor gets positive feedback if his volume increases and negative vibes if it declines. Employees, subcontractors, suppliers, surety agents, surety companies, and trade associations are all pleased (and financially rewarded) if the contractor's volume increases. Conversely, they are generally penalized if the volume declines. Also, the contractor's ego is massaged by being noted in the "top contractor" lists (ENR 400, local business journals' Top 25, and INC. magazine's fastest growing companies, etc.). Why doesn't someone create a list of the most profitable contractors?

Organization is Good — One of the primary motivators in the pursuit of higher volume is to "keep the organization together." The current team has been hired, trained, and developed at considerable expense and effort. Plus, they are friends and neighbors. Without increased opportunity, the best young talent may leave the company. This is a difficult dilemma.

We need a paradigm shift in the industry from growth in volume to growth in quality, growth in technology, growth in productivity, and growth in profitability.

However, creating unprofitable growth to meet these needs can spell disaster for all employees — including the owner.

Overhead is Growing — One of the least legitimate reasons for growing the business is to cover increasing overhead (it's inflation, you know). There is a perception by many contractors that their overhead expenses are unique and that there are laws of economics that say those expenses will go up every year — and definitely cannot be reduced. The reality is that all overhead items are variable and can be adjusted to fit the demands of the marketplace at any point in time. One of the keys to being profitable is to be the most efficient provider of service — including overhead expenses.

Capacity is Underutilized — This is another oft-used, but highly suspect, reason for growing the company. The company has the organizational capacity or the financial capacity to do more work; therefore, let's go get some. Too many contractors define their capacity as the bonding credit available to them. If the bonding credit and organizational capacity cannot be used profitably, then why use it at all?

THE CUMULATIVE EFFECT

Although the reasons for the volume-at-any-cost mentality are easy to understand, the effects of this attitude and action are very destructive. For example:

- Low margins lead to conflict between the contractor and the owner/architect, between the contractor and the subcontractor, and between the subcontractor and the supplier. Conflict leads to slow (or no) pay, litigation, poor quality, bankruptcies, etc.
- Low profits mean no funds are available for training, value engineering, customer service, improved technology, better productivity, or improved safety. Funds have to be spent on getting new (cheap) work.
- Low profits do not attract outside capital into the industry, thus providing funds for research and development, industry consolidation, or ownership transition.
- The survival instinct sometimes causes honorable people to do dishonorable things. Operating on the edge of disaster is not in the long-term best interest of the individual, the company, or the community.

What is the solution to this dire state of affairs? The construction industry needs a collective wake-up call. Every contractor needs to decide to take a job only if they can earn a reasonable profit. Every contractor needs to understand that properly managed reductions in volume nearly always result in higher profits. Every contractor needs to believe that profits are more important than volume. Every contractor needs to maintain volume and equity at a level that will ensure when the inevitable financial reversal occurs. Every contractor needs to take immediate steps to double or triple their profit margins by the end of the decade.

A higher level of profitability will have nothing but positive effects on construction industry shareholders, employees, customers, suppliers, and creditors, as well as society at large.

When do you want to start making more profits? ■

Provide superior customer service.

41

A common cliché in our industry is "...and we do quality work." It's a cliché, not because it isn't true, but because everyone has been saying it for years. Nonetheless, quality is important to many contractors and most customers, so we tend to equate quality with customer satisfaction.

COMPARATIVE MEASUREMENT

Many times, when we consider our products and services, we think about quality in terms of us vs. the competition. Based upon conversations with friends, overheard remarks at association meetings, and our intuitive "feel" for our market, we know that we are much more responsive than ABC Construction and that our work is superior to XYZ Construction's. So in our market, we are the best. It only makes sense that our customers are satisfied, or at least more satisfied than our competitors' customers.

As an industry, we need to focus on the best providers of products and services, regardless of what those products and services are.

There are several problems with this line of reasoning, including the belief that we are better without any hard data to support that conclusion and the whole idea that we know what is important to customers without talking to them. However, the primary fallacy in our thinking is the assumption that customer satisfaction results from the quality of our construction products and services compared to other contractors' products and services.

As a provider of construction products and services, we compete for the satisfaction of our customers, not just against other contractors, but against providers of other products and services that our customers use.

For example, if you owned or used a VCR back in the early '80s, you know that they were difficult to use for anything except recording a show while you were watching it. How satisfied were you with the VCR? Most people weren't very satisfied at all. It didn't matter to them that all VCRs at that time were difficult to use. People weren't comparing one VCR to another; they were comparing a VCR to a television, tape recorder, telephone, or other appliance. Because these other appliances were easy to use, VCR satisfaction was low.

Let's take this analogy back to construction. If an owner has a question regarding a billing, and you take a week to get back to him, he isn't comparing your ability to respond to another contractor's response rate. He is comparing you to Federal Express, American Express, and the telephone company. They bill him too, and if he has a question, they have an answer — immediately. The quality of your workmanship is compared to the workmanship of his car, his suit, and his boat. The courtesy of your people is measured against the courtesy of the people at his favorite restaurant, club, or store.

As a provider of construction products and services, we compete for the satisfaction of our customers, not just against other contractors, but against providers of other products and services that our customers use.

WIDENING THE COMPARATIVE LENS

The lesson we need to learn is that when it comes to quality and customer satisfaction, we compete against the best products and services our customers know. The construction industry has lagged in the "world-class quality" arena because we refuse to recognize this basic lesson. We compare ourselves to ourselves, and decide we aren't all that bad except when compared to "the best." This has reduced our ability to compete, except on price, and made us less desirable as a career choice in the eyes of young people.

So what should we do?

As an industry, we need to focus on the best providers of products and services, regardless of what those products and services are. If the customers of Federal Express, Honda, or any other world-class organization are highly satisfied, we need to understand why they are satisfied, what those companies are doing to increase that level of satisfaction, and what can be done within our industry to compete with them head-to-head for the satisfaction of our mutual customers. How would you like to read a survey in 15 years showing that customers are more satisfied with their construction services than they are with their express mail service? Would you like to read those results today?

As individuals within the industry, we have to educate ourselves in the areas of customer satisfaction, world-class manufacturing, and other programs and processes that are transforming organizations around the world. We have to create a vision within each of our organizations of being the best — not simply the best contractor, but the best. Then we have to work constantly toward that vision, measure our progress, and compete against the best the world has to offer.

The second-worst mistake we can make is to be satisfied "doing quality work" — because more and more, our customers aren't satisfied. ■

Renew leadership.

42

Great contractors are never satisfied with the leadership and management capabilities within the firm. There should be a constant search for leadership talent and then the development of that talent.

A DECLINING POOL

Recently, there has been growing concern about a shortage of future industry leaders. Today's youth are increasingly making the decision not to choose a career in the construction industry. To add to this fear, we expect that leadership talent will become even more scarce over the next decade.

A STRATEGIC NEED

Proactive firms are increasing their investment in leadership development. Senior management must make a commitment to identifying and developing the firm's future leaders. This includes devoting time and resources to this effort. Current and future leaders will need to develop their ability to deal with rapidly changing business conditions and the expectations of younger employees. Coaching skills have become popular recently as a great way to train internal candidates for management positions. Top executives will increasingly have to become master strategists, leaders of persistent change, relationship builders, and talent developers.

Leaders' confidence in their ability to lead into the future is diminishing. Only one-third of executives consider their future leadership capabilities as excellent or good, compared with about half of executives surveyed five years ago.

There should be a constant search for leadership talent and then the development of that talent.

Today's leaders also lack confidence in the ability of the next generation to lead. The most critical shortage of leaders is at the field levels. Most leaders in the field are in their 50s, and the next generation of experienced and effective field leaders will be hard to find for most companies.

Executive leadership is also showing severe signs of shortage. Many current leaders are ready to retire, but they do not have the necessary confidence in the next generation of leaders.

The demographics of America

indicate that the shortage will only grow. The 35-44 age group (birth years 1959 to 1968) will shrink in size by 15% per year for the next 15 years. There will be 10 million fewer people in this age group 10 years from now.

Technology is pushing the speed of change in our industry. Leaders are struggling with the pace of change and lack clarity around how to drive change in their organizations. There is a tremendous need to learn about leading change. Best-of-class contractors are continually searching for technology leadership.

Proactive firms are increasing their investment in leadership development. Senior management must make a commitment to identifying and developing the firm's future leaders.

CFOs should play a larger role in the strategic direction of their firms. They need to become the go-to person in the firm when it comes to financial strategies for leverage, profitability, cash flow awareness, and all reporting systems.

Association leaders are recognizing that they need to provide more value to their client base. Their roles are shifting from "doing whatever the contractor wants" to trying to lead their contractors to become more effective and productive in their businesses. As a result, the profile for association leadership is changing and an awareness of the need for personal development is rising.

The construction industry's lack of a positive image in the marketplace is a leadership issue. We believe that leaders in construction must take a more serious look at their organizations and cultures and make the proper adjustments that will attract and develop young people to reach new heights of effectiveness.

Developing leaders among diverse groups is and will continue to be a strategic need in the industry. We all recognize that the mix of the workforce is diverse, but few know how to develop leaders among diverse groups.

Leaders today have to grow, develop, and renew their leadership talent in order to ensure the future success of our industry. ■

See your company through your customers', suppliers', and employees' eyes.

43

Good companies take time at the end of a project to ask the customer how they did. The best companies go much further — finding out how they're perceived relative to the competition and how those perceptions are changing. Aggressive closeout processes encourage customers to provide feedback performance shortly after the contractor has successfully closed the job. A post-project review will ensure that your company is receiving valuable feedback from internal and external parties on its performance.

The focus of the post-project review is to improve the construction process and teamwork on projects. The specific motivation for starting the process is to improve relationships among estimators, project managers, and foremen. The review also serves to respond to questions frequently asked by foremen months after a project has been completed, regarding how well or poorly the company has done on a particular project. The review process capitalizes on the *intellectual equity* gained from each project.

CONDUCTING THE REVIEW

The first step in the post-project review is to list all of the items that the management team wants to review after each project or contract is completed. This should be done when all change orders have been accepted and processed, the final contract amount is known, and all job costs are recorded to the contract, including the costs of completing the punch list. From this information, the accounting department then prepares a financial summary reflecting actual project performance compared to the budget.

When the financial summary and list of discussion items are completed, senior managers schedule a meeting with the estimator, project manager, superintendent, job foreman (in some cases a second-level foreman may attend), and the director of operations. Estimators are included in the process because the communication process within most companies does not always provide ongoing feedback to the estimator during the performance of the contract.

The project manager, superintendent, and foreman are each given an evaluation form and asked to evaluate the project in several categories. The review includes the following:

- Quality of plans and specifications
- Architect and engineering
- Original estimate
- Project scheduling
- Job layout and start-up
- Material ordering and staging

- Productivity of the crew as a team
- Productivity of the individuals on the team
- Tool ordering and deliveries
- Change-order management
- Architect/engineer responsiveness to requests
- Job clean-up
- Job close-out
- Punch list
- Warranty
- Project manager's performance
- Job safety
- Subcontractors (general contractor)
- Customer satisfaction.

Using a scale of one to 10, with 10 being high, the reviewers grade each category. Using standardized forms facilitates the process and avoids omission of important details.

The review also includes an evaluation of external parties' performance. Suppliers, other contractors, and owners are evaluated for opportunities for improvements and documentation of strengths and weaknesses. A company should also perform quarterly reviews of its suppliers to ensure that pricing and service are consistent and up to the company's standards.

The review is performed in a relaxed environment, usually over lunch or breakfast, and is a work activity that the participants are paid for attending. The formal review requires one to three hours to prepare and approximately the same amount of time to perform at the meeting.

Most post-project reviews will be positive and upbeat, but even those that are negative can provide real learning opportunities for a company. For example, at a recent review for a project on which all of the contractors had lost money, the process was positive and produced numerous opportunities for improvement. Performed by the general contractor with all internal and external personnel involved in the project, the process rebuilt relationships that had been damaged or strained during the project.

A post-project review will ensure that your company is receiving valuable feedback, from internal and external parties, on its performance.

System and process failures including scheduling, as well as poor communications and teamwork among architects, engineers, owners, and contractors are sources of poor project performance that a company must constantly work on. Companies that have a high degree of success in the field employ the post-project review process to continue this success.

Contractors can start this process anytime with any project. The key is starting the process and staying with it. ■

Seek out opportunities for improvement from the front line.

44

To get the best out of your people, give them the opportunity to prove themselves. Many great ideas come from the field level. Look to field people to help you solve problems and grow. Remember, if you are not changing, if you are not constantly looking for ways to improve, you risk being swept aside and lost in the shuffle.

AN UNTAPPED SOURCE

At many contracting companies, crew members are an untapped source of ideas and suggestions. Oftentimes, foremen are threatened by the concept of asking the crew questions because they feel they will surrender their power. Some think the crew won't respect them, or they'll lose their jobs if they ask the crew questions because others will think they don't know the answers. Whatever the reason, the construction culture needs to shift to strengthen people at all levels and this won't happen if you don't require your people to think. The following list represents the reasons for involving crew members in the daily planning and thinking:

- Teams will always identify and solve problems better than any person will. Relying completely on the foreman to see and plan everything on the job will cause your company to miss opportunities for improvement (OFI) seen by crew members. Four sets of eyes are always better than one!
- If crew members have no input into developing the plan and establishing the daily goals, they will have very little accountability in carrying out the plan or achieving the goals.
- Everyone wants to be a winner and contribute to a winning team. No one wakes up in the morning with the intention of going to work to fail. Contrary to what many people believe, money is not the most powerful motivator. We've seen conclusive evidence that indicates that having the opportunity to be involved and feel like part of a team is a very strong motivator. Creating an environment where suggestions are welcomed ensures that opportunities for improvement in the areas of quality, productivity, and safety is not a responsibility held only by the foreman.
- It teaches people to think. In the traditional construction environment, the foreman "tells" the crew what they are going to do, how much they are going to do, and what resources they are going to use to do it. This type of one-way communication never teaches crew members to think on their own. Therefore, very few new "thinkers" are developed, and the crew has trouble functioning without the foreman.

CREATING A CONDUCIVE ENVIRONMENT

Creating a work environment in which managers take workers' opinions into consideration is the first step to capturing your field workers' ideas for improvement. And asking questions is probably the surest and simplest method of beginning to turn on worker's minds. The Foreman's Daily Huddle (a daily meeting with the crew to identify safety hazards, opportunities for process improvement, and a production goal for the day) is a good place to start, but remember that asking for crew member input can be done throughout the day.

Many great ideas come from the field level.

For a more systematic approach, try this method. One morning, during the foreman's daily huddle, Larry hears a suggestion for improvement from Tom, a crew member: "If we could arrange for some materials to be placed in front of us instead of having to get them all day, it would save us a lot of installation time." Thinking about those suggestions later in the day, Larry realizes that Tom's idea is applicable for all jobs; the idea is, in fact, an opportunity for improvement.

Larry assists Tom in filling out the OFI form — a simple form citing the suggested improvement, the person making the suggestion, and then the action taken from the suggestion. An opportunity can be identified whether or not a solution is offered.

These OFIs can be included in the company's award and recognition program. At the very least, the foreman should offer praise for the suggestion, helping to create an environment open to suggestions and feedback from the crew. If crew members feel that their input is important, it will go a long way towards improving productivity.

Remember, if you are not changing, if you are not constantly looking for ways to improve, you risk being swept aside and lost in the shuffle.

Each week Larry should review the OFIs and the huddle suggestions associated with each specific job with the superintendent. The superintendent should be responsible for reinforcing Larry's efforts, providing encouragement and coaching, and thanking Larry for documenting his use of the company's improvement procedure. Each superintendent then signs off to the company operations manager by certifying that each of the foremen follows the procedures appropriately. This technique magnifies the flow of creative improvements for every job, everyday, and for the company in general.

This is just one way your company can begin to tap into the many opportunities for improvement offered by the crew. The key is to eliminate management-by-abuse situations and replace them with open, creative working environments where crew members' ideas are respected and encouraged. ■

Share best practices through peer groups.

45

If there's anyone who understands your business as well as you do, it's someone who runs a company like yours. Construction executives look in lots of different places for information to help them run their businesses, like such trusted sources as local business leaders, business journals, books, industry associations, and accountants. These sources are all useful, but they often lack a certain depth of understanding, empathy, or connection with your everyday business problems. Construction is not the same as manufacturing or banking. While cross-industry advice is often invaluable, many construction executives are seeking out industry peers to discuss problems and exchange ideas and solutions. Across the nation, formal peer groups have been created to answer that need.

If you meet a peer from your home region, you may have many common problems and ideas, but you are unlikely to share them since you might be bidding on the same projects or looking to hire the same people. To overcome this, industry peer groups are increasingly being formed. Executives want to create an atmosphere where problems can be openly shared.

While cross-industry advice is often invaluable, many construction executives are seeking out industry peers to discuss problems and exchange ideas and solutions.

Typically, the peer groups consist of six to eight top executives from noncompeting firms of similar size and capabilities. The groups are usually geographically diverse, with members coming from several states or regions around the country. Peer group membership requires a commitment to improvement and a willingness to participate by sharing ideas and information.

The great concern for fit or "chemistry" in peer group formation reflects the need for open, frank communication and the desire for all peer group members to benefit from the time spent in the meetings. While peer group meetings have a friendly, casual atmosphere, the formats are highly formal, with ambitious agendas that require strong preparation between meetings. Peer groups usually choose to follow one of two primary formats — the audit format or the "best practices" forum.

AUDIT FORMAT

The audit is similar to a business evaluation. It includes extensive information gathering and review, interviews, and a candid executive "out-brief." The audits are focused, invasive, and of extremely high value. All members participate in the interviews and recommendations.

The audits are performed in a rotation of member companies with the company to be audited serving as the meeting host. With a group size of six to eight members, each company can expect to be audited by the group once every two to three years. Each peer audit to date has resulted in specific recommendations that, when implemented, have created great value.

Executives want to create an atmosphere where problems can be openly shared.

BEST PRACTICES FORUM

The forum is a classic executive roundtable with preselected topics and agendas. Topics are covered in depth and various best practices are discussed. The typical forum meeting lasts a day and a half, with each company presenting detailed descriptions of how their company handles a given topic. For instance, each company might discuss how it handles the preconstruction process. Other topics might include business development, operations, and financial performance.

PEER GROUP BENEFITS

Many benefits result from the peer group process. A major reason to join a peer group is to experience the high-speed ride up the CEO or president learning curve. Ideas and implementation successes and failures are shared openly. These successes and failures offer guidance and ideas that ultimately save or make money for the peer group members.

Some member companies go beyond that and even share personnel in something like a visiting scholar format that facilitates knowledge transfer and acts as an excellent way to provide learning experiences for future company executives. Ultimately, many peer group members become good friends and advisors — providing a needed sounding board for the variety of challenges and opportunities that construction-industry executives face in their careers. ■

Understand your core competence.

46

Operating within a specialty, or niche, in today's highly competitive marketplace is a basic strategy that can lead to long-term success for a contractor. However, most construction companies are firmly entrenched in the traditional thinking that says: "We can build anything, anywhere, anytime, and we always welcome a challenge." Unfortunately, this translates into a strong motivation to be all things to all people. This is a strategic blunder many firms continue to make.

DON'T BE ALL THINGS TO ALL PEOPLE

There are several reasons why the "we do it all" approach to the marketplace is a very tempting proposition for a construction company. First and foremost is the perceived need for volume to keep the business going strong. Many contractors don't concern themselves too much about the type of work they secure as long as it adds to their volume, regardless of whether they make a fair profit or not.

Another reason they choose to be all things to all people is a simple human frailty — the inability to say "no." It, quite honestly, is very difficult for anyone to turn down business. It takes courage and discipline. But saying "no" to a project just may be the best marketing decision a construction company can make these days.

> **Success in the construction industry has always come to those who have more expertise and experience in a given area than their competition. They know how to do it better, faster, and more economically.**

THE AGE OF SPECIALIZATION

The secret lies in niche marketing. That simply means becoming a specialist at meeting the needs of a specific segment of the market — a certain kind of construction, a certain type of customer, or a certain geographic area. While niche marketing requires that seemingly good opportunities be passed over, it allows for the company's experience, skills, operations, and profit generating capabilities to be developed to the fullest potential. The

key is to match the expertise and talents of the individuals making up your firm — your core competence — with the services you are providing and the markets you are targeting. In effect, niche markets should be based upon this *understood* and *stated* core competence.

There are several advantages, which stem from the pursuit of this philosophy. Here are just a few.

More Experience and Expertise

Performing a particular type of work over and over enhances a company's productivity and value engineering skills. Experience enables the niche specialist to build it cheaper and faster than the do-it-all-contractor — and with higher quality and higher-than-average profit margins. Using your experience and expertise to develop a niche market will ultimately increase your firm's profit margins and develop your core competence moreover.

More Customer Focus

Finding a niche means performing repeat work for the same customers or for similar types of customers. This, in turn, develops a deep understanding of their specific needs and wants as well as better on-the-job execution at meeting those needs and wants.

More Targeted Marketing

By focusing on the select group of customers in your niche, you can do a significantly better job of selling your services to them. Everyone wants to buy from someone who understands and cares about their business. Customer satisfaction begins with customer selection.

In short, the contractor who is a specialist in a given market segment has a virtually insurmountable advantage over the competitor who will take on any project anywhere, anytime.

SOMETHING TO WATCH OUT FOR

There is one major caveat with this approach. You can "niche" yourself out of business if you do not select a market segment large enough to support your organization. You've got to choose a segment with sufficient potential business to support your ongoing marketing effort. It is wise to undertake a market research study to determine the long-term opportunity in the targeted area before choosing a particular niche to pursue.

What about the larger construction firm that requires more volume to support its size? One effective approach is to develop several niche markets and then operate like several independent firms. In essence, the large company turns itself into a cohesive group of smaller business units, each with the advantage of shared financial, administrative, and human resources.

Success in the construction industry has always come to those who have more expertise and experience in a given area than their competition. They know how to do it better, faster, and more economically. That is the essence of niche marketing. And that is what wins business and earns higher profits.

Today, such focus is an absolute necessity for survival. What is your niche? ■

Use an accurate process for cost-to-complete projections.

47

Best-of-class contractors have systems and processes that provide their field managers with timely and accurate information on job cost and production, relative to the budget.

Work-in-process is the heart of the reporting process and is heavily dependent on estimates of costs to complete projects. How many accountants do you know who could become project managers without extensive training? Not many. The result is that the determination of net income at any point in time is at the mercy of the project manager, who does not understand accounting, and a controller, who does not understand project management. The solution is found in good systems and effective teamwork.

Contract management control systems should allow actual job costs to be tracked against estimated job costs by job component from the beginning of the project through its completion. The reporting process is extremely time sensitive: the closer the reporting process is to the occurrence of field operations, the greater the chances of associating actual work with reporting. Since a major part of the computation of net income is determined by the project manager's estimate, a project manager must know what has been spent to date and be able to relate this cost to the cost to complete the project. Otherwise, the percentage of completion calculation on contracts is just a guess.

A one-percent error on the degree of completion of a $5 million contract can result in a $50,000 swing in net income. Because of this, accurate estimates of percentage of completion are required by project management. Project management must have a superior understanding of feedback on project status as well as control systems for that feedback. What is needed are reliable internal accounting systems and people who understand the financial implications operating the accounting system.

COST-TO-COMPLETE PROJECTIONS

Accounting for sales, costs of sales, and profits is potentially more complicated for construction than for any other industry. Subject both to management's desire to minimize taxes and to the Internal Revenue Service's rules and regulations, accounting practices must be properly executed and documented.

Normally, income is recognized at the point of sale. In construction, the point of sale is not clearly defined. Contracts exist for several accounting periods with receipts and disbursements occurring throughout the life of the contract.

Accounting principles require that revenue from a contract be recognized in the same year as the expenses that were incurred to produce those revenues. In most cases, recognizing income when cash is received, or at the completion of the contract does not satisfy the matching principle. For financial reporting purposes, the percentage of

completion method of recognizing income is preferred.

PERCENTAGE OF COMPLETION

Under the percentage of completion method, a contractor recognizes revenue and expenses as a job progresses. The amount of revenue recognized each period is based on some measure of progress toward completion. This measure of progress necessarily requires an estimate of progress yet to be made.

$$\frac{\textit{Cost Incurred}}{\textit{Cost Incurred} + \textit{Estimated Cost to Complete}}$$

Under the percent complete basis, income recognized for each project is determined by the percentage of estimated total income that contract costs incurred to date bear to estimated total contract costs. These total costs are determined by updated estimates of cost to complete each contract.

Occasionally, this calculation gives a distorted view of completion percentage. This is particularly true when materials are delivered and stored on the job site but are not installed. When this condition exists, some other calculation may serve better to indicate the degree of completion. Another method is to divide labor cost incurred by labor cost incurred plus estimated labor cost to complete. Still another approach involves the work itself, such as cubic yards excavated divided by total cubic yards to be excavated at completion *or* linear feet of pipe installed divided by total linear feet of pipe to be installed at completion.

The percent complete method offers several advantages:

- it reflects your annual income against costs most accurately
- it forces you to focus on the status of work in process
- it forces project managers to estimate the cost-to-complete each job-in-process at the end of the accounting period, thereby increasing management's control
- it gives you fairly consistent statistical data that you can use for comparative analysis, without distortions that you get using the completed contract billings, or cash methods of accounting.

Of course, one disadvantage to using percent complete is all the re-estimating you have to do. To be accurate, you've got to re-estimate those uncompleted costs on each project at the end of each accounting period.

Also, sometimes it's hard to determine how much work has been put in place. How do you know how much it will cost to complete the project? You've got to estimate carefully so you don't come up with misleading figures.

PERCENT COMPLETE IS BEST BASIS

Accounting for work in process is extremely important to all contractors. Regardless of a company's method of accounting for tax purposes, management should use a percentage of completion schedule of work in process for internal information.

Without monthly recalculated estimates of costs to complete work, work-in-process schedules are meaningless. Management will make erroneous assumptions about percent of work complete and estimated earned income to date. Counting on profits that are never realized, contractors will continue to overestimate gross profits. In so doing, management will discover its errors long after it is able to take corrective action. ■

Use structured preparation.

48

Before you begin any planning process, there is a homework phase to the process known as the situational analysis. This analysis can vary in its depth, depending upon what approach is used in putting it together. The basic intent of the situational analysis is to provide the planning team with a solid base of information with which to begin its own self-examination and direction setting. This important step in the process should take place prior to a lot of intense work by the planning team in setting goals and strategies.

THE SITUATIONAL ANALYSIS

In its simplest form, the situational analysis may be little more than lists of issues that result from planning group brainstorming. If the planning team is experienced in strategic management, can do its own market research, and has a solid handle on the company's business situation, this approach may be entirely adequate. However, most groups can usually benefit from outside assistance in putting some of this background together. An objective viewpoint may be valuable in assessing the company's internal capabilities, as well as its external competitive position. Both of these areas are the two major components of any situational analysis.

SWOT

This summary of internal and external issues can be summarized with the acronym, SWOT. The acronym stands for "strengths, weaknesses, opportunities, and threats." In an in-depth situational analysis, these issues may be ferreted out through personal interviews, focus groups, analysis of company information, competitive analysis, and various forms of market research. In its final form, the situational analysis should provide the planning team with a useful summary of information with which to begin the process of setting goals.

The final analysis should be as thorough as if you were performing a due diligence in preparation for buying the company. Weaknesses are internal items that potentially need attention or are broken and need fixing. The analysis should validate and specify what these issues are. Also, real strengths should be separated from mere characteristics. For example, when asked about the strength of their company, everyone will respond that it's "our people." However, that is not specific enough or verifiable unless there is something definitively unique about the people. To get to the real strengths of the company, you will need to probe beneath the obvious statements and characteristics that will surface. Real strengths are those things that set the company apart from its competitors. They are tangible things that the company can use to advance itself or improve its market position.

Real strengths are those things that set the company apart from its competitors.

Ultimately, goals will be designed to take advantage of these strengths and eliminate company weaknesses.

The latter half of the SWOT acronym stands for opportunities and threats. Opportunities are those areas or issues that the company should be considering in terms of direction. Threats are those external conditions that could have a negative impact on the company if they are not addressed. Basically, these are the external factors that will shape the goals ultimately set by the planning team. In addition to addressing strengths and weaknesses, the goals should be designed around capitalizing on certain opportunities, while mitigating the impact of potential threats.

Generally, opportunities and threats will come from several generic categories. A challenge in the compilation process is to get these issues focused, specific, and stated in a way that people can deal with. For example, economic conditions are a primary category. Inevitably, someone will proffer the notion that an “economic downturn” is a market threat. It might be, but just saying “economic downturn” does not give the group anything specific or actionable to work with. If you say something more specific, such as “increasing vacancy rates creating less demand for new office space,” then you are on your way to working with a specific.

Other potential external issues may come from social, governmental, or technological change. For example, what is your response to hazardous materials regulations or sexual harassment awareness in the office setting? The Japanese have made impressive use of robotics and are making inroads in U.S. construction markets. Whether that is at all relevant as a threat to your business depends on what markets you deal with. The point is, opportunities or threats are external conditions. To be considered, they should be relevant to the company’s current situation and the direction it might consider taking.

These issues might also be customer-driven or related to vendors, subcontractors, and suppliers. For example, suppose there is a dramatic increase in subcontractor bankruptcies in the next few years. To a general contractor concerned about whom to bond, that might be seen as a threat. To another contractor looking for an acquisition of cheap assets, it would be an opportunity. Competition is also a valid external issue, although your treatment of it needs to be similar to the economy issue referenced earlier. Be sure to get specific about the issues. It is not beneficial for someone to simply say “increasing competition” is a threat. Now, if the threat is identified as “lowered bonding requirements opening the door to smaller operators,” then you are getting somewhere. The group can begin to assess the markets, competitors, and nature of the threat really involved. Again, err on the side of specificity in identifying the issues.

There are two aims you should have in your pre-planning assessment. The first is thoroughness, which can be covered for the most part by using a specific model, or a due diligence checklist, to ensure that you do not fail to cover any critical areas. The second objective is validation, and it is more difficult to ensure since it may involve some subjective determinations.

Obviously, all companies are unique, as are their people and systems, which makes the forecasting process imperfect. However, the value in the forecasting exercise lies in gaining a sense of priority. The planning team will usually have too much to deal with, so getting them focused on issues that add the most potential value will prove particularly useful. ■

Volume kills; profit thrills.

49

When Dr. Emol Fails founded FMI in 1953, his mission was to find ways to "improve the profitability of the U.S. construction industry." One of his first discoveries was that contractors defined success differently than most other businesspeople. Almost universally, contractors focused on accumulating a large top line (volume) on their financial statement as opposed to concentrating on establishing a large bottom line (profit).

So "Doc" set out to convince the construction industry that focusing on price structure and profit margin enhancement was a more productive business strategy than simply adding volume in ever-increasing amounts.

"VOLUME IS KING" PERSISTS

During the 50 years since then, many companies have converted their thinking to Doc's once revolutionary concept of doing less volume for more profit. But, the volume-is-king mentality still persists throughout much of the construction industry. When asked how their business is doing, today's typical contractor responds by quoting sales volume or backlog figures. Rarely are profit margins or changes in profitability used to express the state of the business. Most construction companies are still driven by the idea that bigger is better.

The reality of the industry is quite different. It is very common for the profitability of a construction firm to increase during a year when volume decreases. The question is why?

INFLUENCING PROFITABILITY

Clearly, lower volume can result in a variety of factors that influence profitability, including the following:

- More intensive management applied to each project
- Elimination of marginal employees
- Focus on types of work in which the firm is most skilled
- Enhanced productivity
- More efficient application of resources
- More work with long-time customers
- Lower overhead expenses
- Less time spent managing cash flow
- Less demand for fixed asset purchases.

These factors, especially when added together, can result in significantly higher profit margins — large enough to more than offset a decline in volume. Although management intuitively understands how and why this phenomenon works, there nevertheless remains an irresistable urge to secure more work — unfortunately at prices that allow for little or no profit.

One of the primary motivations in the pursuit of higher volume is a strong desire to "keep the organization together." A company's current team has been hired, trained, and developed at considerable expense and effort. Decimating the ranks by cutting back is neither pleasant to contemplate nor carry out. However, inaction can mean that all employees will ultimately lose their jobs if the firm can no longer stay in business.

OVERHEAD CAN BE CUT

Another reason for seeking increased volume is to cover overhead. There is a definite perception among contractors that their overhead expenses are unique and can't be cut by another dollar. The reality is that all overhead items are variable and can be adjusted to fit the realities of the marketplace at any point in time. One of the keys to being profitable is to be the most efficient provider of service including overhead expenses.

THE SURETY DILEMMA

There are also external factors that lead a construction company to seek more volume. Case in point: the surety industry. Most contractors erroneously define their capacity to perform work solely by the amount of bonding credit that is extended to them. A common complaint is that not enough credit is extended on their behalf and too much credit is granted to their undercapitalized, under-qualified competitors. Unfortunately, the surety industry is plagued by competitive pressures to respond to requests for larger and larger bond lines.

A better approach is for a company to determine a realistic business volume by asking its surety company for the amount of credit they will extend without personal guarantees. This figure represents a closer approximation of the volume of business that should be pursued.

Most construction companies are still driven by the idea that bigger is better.

RISKY BUSINESS

The relentless quest for volume has turned the construction industry into a very risky investment arena. Average returns on equity for the larger firms in the industry are less than 20% — and with risks that are often unacceptably high and uncontrollable. These low returns on already low equity bases are the result of small to non-existent profit margins, which, in turn, are due to an over-supply of construction capacity compared to the available supply of construction projects.

The good news is that after 50 years of applying the theories of "Doc" Fails, we are beginning to see an increasing number of contractors adopt the philosophy that less is more, that profits are more important than volume, and that survival is based on establishing an equity base that can endure inevitable financial reversals.

We've learned a lot in 50 years. And we firmly believe that a primary strategy for the industry over the next 50 years should be to do less volume, but to do it more profitably. Remember: Volume kills, profit thrills. ■

Work for good clients under good contracts.

50

Not all construction contracts look alike. Some are long, detailed documents with print so fine they can only be read with a magnifying glass. Other equally valid contracts are handwritten with a lumber crayon on a brown paper bag. No matter what the contract looks like or says, it contains implied legal obligations imposed by courts.

Hidden, unstated terms in contracts are important and you should know about them. Here are the most common.

Courts often hold that a general contractor has a contractual obligation to coordinate and sequence the performance of the work. Every successful construction project requires coordination and sequencing, and it is usually the primary responsibility of the project superintendent. These duties are a part of your contract, whether or not it specifically says so in writing.

A basic principle of contract law is that one party may not hinder the contractual performance of the other party. Many courts have interpreted this principle to mean that a general contractor has a duty to schedule and sequence subcontractors' work. For instance, consider a situation where a subcontractor recovered its extra costs because of many reasons: the subcontractor's workers were forced to work in crowded areas; they had to shift from floor to floor on a haphazard basis; they had to use scaffolding where floors had been expected in place; and their work was damaged because the general contractor failed to provide a roof for weather protection. While the general rule favors an implied duty to sequence the work, that is not always the case. In a different situation, a prime contractor wasn't liable to a subcontractor for extra costs even though the sub had to penetrate finished walls to install sleeves for piping. The way claims are presented often determine

Every successful construction project requires coordination and sequencing, and it is usually the primary responsibility of the project superintendent. These duties are a part of your contract, whether or not it specifically says so in writing.

a subcontractor's ability to recover extra costs.

Owners and general contractors normally have an implied obligation to provide subcontractors with access to work sites. Simply providing access, however, may not be enough to avoid liability under this implied obligation. The owner or general contractor must make sure that the subcontractor has reasonable time to perform its work. In one case, a general contractor was held liable because its work was late and the sub had to work unexpectedly in the winter. Extra costs associated with performing work at a time when labor productivity is hindered may be recoverable.

Whether the project schedule is part of the contract is an important factor in determining if a subcontractor is entitled to recover its costs for denial of access. If the subcontractor's contract requires it to perform by a certain date, failure to give the sub a reasonable time to do its work is probably a breach of contract. In one such case, a subcontractor was entitled to abandon its contract because the general contractor did not have the work area ready early enough to allow the sub to finish its work according to the project schedule.

General contractors not only have an implied obligation to provide supervision, they also have an implied duty to provide adequate supervision. This duty means that a general contractor may be held liable if it does not provide a competent superintendent to run the job. General contractors have been held liable to subcontractors because the general contractor's superintendent was incompetent. Frequent replacement of superintendents can lead to the same result.

If an owner or general contractor is required to supply materials or provide equipment to a subcontractor, the failure to do so on time can be a breach of contract. The implied obligation to deliver materials or furnish equipment on time arises out of the implied duty not to hinder the performance of the other party.

Read your contract carefully. What may appear to be the same old contract may, in fact, have subtle differences in language — and striking differences in rights and obligations.

Likewise, remember that all clients are not good clients. Sometimes you need to fire a client just as you may need to renegotiate or walk away from a bad contract. ■