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Dear Reader:

As Doc Fails used to say, “It’s not a matter of ‘if you die,’ it’s a matter of when you die.” A partner and colleague of many of us for many years, Floyd Enlow McCall died March 15, 2007, at 66. For 46 years, Floyd and several of us were friends and business partners. You can read more about Floyd in the pages that follow. Today’s FMI Corporation results from Doc’s and Floyd’s early vision, augmented by the leadership and hard work of many, many people. FMI’s aim of building a great future for the construction industry and its leading organizations will continue to give purpose to their lives.

Building a business is hard work. Much of that hard work is expended putting work in place. It also takes hard work to secure the projects to put in place. Our issue this quarter aims to give you some help on how to get more profitable work. In many markets, finding work has not been difficult, but finding profitable work has not been as easy.

Cynthia Paul is the managing director of FMI’s Business Development consulting practice as well as departmental editor for FMI Quarterly. Not only did she write the feature “Taking Your Differentiated Strategy to Market,” this month, Cynthia also took the lead in soliciting many of the articles in this issue.

Tools that should help in getting more of the right work will be found in Stan Bratton’s article, “Beyond the Comfort Zone — Tips for Exploring New Market Opportunities.” In this article, Zurich Vice President Bratton gives excellent insights on four basic ways of entering new markets, along with the real-world experiences of several leading contractors who have taken the plunge. John Wescott’s feature, “Knowing Your ABC’s,” details the methods for evaluating customers and projects so you can invest time on targeting the right opportunities.
Melissa Youngpeter’s article, “Measurements and Dashboards, and Leading and Lagging Indicators” outlines the leading and lagging indicators useful in keeping tabs on your business. Kelley Chisholm’s and Ken Wilson’s article, “Cultivating a Customer Service Mindset in Your Company’s Culture” does just that by providing clear instruction for creating a company culture that embraces exemplary customer service. Finally, Jay Bowman’s and Philip Warner’s article, “Market Perception and the Case of the Vanishing Project Team,” uses a case study to illustrate the role of market research in determining customer perceptions.

You’ll also find good tips in Ashley Robertson’s feature, “Become the Employer of Choice,” on how to attract, motivate, and retain the right people. Mark Bridgers’ feature, “Owners Innovate Capital Programs Through Program Management,” provides the results of FMI’s Seventh Annual Survey of Owners and reveals how owners are turning to program management as an innovative way to manage construction.

Next issue we’re going to square off the Luddites against the Techies. Even though some may still believe technology to be a fad, we expect that technology will continue to deepen its invasion into our lives. That being said, we’ll try to bring you informed opinions, factual information, and examples as to how others have made strategic use of technology.

We appreciate your ongoing support of FMI Quarterly and look forward to continuing to inform, stimulate, provoke, and even occasionally entertain you.

Sincerely,

Jerry Jackson
Chairman
FMI Quarterly Publisher and Senior Editor
FMI Remembers:
Floyd E. McCall

Early Founder and Long-Time Associate of FMI Corporation Dies

FMI Corporation lost one of its early founders and long-term associates on March 20, 2007.

Floyd E. McCall joined Dr. Emol A. “Doc” Fails, one of his N.C. State University professors in 1963 to build a firm then known as Fails & Associates, later known as the Fails Management Institute, and today known as FMI Corporation. McCall and Fails shared a vision of creating a firm that would have a positive and significant impact on the construction industry, an aim that continues to drive FMI today. McCall was a principal architect of the innovative overhead recovery system, FMI’s Dual Overhead Rates.

In the early 1980s, McCall formed a computer software firm, Concord Management Systems, producer of a major contractor accounting system. As that firm grew, McCall left FMI to lead Concord full-time. Concord later became part of GEAC. McCall spent his later professional years pursuing interests in information technology, including World Information Systems Inc.

McCall’s energy and acumen led to varied business interests. He formed a bank, built a heating and air conditioning distributorship, and participated in many commercial and residential real-estate ventures throughout the Southeast. McCall served on boards of directors, was politically active, and was named a “Tar Heel of the Week” by Raleigh’s The News and Observer. As a student at North Carolina State University, McCall was a campus leader, becoming president of student government.

He is remembered with love and affection by his colleagues at FMI as one of the most charismatic and talented speakers, writers, and consultants of the firm. Floyd McCall’s early efforts enabled existence of the modern-day FMI Corporation and its services to the construction industry.
FMI Friends Remember Floyd McCall

“Our lives are formed by fortune, fate, faith, intent, and effort, among other factors. It was my good fortune to be pledged to my college fraternity in the same class as Floyd McCall. He was an entertainer, a musician, ambitious, hilarious, and at times brilliant, brother. Floyd worked at many part-time jobs as did most of us in those times. One job was for some outfit run by a well-loved professor named Fails. Floyd married Caroline, began a family, and graduated North Carolina State on schedule in May 1963.

The (few) people were what really made FMI a great place to work. Doc himself, Floyd, Nancy Bunting, Chip Andrews, four other characters, and a couple of part-timers, and that was Fails and Associates in 1968. Bit by bit, the Fails organization grew. The next 39 years passed in a flash; partnering with Floyd, Doc, Chip and sometimes more on real estate deals, vacation homes, boats, and such with never a caustic word between us says volumes about these partners. There was a lot of faith, effort, intent, and fate along the way, but it has been my great fortune to have Floyd McCall as a key figure in my life. I wish you all could have known him in his prime. May you have such people in your lives.”

— Jerry Jackson

“Floyd was undoubtedly the most consistent, the most versatile, and the funniest of FMI’s talented public speakers. No one has known more jokes or told them as well as Floyd. His creativity is still evident in FMI today. He was responsible
Floyd McCall was a very effective consultant. More than anyone else, Floyd is responsible for bringing reality to Doc Fails’ vision. By recruiting his fraternity brothers, he populated the firm with its leadership for 30 years. We are all the beneficiaries of his foresight.”

— Hugh Rice

“Floyd believed that highly successful consulting services delivered by 20- and 30-something professionals can stimulate 50- and 60-something senior client managers. He saw the age of young FMI consultants as an advantage, rather than a disadvantage, since clients are looking for new ideas, a fresh insight, and the latest perspectives on appropriate management practices. It was this 1970s leadership from Floyd that leveraged the use of our young staff and built confidence into FMI’s culture.

Floyd never met an intimidating executive, or a completely unsolvable client challenge. Through his relationship-building skills and his problem-solving skills, he served as a role model and mentor for a generation of FMI consultants. He taught us how to preserve and earn client confidence.”

— Chip Andrews

“Floyd made a difference. He excelled in the political arena, showing his leadership early on as president of the student government at North Carolina State University. In all areas, he encouraged others through his willingness to “show” new methods that entertained while educating.

Floyd was an innovator and inventor. His contributions such as the “Fails-Proof” system became industry standards at the time. He enjoyed living life, both
personally and vicariously, and he enjoyed telling the subsequent stories. It is these stories that came to be known as lessons learned for many FMI clients.

Floyd made the early Fails organization attractive to all of us who later came to be a part of the FMI team. He is remembered as a leader of the company that continues to leverage the dreams that both he and Dr. Fails crafted into believable actions. As the first president to succeed Dr. Fails, Floyd earned recognition through action, not just words. He is missed and fondly remembered. Thanks, Floyd, for making a difference.”

— Hoyt Lowder

“Floyd was one of a kind; his infectious spirit and enthusiasm were critical to FMI’s success. Joining FMI directly out of school, I was able to experience and benefit from his early leadership lessons that have shaped our firm and industry since those humble beginnings. Floyd was an eternal optimist and consummate dreamer, and his dream included some very young associates providing consulting and training for contractors, trade associations, and industry manufacturers across the country.

Floyd was fearless, and along with Dr. Fails, instilled in us that same trait and the confidence that we could do great work for our clients and build a great firm in the process. He trusted that we would do the right thing for these clients and our firm. Floyd was a mentor to many of our associates over the years, oftentimes through his renowned storytelling late at night on the road or in the office on weekends. The lessons and memories are countless and emblazoned in our minds and hearts; we wouldn’t be here today without him.”

— John Hughes
Selling is a complex sport. If we play the game as if all prospects are alike, we may miss the target. Canned sales approaches fit few and irritate many; telemarketers are a perfect example here. Prospects want to be sold according to their wants and needs, not ours.

Part of a personalized selling approach requires sensitivity to personality differences. Four distinct personality types and six combinations exist. Most people are combinations or a blend of the personality types. In this article, I suggest applicable selling techniques for each personality style.

But wait! Our own personality type affects how we sell to other types. Our personality colors the way in which we see others. If we tend to be direct, forceful, impatient, and results-oriented we will approach with a Dominant style. If we are friendly, talkative, outgoing, and active, we will approach with an Influencing style. If we are persistent, loyal, consistent, and nice, we will approach with a Steady style. If we are precise, critical, analytical, and detail-oriented, we will approach with a Conscientious style. Following the Personal Profile System, I will refer to these styles as Ds, Is, Ss, and Cs. Most people have a predominant style. They also have a secondary or back-up style. Combinations thus become DIs, DSs etc. Combinations can mitigate predominant styles.

Keeping our own personality style in mind, we can use DISC clues to discover customer styles and thus the appropriate sales approach.

IDENTIFYING THE STYLES
The High D (Dominant/Driver):
  • Abrupt
  • Takes charge of the conversation
  • Focuses on results
  • Apparent self-confidence
  • Wears almost anything; less concern for fashion
  • Has a grandness of style

The High I (Influencer):
  • Shakes hands; touches
  • Smiles a lot
• Meets for business in a non-business setting
• “Social” office; mementoes are displayed
• Great small-talker
• Plays who-do-you-know?
• Dresses fashionably

The High S (Steady):
• Habitual
• Contemplates decisions for a long time
• Low risk-tolerance
• Traditional
• Conservative, inexpensive, or older trappings
• Comfortable in established work/play routines
• Acts cool and reserved
• Listens well

The High C (Conscientious):
• Asks detailed questions
• Has a reason for everything
• Remembers names, dates, details
• Certificates and diplomas are displayed in office
• Wants reassurance of quality
• Dresses correctly
• May procrastinate in order to be “perfect”
• Likes controlled atmosphere
• Dislikes sudden changes

If we accurately observe the customer’s style we can then differentiate the most and least effective selling approaches:

SELLING TO “D” STYLE
The Most Effective Sales Approaches for Ds:
• Be cordial but firm. Present your case clearly, firmly, and to the point. Avoid small talk. Focus on results.
• Ds want control so allow participation in the selling process. For example say, “Let’s both gather parts of the new data in order to speed up the process.”
• Ds worry about “being taken advantage of.” Build trust. Keep them informed. Never surprise, except with good news.
• Document economic benefits when appropriate. Describe benefits in terms of lower costs.
• Give Ds the choice of meeting with you in your office or their’s.
• Dress appropriately.
• Look customer straight in the eye. Use a firm handshake. Get right down to business.
• Give Ds a short summary of the entire proposal.
• Give Ds clear-cut choices or alternatives.
• Provide specific answers to Ds’ specific questions.
• Give Ds an opportunity to provide input into schedule etc.
• Use bottom-line benefit statements.

The Least Effective Sales Approaches for Ds:
• Don’t try to engage in small talk about family, golf etc. It drives Ds crazy.
• Don’t over-certify yourself with references (i.e., past customers).
• Don’t feed their fear of being taken advantage of in price or in changes, for example.
• Don’t surprise them.
• Don’t “oversell” them.
• Don’t drag Ds through a long, detailed presentation.
• Don’t compare your technique or system to that of the competition.

SELLING TO “I” STYLE

The Most Effective Sales Approaches for Is
• Establish a relationship.
• Control time in the selling process. Is love to talk.
• Is like pictures. “Picture yourself in your new office. What do you want to see?” Have them visualize the relationship as they see it.
• Take Is to see a past job.
• Present your proposal at a business lunch in a pleasant environment.
• Allow plenty of time; expect the presentation to run long.
• Mention, if true, that you’ve heard from others (name them) of Is’ achievements.
• State price early in presentation.
• Set a specific time for their decision.
• Lead them in their decision-making by reinforcement. (“Good idea! Let’s incorporate that.”)
• Offer a reward for their decision. (“As soon as we finish our negotiations, we’ve got to enjoy a nice dinner.”)
• Emphasize people and relationships.

The Least Effective Sales Approaches for Is:
• Don’t expect Is to stick to one subject.
• Don’t offend their egos.
• Don’t insult them by downplaying their abilities.
• Don’t correct them.
• Don’t drown them in detail.
• Don’t be surprised if they evade commitment.

SELLING TO “S” STYLE

The Most Effective Sales Approaches for Ss:
• Take your time. Remain business-like and conservative.
• Provide assurance.
• Schedule a step-by-step process with the client. For example, outline the change order process early, provide clear documentation during the job, and celebrate how well “we have worked together” at closeout.
• Meet at the client’s office.
• Dress appropriately.
• Notice affiliations (Rotary, trade association etc.) and comment positively.
• Show references and examples of project applications.
• Be sincere when presenting the proposal. Sit forward in seat.
• State the contract price early in the presentation.
• Inform Ss of all contractual conditions.
• Stress consistency.
• Get into the details of the agreement.
• Break down the project into parts and get Ss to decide on each part.
• Emphasize reliability and predictability.
• Emphasize project control systems.
• Show manuals etc.

Check to make sure all written materials and proposals are error-free.

The Least Effective Sales Approaches for Ss:
• Don’t move around too much.
• Don’t use verbal or physical aggression (anger, irritation, backslapping etc.).
• Don’t talk about other people in negative terms.
• Don’t stress changes.
• Don’t generalize.

SELLING TO “C” STYLE
The Most Effective Sales Approaches for Cs:
• Document potential benefits designed to fit specific needs.
• Provide details.
• Reinforce Cs when they are right, but remember that construction is technical and complex; customers are not always right.
• Provide reasons (e.g., “We do this for code compliance.”).
• Meet in their office.
• Dress conservatively.
• Show them references from past customers.
• Check to make sure all written materials and proposals are error-free.
• Provide details of the agreement and how you will take care of them.
• Mention guarantees and warranties early in the presentation.
• Expect critical comments.
• Arrange a reporting system that occurs frequently.
• Emphasize specific points, ensuring quality of design and execution.
• Lead them through the decision-making process by having them approve each component part.
• Emphasize project control systems, monthly reports etc.

The Least Effective Sales Approaches for Cs:
• Don’t show any aggressive behavior (back slapping etc.).
• Don’t force them into a decision-making corner.
• Don’t be eager to comply with their ideas. Say, “I’ll think them over.”
• Don’t rush through presentations.
• Don’t avoid details of interest to Cs.

SELLING TO “DI” STYLE
• Listen — they want to describe their needs and wants.
• Let them lead.
• Provide challenge. “Let’s visit the vendor together to see if the lead time can be shortened to help us beat the schedule.”
• Beware of Is’ friendliness; Ds’ impatience may want quick results.

SELLING TO “DS” STYLE
• DSs like to work. Do your homework.
• Describe the results of processes. “If we contact utilities now and remain in contact, we may avoid costly delays.”

SELLING TO “DC” STYLE
• DCs may become combative. Know your facts and avoid inaction.
• DCs are problem solvers. Invite their creativity into the process.
  • Be prepared for changes. Provide options, but do not be surprised if decisions are sometimes slow.

SELLING TO “SC” STYLE
• Provide data.
• Establish trust through well-understood processes. For example, we will e-mail pictures of project progress each morning. Please call us with any questions.
• Explain the commissioning punch and warranty process early.
• Be patient.

Styles may vary from day to day, but they generally tend to be consistent.

Styles may vary from day to day, but they generally tend to be consistent. Once a D always a D, but Ds can adopt an I, S, or C style, if it serves their
underlying control purpose. Is can sometimes influence through C-like analysis. Ss can be tough through stubbornness. Cs can appear D-like by being adamant.

While human complexity can overwhelm any pattern of understanding, we can sell more through awareness of personality style complexity, beginning with our own. After all, our own style gives us clues as to how we are most likely to behave. How we should behave in a selling situation is in a manner that is most effective with the customer’s personality, not necessarily our own natural self.

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ZURICH CONSTRUCTION
Beyond the Comfort Zone — Tips for Exploring New Market Opportunities

Picture this: Your business is booming. You have record backlogs, and your revenue forecast for this year and next is at all-time highs. Although there are many challenges with this current prosperity — including securing sufficient surety credit and finding qualified subcontractors to complete the work — all in all, things look pretty good.

But what about several years down the road? What will the industry look like then? What can you do now to improve your competitive position when the market does shift? Will you need to expand your markets to find new sources of profitable work to sustain and grow your business?

If someone asks you to work in a state in which you have never before worked, undertake a different type of project, consider an alternative delivery system, or adopt a new way of managing risk associated with subcontractor work, are you prepared?

Entering a new market is like tossing a pebble into a pond and seeing ripples spread out in ever-widening circles from the point of impact. Just as water appears to spread out to cover new distances, the effects of any type of market change can have far-reaching consequences for your business.

While new markets can help grow your business and increase profit opportunities, there are also potential pitfalls that warrant careful consideration.

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While new markets can help grow your business and increase profit opportunities, there are also potential pitfalls that warrant careful consideration. Now is the time — while things are good and you have the resources — to evaluate
potential new markets. Being proactive puts you in a position to grow your business in a thoughtful and strategic manner.

This article provides insights on four basic ways of entering new markets, along with the real-world experiences of several leading contractors who have taken the plunge.

VENTURING INTO UNCHARTED REGIONS

Not long ago, one of Zurich’s customers — a large contractor that specialized in bridge building in the Midwest — accepted a job to build a bridge across a gorge in the Western U.S. The site was in the middle of the desert but would eventually be part of an interstate highway.

The contractor experienced many complications that were not common in the Midwest, such as difficulty finding a qualified workforce for a remote location, working in extreme heat, cold, and unpredictable winds, as well as navigating unfamiliar terrain and government regulations. Because of these circumstances, the contractor paid a large financial penalty for not completing the job and another contractor was hired to finish the project. Eventually, the company retreated to the Midwest, where it had to restructure to remain in business.

Given the complexities associated with entering new geographic territories, some contractors do not make this type of expansion a priority, but instead base their decision to do business in a new locale on existing customer relationships or business partnerships.

For example, Houston-based Linbeck Group LP — with offices in Texas, Massachusetts, North Carolina, South Carolina, and California — does not actively seek projects in new areas; they prefer to be introduced by their existing clients.

“Our mainstay is building hospitals, museums, and universities in our core territories,” Linbeck President and CEO Chuck Greco said. “These projects are generally CM at Risk, which gives us an opportunity to collaborate with the client during the design process.”

However, there are times when Greco decides to increase Linbeck’s market penetration for a specific type of project, which means the company needs more resources and contacts.

“We have done this through acquisition, and geography is a by-product,” Greco said.

Linbeck’s acquisition process involves two preliminary steps. First, the company identifies compatible potential clients. With this list in hand, they hire a business broker to locate suitable construction firms. Representatives from the entire strategic management group — division managers, risk managers,
general counsel, finance, human resources, and information technology — provide input.

“When evaluating acquisition candidates, we consider the values and principles of the other firm,” Greco said. “We ask ourselves: How good is the cultural fit? What types of projects have they done in the past?”

To enter the Northeast market, Linbeck acquired Kennedy-Rossi Construction Company.

“We worked together in a joint-venture arrangement for almost eight years before deciding to merge,” Greco said. “By that time, we knew each other well. For the most part, we pursued the same type of projects, except they also build biopharmaceutical facilities. We knew we had the same values, and there was no doubt about integrity or quality.”

Greco said Linbeck views the acquisition process as a learning opportunity.

“The ‘best practices’ that you assume and have confidence in are often the ones that get challenged,” he said. “However, by revisiting long-established practices and creating a ‘best of’ set of best practices, the new combined organization becomes a stronger, more committed group.”

GETTING BY WITH A LITTLE HELP FROM YOUR FRIENDS

A commercial general builder in a large metropolitan area had steadily grown over the past 10 years — sustaining construction revenue of more than $100 million for the past two years.

They focused on their core business of tilt-wall retail, primarily neighborhood shopping centers and similar projects. However, with diversification and more growth in mind, the contractor accepted a job building frame apartments in an adjacent state for a new owner.

(Does this sound like the makings of a perfect storm? You might think this should never happen, but it does.)

The differences in the type of project, the business, and labor environment, and the relationships with the subcontractor and customer led to a series of legal challenges. Any one of these new elements could have been an obstacle to success. The problems created by the combination of all three were impossible to overcome.

The project experienced significant losses due to labor issues, quality issues, and disputes regarding completed work. The owner withheld its retainage, eventually forcing the contractor into bankruptcy. If the contractor had taken the opportunity to consult with peers about the new venue and type of work, it may have changed its approach, altered its decision, and potentially saved the company.

As the preceding example illustrates, entering into a new market is difficult if you go it alone. Peer group affiliation is a common way to gain geographic awareness. Rogers-O’Brien is a member of the Citadel Group, an eight-member limited liability corporation with a number of national customers.
“We look for customers with a national scope that want their contractors to be familiar with the local regions,” Rogers-O’Brien CFO Mike Orr said. “Because our group members rely on the same operational procedures and reporting systems, Citadel Group can transfer knowledge and success from one region to another. This approach ensures that our clients receive the same high-quality results every time.”

Rogers-O’Brien relies on its affiliation with the Citadel Group to evaluate opportunities outside of its usual geographic territory. The Dallas-based firm has a proven track record for building office campuses, healthcare facilities, manufacturing/industrial warehouses, distribution centers, churches, retail complexes, and educational buildings.

“Whenever the Citadel Group refers a customer to us or we refer a customer to one of the other group members, there is an immediate understanding of the customer’s needs and wants,” Orr said. “If they’ve had a good experience with one of the Citadel members, the transition to another contractor within the group is very easy.”

When evaluating opportunities in new geographic regions, here are some areas of potential exposure to consider:

- Limited local knowledge of the subcontractor base
- Legal venue issues that can impact potential liabilities
- Local variations in contract requirements
- Developing a partnership with a new project owner
- Environmental issues that demand tailored building practices
- Local governmental or political considerations
- Establishing relationships with new materials suppliers
- The likelihood of a change in frequency or severity of loss based on location
- Access to qualified medical providers and clinics
- Availability of labor and tradespeople with appropriate skills
- Prevalence of union vs. nonunion labor for specific trades
- Limitation on ability to drug test or implement other safety initiatives
- Potential resource drain from the company’s core work or administrative functions
- Impact on your bonding capacity or long-term surety relationship

**TAKING THE NEXT STEP: NEW PRODUCTS BRING NEW CHALLENGES**

Specializing in a particular product type is a proven way to gain credibility among a target customer base. If, however, one of your long-time customers decides to change focus, you may find that the decision to enter a new market has been made for you.

Until recently, Dallas-based Balfour Beatty Construction (formerly Centex Construction, the commercial construction arm of Centex Corporation) focused
primarily on nonresidential commercial projects. However, when Balfour Beatty decided to follow some of its customers into the high-rise condominium market, it was a learning experience.

“The legal environment is completely different,” said Ed Littleton, vice president of risk management at Balfour Beatty Construction. “Problems with a homeowners’ association can turn into a class-action suit overnight. We have been very fortunate but are aware of other projects that ended up in litigation. Instead of dealing with one customer, you could be dealing with two or three hundred.”

That’s why Balfour Beatty Construction carefully evaluates each new residential project.

“We ask ourselves: Who are we going to work for?” Littleton said. “We explore their history. Have they been successful with residential projects? What is their definition of a quality product? Are the design professionals familiar with the unique risks involved in residential construction projects?”

Pre-project planning sessions and ongoing reviews with the customer ensure that expectations are met.

“We’ll work with the owner early on and encourage a plan review,” Littleton said. “We discuss issues like humidity control, water intrusion, and temperature. We discuss our plans for keeping the building dry during construction. We systematically document our preventative measures.”

Purchase agreements with owners are a key consideration.

“We spend a lot of time discussing risks with owners,” Littleton said. “To avoid litigation, we have an approach for responding quickly to any issues that arise during the first few months after we complete a project.”

Balfour Beatty Construction has found that the increasing number of general liability exclusions makes it more difficult to find subcontractors. Some other areas to think about when considering a new product offering include:

- Customer expectations regarding quality, warranty work etc.
- New building materials or design features
- Selection standards for subcontractors
- Underwriter’s perspective on exposures relating to new types of work
- Any issues with manufactured equipment (are warranties in place?)
- Unique building codes or governmental regulations
- Noise and odor transmission between living spaces
- Specific duties under a state’s “Notice and Opportunity to Repair” law
- Warranty provisions, service contracts, and access to property
- Involvement of other parties: parent companies, manufacturers, homeowners’ associations etc.

Pre-project planning sessions and ongoing reviews with the customer ensure that expectations are met.
WEIGHING CONTRACTOR-CONTROLLED INSURANCE PROGRAMS (CCIPs)

In recent years, wrap-ups, particularly contractor-controlled insurance programs (CCIPs), have become increasingly popular as a means of providing certainty of coverage — including completed operations — and adequate limits for subcontracted work and related exposures.

This evolving risk management approach that has general contractors embrace and manage risk more holistically appears to be an effective solution to managing job site and completed-work exposures. However, even with a CCIP, the sponsor and participating contractors still must agree upon many issues regarding program implementation and contractual arrangements.

“Wrap-up programs make us better managers of the risk,” said Steve Warnick, Corporate Risk Manager at Austin Commercial in Dallas. “Any time you are financially responsible for something, you have a stronger interest. We can better manage the subcontractors’ safety when we have a higher awareness of the exposures. When they report claims and near misses to their own carriers, we don’t always hear about it. However, when the claims are reported to our carrier, we get far more details. This information can be the wake-up call needed to develop special safety programs.”

Could the evolution of a CCIP create new business opportunities?

“I don’t believe you should enter a business market just because you have insurance,” Warnick said. “You should consider entering a new market for business reasons.”

Most insurance carriers believe that residential condominium developments can cultivate a litigious landscape, which is why some subcontractors cannot get residential insurance without a contractor or owner-controlled insurance program.

Residential condominium developments present unique exposures related to construction defects, which is exacerbated by the potential for legal expenses related to class-action suits. Many insurance carriers are unwilling to expose their balance sheets to this unpredictable and costly exposure. Because of this, many subcontractors do not have sufficient coverage for residential work.

Some form of controlled insurance program has become the preferred alternative for covering these exposures. To ensure they have
control and are fully protected, many general contractors elect to sponsor a program directly rather than rely on the owner — or, if the general contractor does fall within the owner’s program, to seek some form of contractual relief or limited liability for future claims.

“Because we have better coverage, all parties benefit: the owner, GC, and subcontractors,” Warnick said. “In a CCIP you have broader coverage, higher limits, and longer completed operations coverage through the statute of repose.”

Some specific areas of exposure to think about when considering a CCIP include:

- Who administers the program?
- What is their experience and qualification?
- What internal resources will you dedicate to the CCIP?
- What are those specific roles and responsibilities?
- How will you communicate with the enrolled subcontractors?
- Which project type or size will you enroll, if not all?
- Will any local market conditions — governmental restrictions, local trade association, or agency opposition etc. — affect CCIP implementation?
- What will the bid process be?
- How will you verify appropriate credits from subcontractors?
- Who will manage and enforce a comprehensive safety program for all subcontractors on the project?
- Who will manage the return to work policy for all subcontractors on the project?

ADDITIONAL NEW MARKET INSIGHTS

If and when you decide to take your business beyond your comfort zone, it is important to do your homework and consider all possible sources of information:

- Peer contractors
- Local trading partners familiar with the specific environment or type of work you are considering
- Your insurance agent, broker, or risk management consultant
- Your insurance carrier
- Trade association contacts
- All internal marketing, finance, operations, and risk management resources

Your insurance broker or agent is an important risk management consultant. Together with your insurance carrier they are excellent sources to help you understand market exposures, whether the change involves a new type of building or a new geographic location. Some brokers and carriers have national and global resources where they can tap into local experts familiar with that specific environment to gain those insights.
Consult with your local underwriters to establish casualty and surety contacts that underwrite any new markets you consider. These individuals might offer insights on local contractor safety practices, claims and legal environments, and medical providers’ receptivity to return-to-work programs. Ask for referrals to claims and risk engineering experts with a hands-on understanding of the market.

Be proactive in this process by preparing a list of questions, such as the following, for your risk management partners:

- Are there any particular legal concerns in the market? Begin with a review of legal “hell-holes” (available from your underwriter, claims handler, or attorney), and consult with casualty claims contact to verify.
- Do subcontractors in this market typically have “required” coverages, such as completed operations, residential coverage, appropriate additional insured endorsements, or EIFS?
- Are there any unique localized climatic hazards within this market, such as windstorms, thunderstorms, or excessive seasonal rain, snow, or ice? These can be an issue even when you are aware of them. If you are caught by surprise, climatic hazards can lead to a disaster.

You should also ask the underwriter to engage their claims and risk engineering resources to fully explore what might be different from your current operations.

Here are some insurance and risk management Internet sites to consult:

- American Industrial Hygiene Association — www.aiha.org
- Chartered Property Casualty Underwriters (CPCU) — www.cpcusociety.org
- Mechanical Contractors Association of America — www.mcaa.org
- National Committee on Compensation Insurance (NCCI) — www.ncci.com
- Risk and Insurance Management Society (RIMS) — www.rims.org
- University Risk Management & Insurance Association — www.urmia.org
“Regardless of how successful Suffolk becomes, I think it’s important that we never forget who we are or where we came from.”

— John F. Fish
As the construction industry grows increasingly competitive, its services become gradually commoditized. So it is no longer enough to simply say your company is “better” than the competition. **Contractors need a more visionary and comprehensive strategy.** Many companies are learning that they need to stand out by implementing infrastructures that allow them to consistently provide better, faster services to their clients.

So how can construction companies carve out their own niche and differentiate themselves from other contractors competing for the same business? How can these firms attract and retain the best talent while delivering the kind of quality service that results in repeat clients?

**Suffolk Construction Company**, which is celebrating its 25th anniversary, is one of the leading privately held building contracting firms in the country. Suffolk differentiates itself through identification of basic company values, development of a clear strategy and vision, integration into the community, and reinforcement of a strong, national brand. “Exceeding Expectations” is Suffolk’s formula for success, and you’ll find that this mantra is mentioned whenever you speak to Suffolk clients, partners, and company employees, including the company’s CEO.

FMI Quarterly’s Cynthia Paul recently sat down with **Suffolk Construction founder and CEO John F. Fish** to discuss his company’s unique approach to exceeding client expectations and how that approach has translated into long-term success for Suffolk.

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**FMI Quarterly**: Tell me a little about your company’s growth over the past few years.

**Fish**: Suffolk Construction has grown significantly since 1982, the year we founded the company. We have been profitable annually and just recently reported revenue of $1.4 billion in 2006. Our total number of employees has risen steadily over the past decade and our project portfolio is expanding in every sector. Our headquarters are in Boston, but we also have successful offices in Florida and California. We also recently opened an office in Washington D.C., which will allow us to tap into the strengthening Mid-Atlantic construction market. We’re really excited about this new office, and we’re looking forward to future expansion into other areas of the country.

**FMI Quarterly**: That’s amazing growth. Has Suffolk always been this successful?
Fish: Interestingly enough, it took us almost 25 years to become a $1 billion company, but we're currently growing so fast that we estimate it will only take another five years to reach the $2 billion mark. That's twice our current size!

FMI Quarterly: To what do you attribute this success?

Fish: One word — relationships. It's all about relationships.

FMI Quarterly: You mentioned the term “Exceeding Expectations.” Why is the focus on customer expectations so important to your future? How did the organization come to the realization that company success results from exceeding expectations and not just meeting them?

Fish: As our company matured, we began to realize the importance of maintaining strong relationships with everyone around us. We actually redefined “client” to mean everyone who comes in contact with Suffolk. Today, we work extremely hard to cultivate solid, mutually beneficial relationships by exceeding expectations one individual at a time. This approach to doing business has made all the difference.

FMI Quarterly: Whose expectations are you intending to exceed?

Fish: When most people hear us talk about exceeding expectations, they immediately think we're talking about just our customers. However, we believe that way of thinking limits us. Our goal is to exceed everyone's expectations. This includes architects and engineers, subcontractors, the people in our communities, and our own employees.

FMI Quarterly: How do you define “exceeding expectations?”

Fish: To exceed expectations you have to constantly go above-and-beyond the norm when servicing clients and working with people. It's a very personal approach to doing business. Most owners, architects, and subs have certain expectations about working with general contractors because of past experiences. Many of their experiences with other
contractors were probably very positive, but there were inevitably some bumps in the road along the way. Before they have a chance to work with Suffolk for the first time, they may already have preconceived notions about the way we do business based on these past experiences. Our aim is to wipe those preconceived notions clean by consistently delivering more than we promise.

Let me give you a simple example of how we try to exceed expectations every day. Most of our employees are “list people.” They make lists of the day’s activities early each morning and tackle those lists throughout the workday. The goal is to cross off as many action items as possible by the end of the day. I often ask our employees to look at their lists in a different way. Rather than pushing hard to cross items off their list, they should instead treat every item on that list as an opportunity to exceed someone’s expectations. This approach to working with others has grown contagious and is making a huge difference in the way we service our clients and work with our partners.

FMI Quarterly: So just meeting expectations is not enough?

Fish: Definitely not. Client demands are increasing every day and buildings are becoming more complex, challenging, and expensive to build. Clients aren’t just looking for someone to simply build their buildings anymore. They’re looking for a partner throughout the entire process. Someone they can trust to provide counsel and offer recommendations for controlling cost without sacrificing design. The relationship between contractor, client, and architect is becoming more intimate in many ways so just meeting expectations is not enough anymore. Contractors that can be relied on to go above-and-beyond the call of duty on behalf of their clients will be the ones that succeed over the long-term.

FMI Quarterly: What systems do you use to monitor the progress being made?

Fish: We recently instituted a creative program called Suffolk CONNECT, which is helping us create channels of open, honest communication between owners, architects, subcontractors, and all our project teams.

We have a director of client service, Mark Chardavoyne, who is dedicated to this program and is independent from any Suffolk project team. Mark proactively reaches out to owners, architects, and subs to survey their expectations of Suffolk before construction begins on their projects and then meets with them several more times throughout the project duration for feedback on our teams.
These meetings are strictly one-on-one meetings between Mark and our owner and partner contacts. Members of our project teams are not present during the feedback sessions to promote honest feedback without hard feelings or uncomfortable moments. We collect and record all the information gathered at these meetings. Over time, this data will help us identify key trends and patterns that could point to client service areas that need improvement. I can’t think of a better way to find out how we’re doing than to simply ask.

FMI Quarterly: What have been your greatest Suffolk CONNECT successes to date?

Fish: The response from our clients and partners has been overwhelming. Most have never participated in a program like this before so they’re thrilled to have the opportunity to weigh in on our teams and our approach to managing projects.

One of our most recent examples of using direct client feedback to improve a relationship was the Four Seasons Boston renovation project. Our project team was working on a tight schedule and was on track to deliver the project on time because of very rigorous work hours. The Four Seasons clientele sometimes consists of high-profile performers and distinguished guests who use the hotel amenities during off-hours when much of the construction work is being conducted. So there was an important choice to make. Either continue on the aggressive construction schedule to complete the project on-time or adjust the schedule to fit the hotel clients’ needs.

Based on direct feedback from the Four Seasons, the choice was made to sacrifice some of the construction schedule to accommodate the hotel guests. In the end, everyone was happy with the decision.

FMI Quarterly: What tools or steps do you use to drive “exceeding expectations” into the fabric of your company?

Fish: I’d have to say our culture has been the driving force behind our ability to consistently exceed expectations. It all starts with our recruiting efforts. We recruit our people based on their core values — passion, integrity, hard work, and professionalism. We’ve been extremely successful in hiring and retaining bright people who always put the team before their own personal gain. If they have the right skills, work ethic, and dedication to teamwork, we ask them to join us. And they usually stay for a long time.
By gathering people who share the same values in one place, we create an incredibly contagious culture. You can actually feel the energy in our offices and on our job sites. With an entire company believing in our strategy and direction, our vision of exceeding expectations has been able to permeate every corner of our company. From our field employees and non-operational people to our office cleaning crews and cafeteria workers, it’s everywhere.

**FMI Quarterly:** I’d like to switch gears for a bit. Suffolk is a very active corporate citizen. What is the company’s philosophy regarding giving back to the community?

**Fish:** I’ve always said that constructing buildings is our business, but that our commitment to the community will truly have a lasting impact on our inner-cities and neighborhoods. Regardless of how successful Suffolk becomes, I think it’s important that we never forget who we are or where we came from.

**FMI Quarterly:** What role does this play in exceeding expectations?

**Fish:** Our community involvement is directly linked to our approach to client service because our commitment to the community has always been consistent with the passionate way in which we serve our clients. We set our sights on an important goal and then deliver the leadership and persistence that’s necessary to meet that challenge head on. And our clients understand this. They know they’re partnering with a company that is not just focused on the bottom line but on the impact we have on our cities and towns. In many cases, our focus on making a difference also motivates them to become involved.

But it’s not just about the construction industry. Our involvement in the community has gone a long way in exceeding the expectations of individuals and groups outside our circle. This has strengthened our reputation and brand in other areas, leading to even more opportunities to do business and make a positive difference.

For example, Suffolk General Manager Mark DiNapoli’s group recently won an incredible project, the Salvation Army’s Kroc Corps Community Center. This facility has the potential to revitalize an entire neighborhood and positively impact many families and young people. The Salvation Army wanted to choose a contractor that was not only qualified to build this facility, but also shared a common bond with The Salvation Army and its mission — to help people and change their lives for the better. They chose Suffolk because they knew we had
relevant experience, but they were also aware of our commitment to the local community and our reputation for personalized client service.

FMI Quarterly: What types of community events and sponsorships does Suffolk support?

Fish: Many Suffolk employees sit on boards for some of the most recognized charitable organizations in the country, including the Boys & Girls Club of America, Catholic Schools Foundation, Beth Israel Deaconess Medical Center, Boston Medical Center, and the Boston Symphony Orchestra.

Personally, I’ve been heavily involved in a number of charitable organizations throughout my career. I co-chair the annual Play for the Future event for the Inner-City Scholarship Fund along with Fidelity’s Peter Lynch. This golf tournament and auction helps raise money for partial scholarships for inner-city kids who can’t afford quality educations in the Boston area. Last year, we raised over $500,000 for this amazing cause. The event is a lot of fun, and we’re looking forward to raising the bar even further this year!

We’re also directly involved in the Archdiocese 2010 Initiative, which is a major effort dedicated to strengthening Catholic school education in our inner-cities through curriculum, technology, physical space, and an effective gathering of resources. We’re all very proud to be a part of this initiative because we know it will make a huge difference in the quality of education for these local kids.

FMI Quarterly: With all the choices available, how do you prioritize which events or sponsorships to support?

Fish: There are so many worthy causes in need of support that we used to find it difficult saying “no” to any charitable organization that approached us for help. Kim Gori, our vice president of marketing, business development, and community involvement, is developing a strategy that will coordinate our charitable giving with a volunteer program committed to kids and education. We’re very excited about this initiative, and we’re anxious to get started.

FMI Quarterly: Let’s talk now about how you drive the Suffolk brand. What is Suffolk’s brand today, and how is that different from five to seven years ago?

Fish: Today, we have a strong brand that is relationship-focused. We have built and strengthened relationships with owners, architects, and subcontractors and have managed
to cement a reputation for quality work and passionate customer service. We like to think our brand, or promise we make to our clients and partners, grows stronger with each project we deliver. As long as we remain true to our core values, maintain a strong corporate culture, and stay focused on our proven standard operating procedures and quality-driven approach to project management, I’m confident our brand will continue to strengthen in the years ahead.

**FMI Quarterly:** Where is the brand going?

**Fish:** Our goal is to continue to strengthen and enhance our brand and raise Suffolk’s visibility on a national level. We understand that our long-term success will always be driven by our reputation in the marketplace and our ability to deliver on our promise to clients and partners. If we stay true to our values and continue delivering on our promise, we will strengthen our brand and transform our company from a good company to a great one.

**FMI Quarterly:** Is Suffolk's brand something that is actively managed or is it simply a result of doing good work?

**Fish:** Our brand needs to be actively managed at all times, especially given our incredible growth over the last few years. We have been very focused on reinforcing our brand by using our operations teams to lead communications programs, training, orientation initiatives, and other programs. Many of these employees are already living and breathing the Suffolk brand every day. It’s part of who they are and how they approach client service. Part of the process of actively managing the brand is to remind our employees of this from time to time.

It’s also important to realize that our clients and partners are the ultimate owners of our brand. For the Suffolk brand to be successful, it has to live in the minds of our customers and every individual who works with us. Suffolk has a strong reputation for being polished and professional. We treat our partners and teammates with dignity and respect, and we work very hard to build strong, long-term relationships with our clients. We’re extremely responsive by nature, and our clients trust us because we stick to our word and are committed to putting their needs first on every building construction project. Measuring our relationship with clients, architects, and subcontractors is just another way of actively managing our brand.

**FMI Quarterly:** Not all construction companies see the value that a strong brand
delivers. What would you say to the construction firm that does not think branding is an important strategic focus?

**Fish:** Your brand is the promise you make to your customers. If you don’t deliver on that promise on a consistent basis, your customers will eventually lose faith in you and your ability to perform. Ignoring your brand is a huge mistake.

**FMI Quarterly:** Suffolk is active in the training and development of its people. What does the company do to provide its employees the best skills possible?

**Fish:** As I said earlier, hiring the best people is the first critical step to building a successful company. Once you have the best people on your staff, you need to train them to make sure they follow our standard operating procedures and continue to improve their skills even further. “Training and developing our people” is Suffolk’s No. 1 strategy because we believe it’s the clearest path to providing superior service and delivering quality projects to our clients. Our goal is to have the industry’s best training program by the year 2011. Our Red & Blue University, which is named after the bold red and blue colors from Suffolk’s distinct corporate logo, offers our employees intense training courses that educate them on every aspect of the construction industry. This includes effectively managing teams, maintaining budgets, keeping schedules, and safety. But beyond the usual construction “nuts and bolts” training, we also provide them training on collaborating with partners, providing leadership, and other soft-skill techniques. But our training initiatives go much deeper than the classroom. We also provide our young people hands-on training through our Career Start program. Career Start rotates new employees through Suffolk’s main operational areas over a two-year period so they gain a complete understanding of the daily responsibilities of each team member and department. This program has been a huge success for our company. We also have training opportunities for non-operational employees — our “Construction 101” courses help to educate them about the basics of constructing buildings and managing projects. It’s been one of our most popular courses to date.

**FMI Quarterly:** How does your training initiative help you consistently exceed expectations?

**Fish:** The majority of our trainers are construction professionals who are also Suffolk “veterans.” These instructors are not only well-versed in construction techniques, but they are also in-tune with Suffolk’s approach to client service and exceeding expectations. Because we tap our internal experts to train our
employees, we are able to enhance employee technical skills while reinforcing our culture. We show them the “Suffolk way” of servicing clients. As a result of this training, we believe our employees are the most knowledgeable and responsive construction professionals in the industry.

FMI Quarterly: What are some of the simple ways that contractors can provide solid customer service and move further down the path of exceeding expectations?

Fish: In many ways, solid client service is all about the basics. I use the term “blocking and tackling.” In our business, there are a number of ways to exceed expectations on a daily basis. Being proactive is one of them. For example, immediately making the owner aware of any issues that could impact budget or schedule, rather than covering up or hiding facts just to buy time. Calling the client more than once a month to ensure that he or she is happy with the work so far. Returning phone calls. Making sure the project site is clean, organized, and presentable at all times. These are all simple ways to exceed expectations.

Ironically, many of these examples don’t take a whole lot of effort, but they can have an enormous impact on your relationships with clients since most clients aren’t expecting you to take these extra steps on their behalf. By exceeding their expectations, you are not only creating an environment of trust on your project, but you’re also strengthening a relationship that could benefit your company for years to come.

FMI Quarterly: After talking to Suffolk CEO John Fish, it is clear why Suffolk is one of the most successful building construction firms in the country. By focusing on building relationships and constantly striving to exceed expectations, the company has become an industry trailblazer in leveraging its strong culture and strategy to service clients, collaborate with partners, and make a positive difference in the community. FMI Quarterly thanks John Fish for taking the time to talk with us.
Successful contractors understand that decisions to enter a new market should not be arbitrary. Opportunities must be critiqued on a case-by-case basis. What are the pros and cons? Are you risking a lot to gain a little? How does this fit with your long-term objectives? Up-front analysis will help you meet project demands.

Pursuing new market opportunities requires a solid strategy and discipline. Doing your homework and proactively managing the process will help assure bottom-line profit from top-line growth.

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Not every customer is of equal economic value to a construction company. Time and effort should be spent only on winning the right work with the right customers.

While this may sound like an obvious notion, a lot of companies fail to recognize this. Top resources are wasted on non-significant opportunities instead of ones with considerable value. The use of a Completed Contracts Analysis and selective targeting, both of which will be explained later in this article, assists in defining what should be considered A, B, and C customers.

The benefit of defining top customers is to develop relationships that are not only financially viable for business, but also satisfying to the customer. And, as we all know, a satisfied customer is one of the best advertisements for any business — not to mention an opportunity to take off the boxing gloves and stop worrying about the competition stealing this customer away.

UNDERSTANDING YOUR PROFIT SOURCES

“If we chase prospects and spend our effort and money maintaining relationships
that will be enough to make us successful,” or “we are selected for work that we are usually able to perform close to budget.” If you have goals of being average, these statements might represent a good strategy for you. However, if you have more ambitious goals, then you should follow a different strategy. Unfortunately, chasing high-dollar projects or building significant backlog is very tempting. When faced with the challenge of qualifying the opportunity, the high-dollar sign blinds us from reality. Are these opportunities really coming from our top customers? Are our top customers our high-volume customers? Are our top customers really our TOP customers? All too often, our top customers can be the hardest to deal with and actually produce lower profits when compared to other customers.

Revenue is only one variable of the success equation, and some would argue it is the least important. Many variables contribute to success. Included are gross profit, relationship potential, referral work, repeat business, work expertise, market segmentation, and geographical locations. For example, keeping morale high by creating profitable and fun work environments can be just as important as signing new contracts with new customers.

Allocate your business development costs between A, B, and C-level customers. A-customers should receive the majority of your get-work dollars since the return on investment is higher. These customers also provide reliable, continuous work, and that reliability and stability is worth the extra “get work” spending. In a similar way, estimate the amount of time and money you are willing to spend on B and C-level customers. Be careful not to invest too much into building these relationships since the promise of repeat work isn’t there. Stay disciplined and committed to your primary focus. Otherwise, multiple losses could occur, including:

- **Gross Profits** — When too much time and money is spent chasing customers with minimal gross profit potential — or sometimes none at all — a company needs to start evaluating its return on the risk undertaken to pursue work for each prospect.
- **Opportunity Cost** — Opportunity costs are lost opportunities to develop business relations with profitable customers because our lack of discrimination results in time and effort spent chasing not-so-profitable customers.
- **Morale** — Nobody likes to work without reward. Lack of criteria defining what customers to chase means that efforts are spent without a cause. Working long hours without gratification leads to job dissatisfaction, resulting in lackluster productivity and eventual employee turnover.
- **Bankruptcy** — Although the extreme case, if too much of the business is wrapped around too few customers or projects, the risk of failure is higher. Defection of a large project or customer can potentially bring down the whole organization. Low margins prevalent in this industry do not provide much buffer when taking on high levels of risk.
TARGETING THE RIGHT OPPORTUNITIES

With defined target criteria, companies are less tempted to chase volume. Decisions to pursue an opportunity are more educated and less emotional. Targeting criteria are unique to the needs of each company. What works for one company may not work for another. Companies with a certain strategic vision should have parameters for new business that is consistent with that vision. Examples of customer targeting criteria might include:

- Reputation of solid relationships
- Likelihood of shared values
- Timely payment
- Perceived value-buyer
- Gross-profit potential
- Bias for design-build
- Future work potential

Once customer criteria have been identified, a scoring scale that ranks each criterion by priority needs to be developed. The results provide insight as to which criteria are most appealing to the company. Then, when opportunities become available, those with factors that rank high in targeting should take precedence over those with lower scores.

Just as important as selecting the right customers is selecting the right projects. Chasing work that you can’t perform with a high level of quality will lead to poor customer satisfaction and damage to your reputation. Ultimately, you want to choose work that will give you the highest chances for success. Examples of project criteria might include:

- Scope of work
- Contract type
- Project size
- Productivity improvements
- Industry
- Complexity of scope

While no magical equation for project selection exists, companies should select opportunities that fit the expertise of their field operations, over work with a higher risk level.

The best targeting systems combine both customer and project selection criteria into one scoring scheme. This helps to avoid confusing signals from work that scores higher in customer criteria vs. project selection or vice versa. If selecting a qualified customer with future relationship potential is more important than selecting qualified projects, then place a stronger emphasis on customer selection. Although the temptation to go after short-term work may be strong, it is best to walk away without a match for the potential of a long-term relationship established in customer criteria. There will be better future opportunities in which to invest your resources.

Exhibit 1 demonstrates a combined customer and project selection grid.

The best targeting systems combine both customer and project selection criteria into one scoring scheme.
To complement targeting and gain more insight into your current customers, perform a financial review of completed jobs. This will help determine who are your top customers. The Completed Contracts Analysis (CCA) is a quantitative study of the results and characteristics of completed jobs over a set period of time. The ideal timeframe should range anywhere between three and five years of job completions. The data collected should include the original estimated contract along with other factors such as cost, budgeted gross profit, final revenue, and final cost to provide the bottom-line results. The trend information generated from the results of the CCA will tell you whether the job performed strong and beat the budget or if the job ran overbudget and produced negative trends.

The CCA compiles data of all the completed jobs and provides end-results as to how the jobs performed from a financial perspective. This information allows companies to gain an understanding of where profits were made. Even better, the study can reveal causalities of profits or lack thereof. Companies use the results of the CCA to help build strategic plans, assist in developing “get work” strategies, and to make improvements in productivity. The following conclusions are aided with a CCA:

- Where is the company making or losing money?
- Who are the top revenue-producing customers?
- Which customers produce the highest profits?
- What type of work is most and least profitable?
- What sales and marketing channels produced the most profitable opportunities?
- What types of contracts were most and least profitable?
- What sizes of projects were most and least profitable?
- Which market sectors were most and least profitable?

Although the CCA is not able to take into account challenges such as unforeseen subsurface conditions that affect the performance of a particular job, the CCA can provide signals that more investigation is needed. If results of the CCA do not show
that your largest customers are your most profitable customers, it might be time to reevaluate your company’s customer-retention strategies.

Often, companies discover through the CCA that B-level customers are actually performing better than their A-type customers. This happens when the halo-effect of large-volume customers outshines the performance of B and C customers. Growing B and C customers is part of the aim of the business. Companies should constantly evaluate customer performance and develop means to exploit customer upgrade potential.

**PROSPECT COMMUNICATION TACTICS**

Communicating with every prospect is costly and inefficient. So how do you determine who gets what? For your current customers, what lengths do we need to go to, to stay in touch with them? The selection criteria from the targeting and CCA analysis will help to determine where your customers rank. These criteria should be applied to the company’s marketing, customer contacting, and retention strategies. Unless the company has an abundance of expendable cash and business development resources, they cannot afford to treat every prospect and customer equally. So a customer-contact strategy is needed. For most companies, cash is tight and assigning the top resources to A-type customers becomes the strategy.

For those prospects we can’t afford to assign our top resources to, we can develop creative ways to stay in contact. Avenues to stay in touch with B and C customers might include:

**Direct Mail**

Direct mail has always been around and might seem outdated. However, it can be an effective way to reach prospects and customers. Don’t give a bad impression, though, by using old information. Instead, make a good impression with collateral that is current, telling current company happenings. A good way to make sure information is current is to print less collateral. Create a plan; then order and send only to those you want to contact and update. The unit cost of the piece is not nearly as important as the number of qualified prospects reached and the messages that the collateral conveys.

**Web-Mail Updates**

E-mail newsletters of recent events and jobs won is a great way to stay current with your prospects and customers. You want the newsletter to have appealing graphics, strong value propositions, and be well-written. It’s a great way to stay current with customers and deliver your top selling messages for extraordinarily low cost per reader.
Completed Job Cards

Completed job cards provide detailed scope and problem resolutions information for recent completed jobs. Provide pictures and highlight project successes. If possible, always provide statements from the customer to add proof to your cards. Job cards are also a good way to promote new service offerings. Highlight work that is relevant to a market or industry you are trying to break into.

Philanthropic Events

Sponsoring philanthropic events not only sends the message of caring about the community, it also provides a reason for you to reach out to prospects and customers. It offers you an opportunity to market yourself without the pressure of selling a service or product. In addition, it leaves participants feeling good about giving back to the community.

Activity Outings

Whether a golf outing, barbeque, picnic, or some other excuse, providing a social atmosphere for people to get together is a great networking opportunity. Outings are an old tradition that have been successful and fun for years.

Open Houses

Prior to turning over a new building to an owner, ask for permission to host an open house with guided tours for a completed job. It is important to ask for permission in the job's early stages to promote buy-in from the owner and provide sufficient time to market the event. It is a great way to show your company's expertise through a finished project before it has ever been used. Invite those customers who either have similar work coming down the pipeline or those with potential for offering work with similar scope.

BUILDING A SALES CONTACT PLAN

While targeting helps to define overall selection criteria, qualifying every opportunity can be time-consuming. A go/no-go checklist complements the efforts created in targeting. It is a scaled-back version of targeting easily applied to new opportunities. Similar to the concept behind the summary Cliff Notes of college days, a checklist provides enough information to guide a sound judgment without investing the time and money for an in-depth understanding of the opportunity. Similar to targeting, a go/no-go checklist requires discipline and should be applied on a consistent basis. If the opportunity qualifies, then escalate the opportunity to the next phases in the prospecting process — estimating and presentation.

Once you've determined the customers to target, the next step is to determine what are the costs involved and how much of an investment should be made. Start by determining hit rates, which are the percentage of prospects you chase that end in a business agreement of some kind. For example, if 30% of submitted proposals...
result in awarded contracts, then an estimated three out of 10 of your submitted proposals are winners. Now consider the average cost to generate a full proposal and estimate. Quantify some benchmarks. For example, if you spend $4,000 per million dollars estimated, then the cost to submit a proposal for a $5 million dollar job is $20,000. With figures like these, it’s easy to understand the importance of selecting the right customers and projects to chase and the value of improving hit rates.

Not every customer is of equal economic value to a company. In a highly competitive environment like construction, high-profit producing customers are prized. These customers are rare and should be maintained with a high level of attention. Developing relationships with top customers is a challenge that cannot be taken for granted. All too often, we find ourselves slugging it out with our competition in an effort to win. Regardless of the time and money spent on these efforts, the compelling force to stay in the game is irresistible. Before long, the victor is awarded the right to develop the business relationship, another opportunity comes along, and off to battle we go again. The routine continues until you have neither the resources nor the will to fight for new customers.

A mistake is often made when pursuing new customers that don’t align with the strategic criteria set for the company’s targets. Whether it’s the customers themselves or the scope of work they are offering, if it doesn’t match your competency to perform, you are setting yourself up for failure. This is detrimental to the company’s reputation and before a change can be made, the brand image has been tarnished. In the event that you do win some of these customers, you will feel obliged to continue maintaining relationships regardless of what the outcome might be. The sense of achievement is hard to just throw away given the amount of sweat or opportunity cost poured into it. As painful as it may be, you must stop doing business with companies who consistently absorb resources for little return. Business development teams tend to be ever-optimistic. They are seduced by the possibility that unprofitable accounts can turn into a high-profit relationships with significant backlog potential. However, at some point, more objective thinking must prevail, and the customer needs to be let go. The resources saved can then be directed toward other, more attractive opportunities.

The world of construction is highly competitive with a high degree of risk. Developing strategies for customers that fit your niche is not only important, it is imperative. ■

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Not every customer is of equal economic value to a company. In a highly competitive environment like construction, high-profit producing customers are prized.

John Wescott is a consultant with FMI Corporation. He may be reached at 303.398.7275 or via e-mail at jwescott@fminet.com.
Fortune Magazine recently released its TOP 100 Best Companies to Work for in 2007. No. 1 Google is known for its free meals, swimming spa, and free doctors available onsite. In addition, their engineers can spend up to 20% of their time on independent projects.

While generally not possible in the typical construction environment, there are some lessons we can learn from Google and other companies that made Fortune’s list. These lessons are especially valuable in the currently difficult hiring environment. Finding the best people for your organizational culture is always a challenge and an opportunity. In order to attract, motivate, and retain the right people, successful construction companies must become the employer of choice.

The Home Depot, while not on Fortune’s list, is a perfect example of a company that has experienced success even during times of labor shortages. Since its origin in 1979, the Home Depot has gone from one store, 200 associates, and $7M in sales per year to 2,147 stores, over 355,000 associates, and $7M in sales per hour. How did they get there? Much like so many construction companies, the Home Depot experienced substantial growth. Their store count grew by 358%, and their employees grew from 200 associates to 200,000; however, their business model remained relatively the same. This growth strained their infrastructure and impacted their capability in the market. This type of growth and change is not so uncommon.

Construction CEOs and presidents across the industry are turning around at the
age of 60 to find that there is no one to fill their shoes when they retire, and the organizational structure they’ve been operating under will no longer be effective. The U.S. Department of Labor has identified construction as one of the top industries in terms of projected job growth. The Bureau of Labor Statistics forecasts that employment in the construction industry will grow 11.4% between now and 2014, with close to a million new jobs created within that period. Despite the projected need for more workers, the primary working age group is projected to decline, resulting in approximately three million fewer employees in this age range alone. With the reduction in available workers and the improving job market, many organizations will not only find themselves losing their stars to their competitors, but they will also have a difficult time replacing talent.

With that said, many organizations focus their attraction, motivation, and retention efforts on their high-potentials, and of course, retention of high-potential employees matters. Unfortunately, in the process of focusing attention on high-potentials, companies often lose sight of the critical mass of employees in the middle. These are the people who show up every day and do their jobs, the managers and individual contributors who are often overlooked when it comes to motivation and retention. Many companies are beginning to focus their attention on this group in addition to their high-potentials. Why? Because the construction industry no longer has the luxury of picking and choosing all the A players. They must count on their massive middle to become fully engaged in their jobs so that the company can get more work done with fewer people. The following tactics will help you to attract, motivate, and retain the right people for your organization.

**IMPROVE YOUR CANDIDATE POOL**

Companies hiring new employees largely from those who walk in their door or answer an online ad are often missing the best candidates. The right people for your job are usually working for someone else, and they may not even be looking for a new position.
Recruit your ideal candidate using a job description that tells potential employees the exact position requirements.

Assemble a team of people who represent the best qualities of the people who currently hold the same or a similar position, including the hiring manager. With this team, work to develop a job description that defines the key responsibilities and outputs of the position. Then, identify the behavioral characteristics of your ideal candidate. Finally, narrow your list down to a few “must have” responsibilities and characteristics you will use to screen resumes and to establish questions for phone screening and interviews with your candidates. If a candidate does not possess those traits, there is no need to continue the process. In some cases, by telling potential employees the exact position requirements, candidates will self-select themselves into or out of the process.

While it may seem like a lot of effort, this step will give you a clear understanding of your ideal job candidate. Good preparation requires effort.

Invest time in developing relationships with recruiters, executive search firms, and employment placement firms that specialize in construction industry placement.

“Body shops” should not be the first place you look to acquire talent, but the best executive search firms have done much of the homework and candidate pool development for you. Expect to pay 20% to 35% of the cost of the new recruit’s annual salary for these services, but for some positions, the alternative cost of your department’s time and the time invested in a possible failed search make these fees worth the cost. Additionally, effective recruiters for construction roles have an already-developed pool of candidates, and these recruiters provide experienced eyes to help you with your search. Be sure when using a recruiter, executive search firm, or employment placement firm that you specifically identify the knowledge, skills, abilities, and expectations of a potential employee. In addition, describe your company’s culture in such a way that the recruiter can align a potential employee’s values with the values of your company.

Consider also using temporary staff as a trial solution or to staff a position you are not sure you need in the long-term. Temporary employees can provide a useful buffer for the ups and downs of the business cycle, leaving your core staff unaffected.
during down times. Temp firms will recruit and screen to your specifications and guarantee your satisfaction. They save your staff time by providing testing, drug screening, reference checking, background checks, and anything else you'd like for a nominal fee. By the time you meet the selected group of candidates, most of the work, other than a personal interview, has been completed for you. Additionally, as these firms become familiar with your needs, they will seek out and suggest talent they believe meets your criteria, just like executive search firms and recruiters do.

Encourage current staff members to actively participate in industry professional associations and conferences where they are likely to meet potential candidates.

You have three opportunities to involve your employees in the hiring process: your employees can recommend excellent candidates to your firm; they can assist you in reviewing the resumes and qualifications of potential candidates; and they can help you interview people to assess their potential “fit” within your company. Organizations that fail to use employees to assess potential employees are underutilizing one of their most important assets. People who participate in the selection process have a greater commitment to helping new employees succeed.

Publicize your interest in employee referrals, and pay for employees to participate in industry groups, conferences, and trade shows. Many companies reward employee referrals, especially for hard-to-fill positions, with cash bonuses. Posting all open positions, announcing openings at company meetings, and sharing growth plans with company members will help spread your message.

Furthermore, spread word-of-mouth information about position availability, or eventual availability, to each employee so they can regularly look for superior candidates in their networks of friends and associates. Use trade show booth-time to meet and get to know potential candidates as well as customers. Encourage employees to gather business cards from and develop relationships with high-potential possible employees. Moreover, don’t stop with employees alone; tap the networks of your social, board, and academic connections, too.

Publicize your interest in employee referrals, and pay for employees to participate in industry groups, conferences, and trade shows.
Use professional association web sites and magazines to advertise for professional staff.

The Internet, in addition to your own company web site, is in its infancy in its usefulness to employers, potential employees, and society, in general. When using the web, consider:

• Posting your positions on professional association web sites, including local chapter web sites or professional associations related to the position.
• Posting open positions on web sites provided by private vendors or your state and/or local government.
• Posting a classified ad on newspaper-related web sites. Most newspapers have an affiliated web site where you can post ads. These ads are either included in the price of a classified print ad, or you can pay separately for online posting only.

Be sure your online recruitment ads “sell” the vision and the advantages of your organization. Effective ads portray your company as an exciting and rewarding place to work. Effective job postings make people want to apply to your firm.

CONSIDER IN-HOUSE CANDIDATES

Providing promotional and lateral opportunities for current employees positively boosts morale and makes your current staff members feel their talents, capabilities, and accomplishments are appreciated. When opportunities are available, always post positions internally first. Give potential candidates an interview. It is a chance for you to know them better, and they will learn more about the goals and needs of the organization. Sometimes, a good fit is found between your needs and theirs, and you will have retained a great employee.

BE KNOWN AS A GREAT EMPLOYER

Don’t just be a great employer; let people know that you are a great employer. Take a look at your employee practices for retention, motivation, accountability, reward, recognition, flexibility in work-life balance, promotion, and involvement. These are the key areas for becoming an employer of choice. You want your employees bragging that your organization is a great place to work. People will believe company employees before they believe corporate literature.

Think about what reassurances are needed by a potential employee before they agree to join your organization or business. Are you perceived as stable, profitable, and growing? Are you employee-friendly? Does your mission catch the mindshare and/or the heartstrings of the people you most want to recruit? Will a
new employee feel part of something bigger than themselves if they join your company? Will your organization nurture their talent and provide exciting opportunities for challenge and professional growth?

If you can answer these questions affirmatively, analyze every component of your recruiting process to make sure that you are sending these messages. You must communicate this commitment to being an employer of choice to prospective employees.

Job candidates will scrutinize every part of the hiring process. This includes little things. Do you return phone calls promptly? Do your interviewers repeat the same questions? Did you acknowledge receipt of their resume? Did you suggest that they communicate with you via e-mail (for younger recruits)? These items all contribute to their evaluation of you as an employer of choice. These are perspectives that you build upon as an effective and powerful tool in attracting top talent.

PAY BETTER THAN YOUR COMPETITION

Yes, you do get what you pay for in the job market. Survey your local job market and take a hard look at compensation for people in your industry. Pay moves faster in times of shortages even though you may wish that it did not. You want to pay better than the market to attract and keep the best candidates. You might attract someone who is following their spouse to a new community and doesn't necessarily need your benefits, but subsequently grows to resent their pay scale, feel unappreciated, and leave you for the first good job offer.

Keep your benefits above industry standard, and add new benefits as you can afford them. You also need to educate employees about the cost and value of their benefits so they appreciate how well you are serving their needs. You can’t be an employer of choice without a good benefits package that includes standard benefits such as medical insurance, a 401k retirement plan or the like, and dental insurance. More than the standard benefits, employees value flexibility and the opportunity to balance work with other life responsibilities, interests, and issues. Employees are also increasingly looking for cafeteria-style benefit plans in which they can balance their choices with those of a working spouse or partner.

Pay more, expect more. If you don’t get greater output from those to

Keep your benefits above industry standard, and add new benefits as you can afford them. You also need to educate employees about the cost and value of their benefits so they appreciate how well you are serving their needs.
whom you pay more, confront, coach, train, or replace.

**USE YOUR WEB SITE FOR RECRUITING**

Does the employment section of your company web site tell and even sell potential employees on the vision, mission, values, and culture of your company? Do you present a message about how people are valued? Do you express your commitment to quality and to your customers? If not, you are missing out on one of the most important recruiting tools you have to appeal to prospective high-potential employees. Instead of the typical, poorly written job listings about available positions, your web site needs to include the company vision. This information can set your company apart from others that are vying for the same people.

Your web site should also be an effective vehicle for recruiting employees who resonate with what you state on your site. A recruiting page on your web site is your opportunity to shine and a highly effective way to attract candidates today. Your job listings must sparkle with personality so a potential candidate thinks, “this organization is for me!” Now that you have their attention, you also need to provide an easy way for candidates to submit resumes for job consideration.

Regardless of your recruitment, motivation, and attraction techniques, become the employer of choice in your market. If you continue to operate in the way you always have in terms of getting and keeping people, you will continue to get the same results…or worse.

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Imagine that you are the president of Smith Construction, a general contractor, wanting to expand its operations in the healthcare market. Currently you are sitting in a client meeting with your lead salesperson, Bill, who is presenting your company’s healthcare contracting services to a prospective customer, John.

John has heard several presentations from other contractors in the last couple of days. The message is the same and clichéd: “We have excellent products, great service, good people, and deliver on time and always within the quoted budget,” and so on.

John says he wants to hear some fresh ideas since this next project will probably be over-budget and late, despite claims to the contrary by every contractor that is proposing the work. He says that he doesn’t have time for more “me too” messages. John actually wants to make a value-based decision, but if all the value propositions are the same, where’s the value?

So what should Bill’s message be?

As Bill goes through the message he came prepared with, you learn that John hasn’t heard of your company in the healthcare construction arena. With the amount of work your company has completed in the region, you can’t believe that there could be someone who hadn’t heard of your company or seen your signs around town on job sites. Perhaps this is the case with other potential customers? Didn’t John receive your marketing mailers and brochures? Was all that money you spent...
I taking your differentiated strategy to market on a new web site, brochures, and attending community events wasted? If one of the largest potential customers doesn’t even know you are in the market — it may have been.

**CRAFTING A MESSAGE THAT WORKS**

To compete successfully in a value-based selection, contractors need to establish their unique selling points and differentiate their services from the competition. Having excellent products and services, good people, and delivering on time and on budget is really just the ante to get into the game; it’s the “me too” message that is currently boring John.

Customers do, of course, expect those things when they hire a contractor. Why would any customer expect anything less? However, that leaves the question: What is it that the customer expects? What can you do to win the work and “wow” the customer? How do you craft the non-“me-too” message and take it to market?

**KNOWING WHERE TO START**

Starting is sometimes the hardest part. Knowing where to begin to develop a differentiation strategy starts with knowing the strengths and weaknesses of your top competitors as seen through the customer’s eyes. Chances are your people will think they know plenty about competitors. But what is going to help you find a differentiated spot in the marketplace is knowing how the market’s key contractors stack up in the mind of customers and prospective customers.

You will need to conduct some marketing research. A third-party researcher’s perspective is less likely jaundiced. Once research is conducted on your competitors, you will realize that you share a good number of the same strengths as your competition. Those strengths might include on-time, on-budget performance, good people etc. You should also expect to find some strengths that are different. The “me too” zone is where your strengths overlap those of your competitors.

“Me-too” should be considered in your overall get-work strategy. You need to assure your customers that you are as good as the competition in those areas. Doing that allows you to level the playing field. The experience that you bring in hospital expansions, for example, could make a difference.

Your design-build experience that has

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**Knowing where to begin to develop a differentiation strategy starts with knowing the strengths and weaknesses of your top competitors as seen through the customer’s eyes.**
provided money-saving results for other clients might also matter. Your technology platform that provides coordination of major trades with 3-D modeling is another point of differentiation. Graphically a differentiated strategy is reflected in Exhibit 1.

Bill has the “me-too” down pat. We deliver on time, within budget, and hire quality people. Where we at Smith Construction excel is ….

**START WITH STRATEGY**

After witnessing that your potential customer didn’t even know you operated in the healthcare market, Bill calls up marketing to find out why their prospect didn’t get the latest brochure in the mail — a typical response. Bill learns that they did, in fact, receive the brochure. So perhaps it wasn’t read, or the person who received it wasn’t the person making the buying decisions. While these are important things to know about your marketing operations, fixing them is really just a firefighting exercise and misses the point that you may not have a strategy to gain your share of the healthcare market, or the strategy you have isn’t working. If the hospital project owner doesn’t know who you are, they certainly don’t know your reputation for superior project management.

A strategy answers the question of how the company’s vision for the future will be achieved. There may be a number of different strategies covering different areas of the business and different markets. There may be a strategy to drive unnecessary cost from the system by improving field productivity. Another strategy might address the creation of new delivery techniques that shorten the construction schedule. Too many strategies can be confusing; therefore, it is important to consider how strategies work together to advance the company’s vision and plan strategic resources accordingly.

**BUSINESS DEVELOPMENT STRATEGIES**

Many business development strategies can be considered in strategic planning. Differentiation is the business development that Smith is undertaking. Additionally, Smith needs individual go-to-market strategies for each market they work in or want to enter.

Before you can differentiate your company
from the competition and determine how you will communicate that message (your go-to-market strategy), you must understand where you are positioned in the marketplace. Smith Construction needed to learn that its intended market position was unknown in the marketplace. The following four basic elements will help you to understand your market position relative to your competition:

1. Your strengths as perceived by your customers
2. Your weaknesses as perceived by your customers
3. Competitor strengths as perceived by their customers
4. Competitor weaknesses as perceived by their customers

Customer perception, or the point of view of the customer, is key to the information that will be used to build your strategy. Even if customer perception does not match reality, it is perception that counts here. In fact, intent is not reality; perception is the only reality. For example, Smith Construction had a lot of experience in the healthcare market, yet the prospect didn’t know that. Such facts will be important elements to consider when building your go-to-market strategy. How will you communicate the positioning that you intend to your customers? At the same time, sometimes customers give you credit for being good at something that you would have said was a weakness. You may be viewed as a builder of large projects because you recently built one. The fact that it was a difficult and ultimately unprofitable project may be lost on prospective customers. For a customer to identify something as a strength or a weakness of a vendor, that characteristic must have some importance to the customer. Once you have gathered this information, you will begin to understand the overlaps between your strengths and weaknesses and those of your competitors. Where you desire to underscore your differentiation, you will streamline or modify your systems to work toward operating procedures that increase the consistency of performance in the areas most important to the customer. Further, this differentiation will aim to underscore your strength(s) over your competitors’ weaknesses.

Why would you want to understand your competitors’ weaknesses? This
information is important because it will help you to know what areas are not being satisfied for your customers by the competition, and you can build your differentiation strategy around these areas. The key here is not to gather ammunition in order to say bad things about your competitors, rather the strategy is to “ghost” their vulnerabilities and create a degree of doubt in the minds of your listeners. For example, assume that your company has the best safety record in the market. You can ghost competitors by telling customers that, when safety counts, your performance easily surpasses all others. This approach is strengthened if you can support these claims by using outside, third-party evidence including graphs, articles, and testimonials.

Where your company’s perceived weaknesses overlap the perceived weaknesses of your competitors — another “me-too” area, your strategy should be to innovate in order to create differentiation. Create new systems and structures that will allow you to provide unique services that customers value. For example, contractors now provide services that customers or architects/engineers used to provide. General contractors might help customers with concept pricing or value engineering to find better, less expensive construction methods. Subcontractors’ added services might include providing the documentation and support needed to pursue LEED certification or win an industry award. Whatever new systems or services you create, remember the key is to focus on what customers value and what competitors either do not or cannot easily duplicate. Be aware that, when you are successful at creating a competitive advantage in this manner, your competition will eventually find out about it and seek to duplicate it. They may notice that they are losing more work to you than in the past, and they will investigate. Therefore, make it your goal to have an edge that is difficult to duplicate and/or realize when your competition is beginning to catch up and move it to another level. Remember, no good deal lasts forever.

**MARKET RESEARCH**

Market research is the best way to understand the strengths and weaknesses of your company and your competitors.
Surveying your sales force will not satisfy this, even if they are very knowledgeable about the industry. While it requires an investment of time and money, market research is the best way to learn how to win new customers and gain market share with existing customers by positioning your company differently from the competition in the eyes of the customer. If you want to know how to put together the research, see Exhibit 2 for tips on what to look for and what to look out for when picking a research partner.

Exhibit 2
Market Research and Investigation

Effective business development planning will typically require research to gain a thorough understanding of key market metrics and dynamics. So much information is available today. Unfortunately, much of what is immediately available is flawed, biased, or dated. The following is a quick checklist of what to look for and what to look out for in the research you use.

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<th>What to Look For in Good Research Work</th>
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<tr>
<td>Interpretation</td>
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<td>Trends and Drivers</td>
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<td>Alternative Explanations</td>
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<td>Recognition of Risks</td>
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<th>What to Look Out For in Research Work</th>
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<td>Credibility and Bias</td>
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<td>Unclear Data Composition</td>
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<td>Lack of Cited Sources</td>
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<td>&quot;Two Points are Not a Trend&quot;</td>
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<td>&quot;The Future Will Behave Like the Past&quot;</td>
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<td>Portability of Findings</td>
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<td>Non-Representative Contact Pool</td>
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<tr>
<td>Data Smoothing</td>
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<tr>
<td>Broad Scope of Findings</td>
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Four important pieces of market research include:

- Market sizing and forecasting
- Image analysis: Who will recommend your services?
- Market environment
- Competitor information.

Gathering this information can not only help to formulate differentiation strategies but can also enable you to explore market positioning options as you seek to uncover market “white space,” or market areas not being covered effectively by you or your competitors. (See Exhibit 3.) Gathering this information also requires contractors to have a thorough understanding of customers, prospective customers, competitors, and their own core competencies.

The comparison shown is average daily rates and customer satisfaction. The size of the bubbles indicates the revenue of that hotel chain. So you will see for average daily rates of under $150 and satisfaction scores of two through five, the market place is pretty cluttered. If another hotel chain wanted to compete in that segment they would have to match the level of satisfaction and then offer something besides the general category of customer satisfaction to compete. An example might be a business hotel that offers a twist technologically. Perhaps the hotel creates a system where frequent customers show their driver’s license to the shuttle driver who picks them up at the airport. Then upon arriving at the hotel, a person is standing by at the front desk with a key for their room. The impact would be that the customer would not even have to go to the front desk. For customers arriving in a car, the same thing could be accomplished by having these guests show the parking lot gate attendant their driver’s license. Their keys would be waiting for them as well.

Market research is the needed ingredient to make sure that your targeted white space does not end up being a cluttered mess. You need perceptions from customers.
and prospective customers to be able to find the comparisons that offer your company the best chance to win in the market. That information does not exist objectively inside your company walls, regardless of how much your employees talk to customers.

DIFFERENTIATION AS A STRATEGY PLATFORM

Differentiation often arises when discussing marketing. Some dismiss it as marketing spin, but it is more than just spin. It means actually being different in areas that customers value enough to pay for that difference. The difference sets your company apart from competitors and gives you a market advantage. However, the difference in your differentiation strategy is of little use if competitors could easily copy it. The difference is also of limited value if your customers don’t want to pay for it. If the difference you are trying to create is little more than spin, customers will see through it soon enough and you will likely lose credibility. That is why points of differentiation are established as part of a strategic plan and not just created when writing a new brochure. The strategy will involve all or most of the company to achieve. For example, improving productivity, so that you can reduce cycle time and improve profitability, will involve almost everyone in the organization. If your productivity improvement strategies are a cut above the competition, they become a point of differentiation that will help in your marketing strategy. Further, your improved productivity should cut your cost. Now how competitive would strong, relevant differentiation, and a price advantage be?

YOUR UNIQUENESS SCALE

Once you set out to differentiate your company’s products and services, at some point, you will find that you have several choices. For example, one strategy might drive unnecessary cost from the system by improving field productivity, and another strategy might create new delivery techniques to shorten the construction schedule. Doing them all may be cost and time prohibitive. Which is better? To help solve dilemmas like this, FMI uses a Uniqueness Assessment tool that scores each idea in six different areas:

- Is the idea or strategy compelling?
- Does it add value?
- Is it difficult to copy?
- Is it sustainable?
- Can it be executed?
- Is it a fresh or new idea?
To assess competing ideas, use the score sheet in Exhibit 4 for each idea, using a scale of one to five where five is excellent and one is poor. While the scoring should be a consensus of the team, base the scores on factual evidence to reduce differences of opinion.

For instance, 20 years ago you could have considered offering a new service called “design-build” where architectural services were brought in-house. You might find that the idea gets high marks in every category except “difficult to copy.” Nonetheless, comparing it to several other ideas, it comes up with the best score on the assessment tool. With this knowledge, you can focus now on making the design-build service less easily copied as other contractors try to enter your market.

GO-TO-MARKET STRATEGY

Building momentum in the marketplace is a challenge for many contractors. Contractors often do a lot of things right to get their firms positioned in front of the customer at the right time. They develop good marketing tools. Their people know that customer service is important. They might even have people who are charged with calling on customers. However, collectively these efforts fail to create enough market pull to make the phone ring with project opportunities, or at least raise awareness to the point that potential customers take their call. The main reason that there is no momentum in light of a lot of good things going on is that there is no combination and coordination of efforts as part of a go-to-market strategy. This is why Bill hears from the hospital customer that they didn’t know you built healthcare facilities when you have a great track record in that area. Marketing put the information on the web site and printed brochures as they were supposed to do, and

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**Exhibit 4**

**Uniqueness Assessment**

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<td>- Meets an unmet customer need</td>
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<td>- Minimizes hassles</td>
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<td>- Speeds delivery</td>
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<td>- Streamlines processes</td>
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salespeople were out there calling on people, but the efforts were not coordinated; the strategy was not defined.

To build a go-to-market strategy, you should consider several factors:

- **Customer types:** This involves gathering some detail on the position of the people who make or influence the buying decision in the customer’s organization (i.e. facility managers of major hospital systems).
- **Market segments:** There may be several segments in the market that have different characteristics and needs. For example, in healthcare, there are outpatient clinics, long-term rehabilitation facilities, emergency care facilities, traditional hospitals etc. You may have a different strategy for each of these segments.
- **Market spending:** What are the historical construction spending levels of the segment? What are the forecasts?
- **Revenue projections:** How much revenue do you expect from each market and market segment if you are successful with your strategies?
- **Market penetration strategies:** Market penetration strategies will tap all the resources of the business development/marketing department including advertising, sales calls, customer service support, and even project management.

You may have a different go-to-market strategy for several target markets if your overall goal is to win market share in several markets. Again, these strategies are developed in light of market research to understand competitive positions and unique selling propositions. It is important to note that the go-to-market strategy must be aligned with overall company strategy for achieving the vision of the company. Also, you must realize that these are business development strategies that will make or break the success of the company in the future. If the strategy and its implementation are not clear to all those involved in your company, efforts to carry out the strategy can quickly become defused. There is the danger of falling back into the “me-too” trap by becoming too generic to capture the desired market share. You could find yourself again struggling to become something more than just another low-bidder in a commodity market. Remember:

*If your services are the same as your key competitors, the best strategy is to cut your price in order to compete more effectively. If you want to sell your company’s capabilities on more than just price, then clear strategy aimed at competing on value is the key.*

**BUILDING THE PLAN**

One of the goals of doing all the research and hard work to build the data and details of your plan is not to be blindsided as Bill was in the Smith...
sales meeting with John. Ideally you will be invited to submit proposals and make presentations for all of the projects you want to work on in your target market. You will make the short list for most and win a greater share of the market. If done right, this will build a momentum of success that will create resource challenges in the future. However, even the best strategic plans are little more than paper if not executed. For instance, Bill would never have presented blindly to John, the hospital customer, if the company had executed a go-to-market plan. That plan would have included the systems required to prepare for the presentation long in advance; it would have ensured that the customer was well aware of Smith’s capabilities and had seen evidence of Smith’s healthcare work before inviting Smith to make the presentation.

Building your plan means taking the charts, graphs, and tables and turning them into assignments, actions, and measurable milestones for everyone in your company with the responsibility to make the plan work. Monitor progress with milestones and adjust systems to fit the plan — not the other way around. Set deadlines for achieving plan milestones to ensure a sense of urgency in execution. While the plan must be adopted and promoted from the top-down, one sign that the plan is working is if field-level and mid-level management in other departments know about it. If they are aware of the plan’s progress, how their work plays a part in differentiating your company, and how they are helping to take your strategy to market, then you are on the right track.

START WITH STRATEGY AND THE REST IS SIMPLE (MOSTLY)

Once you have laid the foundation of your business development strategy, you will have the information and starting point required to build the right marketing messages, pick the right opportunities to chase, and concentrate limited resources so that your sales dollars are wisely spent. It will soon be obvious that there is less wandering around and hoping for that lucky opportunity and a more purposeful business development engine. While it appears that a good strategy makes everything else you do simple, that’s really not the case. There will still be plenty of hard work to do to implement the strategy, but compared to the way you have done things in the past, your new approach is easier.

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As a contractor, you may think that you have all of your bases covered. You have a backlog of projects, your employees are well managed, and you have a database full of satisfied customers and vendors. In the world of construction, however, these basic stability gauges are not enough.

A more sophisticated method of managing your business is necessary to ensure you continue your success or grow your business. Relying solely on gut instincts and using only basic financial indicators is akin to navigating a dense, dark forest without a reliable compass. To successfully navigate, you should use predictive indicators in addition to the tools you are already using.

Tracking leading and lagging indicators is an efficient method of keeping tabs on your business. These measurements track productivity, the effectiveness of marketing efforts, sales activities, and customer satisfaction. Leading and lagging indicators allow a company to track financial activities and productivity. Such indicators can also track the effectiveness of the behaviors that shape your long-term marketing efforts and sales activities. Leading indicators preview the future for your company. Examples include hit rates, the number of new contracts or customers, pipeline measurements (i.e. the total number of opportunities being tracked), number of proposal opportunities, and new or key relationships being built. Lagging indicators show end-results by measuring revenue, profitability, ROI, backlog, and revenue from “A” customers. Leading indicators give you a sneak peak into what
your future holds. Lagging indicators are traditional measurements that show the outcome of your efforts.

**LEADING INDICATORS:**

**Hit Rate**

The hit rate may be that of signed contracts vs. attempts, the number of opportunities that turn into business, or the percentage or dollar amount a business is closing from a prospecting basis. These measurements show how current activities are generating potential future revenue for the business.

**New Contacts**

Making new contacts is vital to a company’s financial longevity. By keeping track of the number of new clients, types of relationships being built, and prospects you hope to turn into new clients, you can measure the effectiveness of get-work efforts before the work is bid or the job is awarded.

**Pipeline Tracking and Proposal Opportunities**

Pipeline tracking shows three different levels of measurements. It shows the total number of and dollar amount of opportunities; proposals sent; and projected closes. Tracking all three of these pipeline levels helps you to discover if you are chasing enough opportunities and the right types of prospects to give you the backlog that the firm needs to be profitable. Tracking the conversion rates (the percentage of work that moves from opportunities, to proposals, to closes) provides good measurements of how successful you are at moving projects through the pipeline toward work booked.

Every proposal sent to a prospect becomes a proposal opportunity. Not all opportunities become reality, of course. By developing a probability for each opportunity and multiplying each opportunity by its individual probability, a rough estimate of expected value can be generated for each project. That expected value must then be distributed across the years that the project may be open on the basis of annual put-in-place estimates. By aggregating all such potential opportunities and adding their expected values to the time-phased uncompleted backlog already in hand, a future revenue budget can be constructed. Probabilities of proposal opportunities are usually more accurate in the late stages of proposal development.

Additionally, the company can track the number of proposals vs. awards, either in numbers of jobs or dollars.

**Relationship Building**

Similar to tracking new contacts, relationship building measures the total number of clients or money spent courting new opportunities. For example, a company may want to track their current sales efforts, the effectiveness of those sales efforts, and
the money spent on those efforts for a specific time period. The company’s aim is to discover what can be done to improve its efforts, cut costs, and ultimately attract new clients.

**Revenue**

Revenue can be both a leading and a lagging indicator. Revenue is being used as a leading indicator if you use the total amount of revenue by customers to track future repeat work. For example, you can determine the likelihood of working with that customer again and plan the activities needed to gain additional work compared to the total profitability of the work for that specific client. However, it should be noted that you cannot track or predict future work based on past experience alone.

**LAGGING INDICATORS:**

**Revenue**

Since lagging indicators are intended to track the end-results of your efforts, booked work represents an outcome measurement that shows if your get-work efforts are actually working. By examining how much revenue a specific type of project is generating, you can use this measurement to ask your estimators and business development staff follow-up questions such as:

- Which projects are we the most successful at winning (i.e. hit rates)?
- How does our revenue breakdown by type of work, size of project, and market segment?
- What is the average size project we are winning and for which customers?
- How many projects have we won in a specific category, and how do we find more?

**Profitability**

The profitability measurement is similar to the revenue measurement in that it is also an outcome or lagging indicator. By measuring the profitability of completed jobs and cross-tabulating those figures by types of work, types of customers, lead estimator, project manager, superintendent etc., companies can find indicators for actions to improve outcomes.

**ROMI**

Return on marketing investment (ROMI) tracks funds spent on marketing campaigns vs. revenue or profit dollars generated by those campaigns. Although similar to the leading indicator Relationship Building, ROMI tracks the end-results of marketing campaigns rather than simply tracking new contacts. Successful tracking of ROMI for marketing and sales efforts begins with deciding what outcome the activities are designed to generate. If you conduct a marketing push to generate a list
of potential new contacts, compare the cost of the marketing efforts to the average future profits of a new contact. ROMI measurements provide a good roadmap to make sure you are not over- or under-investing in marketing and sales efforts.

**Backlog**

Uncompleted backlog is an indicator of future business stability. By comparing contracted uncompleted work to budgeted pro forma quarterly income statements, companies can determine where potential “holes” are that need focused business development attention.

**Revenue from “A” customers**

This measurement tracks the revenue and profit generated from your top customers. This can be calculated either as a dollar amount or as a percentage of profit on revenue. Compare the cost of servicing “A” customers with the profit generated. This is a great way to evaluate return while making sure that your best customers really are your “best” customers.

**DASHBOARDS**

With so many leading and lagging measurements, keeping track of them all could become difficult. Interactive dashboard software provides simple and effective tools for tracking these financial indicators. Interactive dashboards, similar to the ones created by Crystal Xcelsius Professional, provide a one-page snapshot of the company’s overall financial situation at a particular time (see Exhibit 1). Color-coded graphs, gauges, and charts can be used and automatically updated by adding data to spreadsheets in Microsoft Excel.

Once a spreadsheet is created in Excel, the user can import the data into the dashboard software. There, users can choose which data to include in their final report. The example dashboard shows a variety of measurements, such as dollar amount of sales by department and territory, using interactive pie charts, gauges, and bar graphs. Sharing the end-product with coworkers and clients is simple. By exporting the reports to other Microsoft Office programs like PowerPoint and Word, reports can be shared in familiar software. The reports can be shared over the Internet using customized software like Crystal Reports. This subscription-based program allows users to access the data and distribute it quickly and efficiently.

Adding additional measurements to already complicated and complex financial reporting may seem like a daunting task. However, with software like Crystal Xcelsius and Crystal Reports, keeping track of leading and lagging indicators is surprisingly simple. Once you have mastered the dashboard software, analyzing the data and
sharing it will prove to be a valuable tool in maintaining financial stability.

Overall, tracking leading and lagging indicators will help your business stay on track. By utilizing all of the analytical tools available, your business will be better equipped to take on the competition and tackle obstacles in the future. Displaying your leading and lagging indicators in a central location (i.e. on an electric dashboard) can facilitate the entire process. These indicators act as gauges on your dashboard; they can show you when you’re lacking in an area or if a certain division is doing particularly well. These indicators may not keep your compass pointing north, but keeping track of them will tell you when your business is headed south.

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How do you create a company culture that embraces exemplary customer service? What are the best methods to ensure that all employees are providing great customer service? Is the customer always right? Perhaps not, but customers are the reason for work, not an interruption of it. Without them there is no company. Excellent customer service must be a company’s top priority for everyone in the organization, from the CEO on down, as it sends the right message.

A CUSTOMER-FOCUSED CULTURE THROUGHOUT THE ORGANIZATION

Is everyone in your company able to state the company’s customer-service philosophy? Each person in the organization is in sales, whether they realize it or not. It is essential to create a culture of customer service throughout your organization, where everyone has both internal and external customers. Everyone in the company should be aware of the magnitude of treating all customers with respect. One single incidence of inferior customer service can wipe out months of hard work. A recent issue of *Business Week* included their first-ever ranking of 25 companies where the consumer is king. On the cover, the top five companies were USAA, Four Seasons, Cadillac, JetBlue, and Nordstrom. However, they had crossed out No. 4 JetBlue,
with the words “and one extraordinary stumble” written next to it, after passengers had to sit on runways for up to six hours due to ice and snow right before the issue went to press.¹ According to the New York Times, until that incident, JetBlue had “enjoyed overwhelming popularity and customer satisfaction ratings.”² JetBlue will probably never know how many passengers and potential passengers they lost due to that one incident.

**CUSTOMER LIFECYCLE**

At the beginning of the customer relationship lifecycle is the potential prospect, who may not even be aware of the company’s services and products. A company’s efforts to attract attention to itself are extremely important, as are initiatives designed to get to know potential customers and create interest in their services.

In order to attract new clients and keep existing ones, it is critical for companies to develop a strategy to differentiate their services from those of their competitors. An organization can achieve this by successfully branding and marketing its image. Construction services are viewed as a commodity when a company differentiates itself based on factors such as quality, delivery, schedule, and of course, great customer service. A brand is a promise that internal and external customers can expect a specific level of value, quality, and service. When a brand promise is neglected, customers will take their business elsewhere. Not only will they flee to the competition, but they will share their bad experiences with everyone they know. Moreover, they can do so at the speed of light with the Internet, blogs, etc. In today’s marketplace, companies cannot afford to have a negative image if they want to survive, much less be profitable.

Once customers recognize that a specific company may meet their particular needs, they enter the interactive phases that ideally end with a purchase. During the purchase process, potential customers evaluate the offered product or service, its ability to actually meet their needs, and their inclination to pay for it. Next is the consumption stage, where the consumer determines the functional and technical characteristics of the goods or services, as well as the company’s ability to provide assistance as needed. As long as the customer is happy, the odds are the relationship will continue, possibly leading to additional business; otherwise, the customer will end the cycle and contact the competition. It is up to the company providing the goods or services to proactively maintain excellent customer relations.

“There is only one boss. The customer. And he can fire everybody in the company from the chairman on down, simply by spending his money somewhere else.”

—Sam Walton

In order to attract new clients and keep existing ones, it is critical for companies to develop a strategy to differentiate their services from those of their competitors.
When does trouble arise? When expectations are not met. How do companies identify their customers’ expectations? Customers expect that service providers will meet their needs. They also expect that those needs will be met with a certain level of quality. Vendors or service providers can only determine their ability to meet those needs from a complete and thorough knowledge of their own products/services and knowledge of how it fits their customers’ needs. Companies must ensure that they are only selling what they can deliver at standards (quality, speed, cost, other) expected by customers. To accomplish this, a thorough needs analysis must be conducted to determine exactly what are those customer needs. Many times, clients are not knowledgeable enough to know what their needs are. They may ask for “high finish,” but what they really need is “high functionality.” And if only high finish is what is delivered, then the company fails by not providing the functionality really needed by the customer, a mistake that can be very expensive to remedy.

You are the expert and have an obligation to provide creative solutions. For example, your potential customer is a hospital. Although the medical staff knows how to provide healthcare services for their patients (customers), your expertise is required to efficiently build a sophisticated facility to deliver those services safely to the patients. Chances are that the client will only build one or two facilities during their entire career. They cannot be an expert, so you must be their advocate.

**STAGES OF ENTHUSIASM FOR A CONSTRUCTION PROJECT**

In addition to understanding and anticipating a customer’s expectations, it is also important to maintain a high level of enthusiasm throughout the entire lifecycle of the relationship. Consider the various phases of a typical construction project and the corresponding levels of enthusiasm throughout each stage (see Exhibit 1). From the beginning of the bid stage until the time the project is awarded and actually starts, enthusiasm is very high. However, once the work begins, this enthusiasm starts to level out, and eventually takes a downward turn as the project becomes repetitive. The “new” has worn off. Enthusiasm drops again during the completion stage, as attention shifts to new projects on the horizon. What is wrong with this picture? The last 5% of the project is where the finish work is done … the final product that the customer will see everyday.
Cultivating a customer service mindset in your company’s culture

Coincidentally, this is where profits are made — or lost! If the customer holds the final payment while you try to finish the punch list, they are holding the profits you worked for the entire project, and your company makes little to no money. The completion stage should be given just as much enthusiasm as the beginning stages. The company must take advantage of this time to make a final, lasting, great impression, which can result in repeat business. Enthusiasm at closeout leaves a strong, positive imprint on the customer.

WHAT DOES GREAT CUSTOMER SATISFACTION LOOK LIKE?

How do we define great customer service? Often, we associate it with a particular consumer company, such as Nordstrom or Ritz-Carlton, who are consistently ranked at the top of customer satisfaction surveys for providing exceptional service. One look at Nordstrom’s, and it is clear that a culture focusing on customer satisfaction permeates the organization. Upon hire, each new employee receives a copy of the Nordstrom Employee Handbook. It consists of one page that has 75 words.

As long as they are happy, the majority of people will continue doing business with companies who provide good service. While many customers may not come right out and say anything complimentary, they will reward good service through continued business. If the service is spectacular, then people will talk, and word-of-mouth will reinforce their level of satisfaction to friends, colleagues etc. and may result in new business. According to NOP World, a leading global marketing company, 90% of customers identify word-of-mouth as the best, most reliable, and trustworthy source about ideas and information on products and services.

Conversely, when people receive poor service, often they will vote, not with their voices, but with their feet — they will just leave. This can be particularly damaging to companies because they do not know the reason why people discontinue the relationship, and therefore, cannot take corrective action to ensure they do not lose business.

Encourage your customers to complain. While most people do not like to receive complaints of any type, if handled correctly, they can prove to be an excellent source of feedback to help improve products and services. When customers do complain, it is because, for a multitude of different reasons, their expectations were not met when purchasing a product or service.

How will you know when your customers are not satisfied? Ask them! Implement a structured process to

WELCOME TO NORDSTROM

We’re glad to have you with our company. Our No. 1 goal is to provide outstanding customer service. Set both your personal and professional goals high. We have great confidence in your ability to achieve them.

Nordstrom Rules: Rule No.1: Use your good judgment in all situations. There will be no additional rules. Please feel free to ask your department manager, store manager, or division general manager any question at any time.

Because Nordstrom doesn’t have many rules, employees don’t have to worry whether they are breaking any.

“I won’t complain. I just won’t come back.”

—From a Brown and Williamson tobacco ad
proactively solicit feedback from the customer at various stages during the project, say at 30%, 60%, and 90% completion. This will give you a chance to learn about and correct problems before they escalate and become expensive to fix. This will also force you to communicate with the customer and may even present opportunities for additional scope of work.

There are a number of causes behind the majority of consumer complaints. This is particularly challenging in the construction industry since there are so many variables that can negatively impact a company’s ability to deliver a quality project. Customers rely on a company’s expertise to correct problems, even if the company is not at fault. For example, if the project is delayed for rain, the customer still wants to accelerate the schedule to complete the project on time. It is not only a company’s obligation to find creative solutions, but also to alert the customer to the impact of the added costs that might result.

Product Complaints

- Inferior or poor product quality
- Extensive product choices with little or no information for making purchasing decisions
- Complicated product design
- Poor product instructions

Service Complaints

- Inadequate or bad repair work
- Maintenance problems
- Delivery delays
- Failure to fulfill product or service warranties
- Unskilled, incompetent, or discourteous employees

Accounting Complaints

- Billing errors
- Failure to provide timely refunds and adjustments
- Unskilled, incompetent, or discourteous employees

Sales Practices Complaints

- Inaccurate or deceptive advertising
- Advertising products that are out of stock or in limited supply
- Misleading or false representations by sales staff
- Unskilled, incompetent, or discourteous sales staff
Technical Assistance Research Programs, an Arlington, Va.,-based research and consulting firm specializing in customer service management and measurement, offers the following statistics regarding customer satisfaction:

- About 50% of the time, customers who have a problem with a product or service are not likely to tell the company about it.
- Between 50% and 90% of these “silent critics” will probably take their future business to a competitor.
- Dissatisfied customers typically tell between eight to 16 other people when they have had an unsatisfactory experience with a company.
- Negative information has twice the impact of positive information on purchasing decisions.
- It costs between two and 20 times as much to win a new customer as it does to retain an existing one, albeit with a complaint.

**CUSTOMER SERVICE TRAINING**

Everything that customers experience is part of the total impression they have about your organization. Attention to detail and consistently providing quality products and services are keys to success. Providing your employees with excellent customer service skills and competencies through training is a large part of this.

A thorough customer service training curriculum should include specific job skills instruction as well as cultural training. In addition to basic customer service courses such as how to handle complaints, understanding company policies and procedures, active listening etc., other training should be offered as well. This might include presentation skills, conflict resolution, negotiation, problem solving, communication, time management, and other skills that will help us reduce risk and improve our ability to serve the needs of our customers more effectively. Cultural training should teach corporate values, traditions, and behaviors. Most companies underestimate the importance of cultural training, but if employees understand the corporate culture, it can be reinforced throughout the entire training process. For example, if the culture is collaborative, then the classroom instruction will involve collaborative problem-solving rather than “sit and listen” sessions. If fun is a part of the culture, then fun should be a part of the instruction as well as part of the climate in which the instruction is conducted. If employees are happy, this will be evident to the customers and create a positive image or company brand, thereby
improving overall company performance. For example, if we reward people for their creative efforts to identify and correct problems rather than punish them for making the mistake in the first place, we will establish a positive atmosphere that reinforces client-focused behaviors (see Exhibit 2).

Providing a positive work environment for your people is at the core of the long-term success of your business. One of the main reasons for this is that customers are on the receiving end of how employees behave. Your employees’ actions and attitudes are key in determining how satisfied your customers are with your products and services. Senior management must be committed to providing superior levels of customer service as the best sales tool to retain clients.

Consider the following when creating training to instill a customer-service-oriented culture:

- Establish a broad-based initiative that will result in customer satisfaction, permeating your company’s culture rather than just holding a single event.
- Offer continuous customer service training for your staff. Once they are providing good service, continue to reinforce the implementation of the concepts in everyday interaction with customers. Without comprehensive support and reinforcement, the benefits of customer service seminars will be forgotten quickly and lack long-term impact.
- Use role-play situations during training to assist your staff in recognizing and experiencing both easy and difficult service opportunities. If employees have a level of comfort with a difficult situation, they will be better able to handle it.
- Cross-train your entire staff to be able to assist a customer regardless of their department. Customers do not want to be shuffled between employees that are not empowered or enabled to assist them.
- Even if the problem can’t be solved immediately, teach your staff the process so they can at least start by gathering information and assure the customer that something will be done.
- Use orientation sessions for new hires to introduce the values and behaviors of the company customer service philosophy.

**STEPS FOR HANDLING CUSTOMER COMPLAINTS**

Let’s face it: no one is perfect, and problems will arise from time to time. In most cases, it is much better to receive a complaint that you can act upon instead of
having an unhappy customer simply sever relations with your company without telling you why. A customer’s determination as to whether he or she will continue to do repeat business all comes down to how quickly and honestly the complaints are acknowledged and resolved. There are a number of steps a company can take to resolve customer complaints:

**Listen Carefully:** Now’s the time to put active listening skills to use. Listen intently to your customers; do not interrupt them. Then, paraphrase what they say to confirm that they really have been heard and that you truly understand the nature of their problem.

**Thank Them:** Feedback is a gift, whether positive or negative. Thank your customers for bringing any problems to your attention. You cannot resolve a problem if you do not know that it exists.

**Express Regret for the Situation:** A sincere apology goes a long way to move a customer to start working with you on an acceptable solution to the problem. This is not the time for justifying the problem or placing blame elsewhere.

**Investigate:** Research what went wrong, and gather as many facts as quickly as possible. Focus on those facts and not on personalities. Don’t become defensive. Give customers a timeframe on how long it will take to get back to them with an explanation of why the problem occurred.

**Formulate a Solution:** Solutions should adhere to your company’s established customer relation policies as well as your ability to deliver on the solution. Make sure that your response to the customer is respectful and fair. Take into consideration what it will cost if the customer is not satisfied. Put yourself in their place, and offer a choice between several options.

**Reach Agreement:** Here’s where negotiation training can be helpful. If you have not determined exactly what the customers are looking for in terms of resolving the problem, consider asking them. They may surprise you and ask for less than you were originally prepared to give!

**Deliver Resolutions Quickly:** The sooner, the better. Customers will react more positively if they realize you are moving as fast as you can to help them resolve their problems.

**Follow-up:** Ensure customers are satisfied. This is as simple as a phone call, and it reinforces to your customers that you do care about them, and goes a long way to help re-establish goodwill.

**Ask About Your Service:** The best way to find out if you are satisfying customers is simply to ask them. Use a combination of methods, such as formal surveys, suggestion cards, interviews, or informal conversations. This reinforces to customers that you care about your business relationship with them, and you may learn how you can improve your services in the future.

When complaints are not handled to the customer’s satisfaction, the results can be devastating.
CHECKLIST FOR HANDLING COMPLAINTS

- Do all employees clearly understand complaint-handling procedures?
- Do these procedures represent the best interests of the organization as well as its customers?
- Are interactions with customers conducted in a helpful and courteous manner, and can you ensure prompt, complete, and accurate answers to customer questions?
- Are there clear, written procedures for screening, recording, investigating, acknowledging, resolving, responding to, and following-up on complaints?
- Is there a person specifically designated to supervise complaint-handling activity?
- Is there a known procedure for referring unsettled complaints to a third party dispute resolution mechanism?
- Are there management controls to ensure that complaints are processed according to policy and procedures, within a reasonable period?
- Has management analyzed past complaints to identify patterns, trends, and causes?

Companies need to build a comprehensive commitment to customer satisfaction across their entire organization. The ultimate result will be to increase the everyday focus of everyone in the company on building long-term client satisfaction. The challenge is to accomplish this objective without having the initiative appear to be just another fad or flavor of the month. When a customer makes a choice between two or more suppliers of a good or service, that choice is often made based on what is expected in the way of product quality or the expectation of treatment. If these expectations are not met, the customer will go elsewhere.

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1 Business Week, March 5, 2007, cover.
Industry observers often remark that the construction industry is slow to innovate. It's easy to agree with that observation considering that we are living in an era filled with electronic devices that get smaller, faster, and less expensive every year, and robots tirelessly working the assembly line.

However, bridges, office buildings, schools, and hospitals are not hand-held electronics. Rather than getting smaller, most building structures are getting larger and more complex to build. While the comparison of electronic devices and office towers is unfair for judging innovation, most agree that the construction industry needs to become more innovative. With the low profit-margins and high competition that most contractors experience, there is no lack of necessity to drive invention and innovation.

The necessity for innovation was echoed in the responses to FMI’s *Seventh Annual Survey of Owners* conducted with the Construction Management Association of America (CMAA). Large owners from around the nation made it clear that the continued lack of an available, qualified workforce and the rising cost of materials used in construction may fuel a revolution in construction innovation. Owners are calling for innovation from their construction service providers, but there is nothing revolutionary in these owners’ remarks:

- “Look for ways to reduce the overall cost of projects (support and capital costs) while maintaining quality.”
• “Explore existing or new technology to affect productivity and lower installed cost basis.”
• “Reduce cycle time from planning through construction.”

Owners have been calling for cost reductions and shorter cycle times since we have conducted such surveys, and likely, ever since anyone has cared to ask. These remarks are made in light of concerns about labor shortages, material costs, global economic changes, and the need to use green building techniques. That’s a ton of necessity that needs to breed an equivalent amount of innovation. In some cases, the industry is at the point where a lack of innovation and/or rising costs will result in project delays, cancellations, or more work moving offshore.

Most of the issues surrounding innovation fall to the contractor community for solutions. Owners will continue to have some involvement in the process, but their main concerns are focused on producing their own products and services. Construction, for owners, is a means, not an end. For example, a superintendent of schools is focused on providing a safe learning environment for students and the community. While the school building is an important factor in that goal, it is unlikely that a superintendent of schools is also skilled in construction management. Nonetheless, owners with large capital construction budgets make construction decisions that can affect millions of dollars in their annual budget.

Large owners, like those responding to the Seventh Annual Survey of Owners, have capital construction programs ranging from less than five projects per year and an annual budget of a million dollars to over 500 projects per year budgeted at over a billion dollars annually. With capital programs of this magnitude, owners are looking for new ways to manage their capital budgets effectively to assure that their capital outlays achieve their strategic needs. Owners have become more dependent on the use of outside service providers since they have downsized their internal construction management staff in recent years and, when they do seek to add construction management internally,
they face the same issues as the construction industry in being able to find the right people to fill the positions.

In seeking innovative ways to manage construction, owners have turned to program management, a process which considers all the construction needs of the owner as a program or programs rather than many smaller projects. Noting this trend, CMAA sought to focus the Seventh Annual Survey of Owners on the use of program management by owners. Questions about program management use included: How many owners are using this approach? Is program management sourced internally or externally? What are the responsibilities of a program manager? And, how much of the management budget is spent on the management of construction?

By definition, program management potentially encompasses a number of services and responsibilities; thus, it is difficult to give one definition. The consensus description given in the survey questionnaire to assure that respondents were working from the same reference point was:

Program management is the unified management of a capital improvement program consisting of one or more projects from inception to completion. Comprehensive construction management principles are used to integrate the different facets of the construction process—planning, design, procurement, construction, and activation—for the purpose of providing standardized technical and management expertise on each project.

In past surveys of owners, as well as the current one, owners have noted their desire to see more collaboration and improved communication on projects among the various service providers and the owner's representatives. The high degree of integration inherent in the program management approach to managing capital construction programs is conducive to increased collaboration and communication on projects.

From the results of our survey, we conducted an analysis of the data to see what effect outsourcing and concentrating management activity, whether sourced internally or externally, had on the overall cost of managing construction programs. We learned that simply outsourcing the management or performance aspects of an owner's capital program had little relationship to low cost. However, we also discovered that firms using more collaborative project delivery and management systems along with a higher concentration of
We believe that owners pursuing high-value relationships with service providers — through the focused outsourcing of non-core activities or the holistic purchase of program management services — achieve the best results.

management activity supported by a small set of service providers tended to have lower management costs.

Specifically, owners that concentrated their outsourcing with the fewest service providers, or perform the majority of these functions internally (another form of concentration), achieved a 30% lower management cost. Management cost is defined in the survey as “the combination of internal construction management and oversight costs in addition to external, or outsourced, program management, construction management, and oversight costs.” We believe that owners pursuing high-value relationships with service providers — through the focused outsourcing of non-core activities or the holistic purchase of program management services — achieve the best results.

The definition used for collaboration between an owner and a service provider is “an intentional interrelation of individuals involved in functional areas related to the completion of a capital construction program.” The term “concentration” refers to “an intentional focus to condense the management and performance of an owner’s capital program to one or a small number of service providers.” A formulaic description of the effects that collaboration and concentration can have on construction costs is represented by:

\[ C^2 + 2C = LC \]

(Where \( C^2 \) represents the exponential power achieved by bringing together highly skilled staff from multiple firms in a collaborative relationship; \( 2C \) signifies the effects of a faster and shorter learning curve achieved through concentration of services; and \( LC \) is the resultant lower cost of construction.)

Although we did not specifically ask about the nature of collaboration within this survey instrument, we assumed that the concentration of outsourcing with a smaller number of service providers implied greater use of collaboration.

PROGRAM MANAGEMENT CONSIDERATIONS

There are many reputable firms now offering program management services as outsourced support for owners. The outsourcing of program management in this fashion is a relatively new practice in the construction industry. However, based upon the definition above, program management has always existed as a practice used by owners that take a holistic view of their capital program rather than a project-by-project perspective. Rarely today do owner organizations exclusively use internal
design/construction/facilities management resources for their construction programs. Most use a mix of internal and external resources, depending on expertise, schedule, time constraints, and other factors. The coordination of internal and external staff, potentially with divergent interests, is the challenge that owners face today.

One of the most important decisions an owner needs to make when considering the use of program management is whether the management should be internally based or performed by external resources. There is contradictory research establishing whether outsourcing leads to lower cost. In this survey, we requested information on the costs necessary to manage the program of construction and then looked at the degree of outsourcing, as well as the concentration of services with a narrow and wide set of service providers. The preliminary analysis showed no relationship between outsourcing and lower construction management costs. Further exploration identified that firms using collaborative project delivery systems along with a concentration of management activity with a small set of service providers achieved lower construction management cost. Exhibit 1 details this preliminary analysis and the resulting potential for a 30% management cost improvement.

The owners that are most likely to benefit from program management practices are those that are sometimes called “serial builders.” They build one project after another, and often have many projects in the works simultaneously. Benefits sought by the use of program management practices include economies of scale, standardized designs and processes, information sharing by reducing knowledge “silos,” and increased control over program costs. On one hand, program management is, as defined above, the use of comprehensive construction management principles applied to integrate construction processes across a collection of projects. On the other hand, the concept allows for leveraging size in order to affect such aspects as long-range strategies, leveraging materials purchasing power, and addressing a host of concerns such as labor and use of new technologies.

Since program management is a practice that holds much promise, we thought it was important to establish a baseline as to its current use and sourcing of various phases of construction.

**DEMOGRAPHICS**

The capital spending programs represented in the response to our survey cover an estimated 26,000 projects per year with an average project size of
$2.5 million. The 171 participants represented 13% of the approximately $500 billion spent annually on non-residential construction in the United States. They represent nearly every owner type and perform nearly every type of construction. FMI did not conduct a specific test of statistical significance, yet the combination of the number of responses and representation of more than 13% of all non-residential construction spending leads us to believe that the conclusions drawn are representative of the entire industry.

SURVEY RESPONSE HIGHLIGHTS

- Eighty-five percent of all respondents currently use some form of program management for their capital improvement program (based upon the program management definition given above).
- State and federal agencies rate their capabilities and resources to manage a major construction program in-house the highest among all owner types.
- Municipal authorities, which includes K-12 school districts, rate their capability and resources to manage a major construction program in-house the lowest among all owner types.
- Only 56% of respondents rank their organizations’ capabilities and resources for managing construction programs in-house as good or better (rating of seven or higher on a 10-point scale).
- Fifty-three percent of all respondents managed more than 80% of their construction program in-house.
- Design and construction performance were outsourced 78% and 76% of the time, respectively, across all survey respondents.
- Pre-design, design oversight, and program activation were the least-frequently outsourced services at 30%, 30%, and 27%, respectively, across all survey respondents.
- Very small (less than $1 million) capital programs and moderately large (between $500 million and $1 billion) programs tend to outsource the greatest amount of services.
- Organizations with programs less than $500 million or greater than $1 billion tend to perform more functions internally rather than outsource.
- Owners answering the survey rated material costs as the highest concern impacting future construction plans (rating of 8.5 on a 10 point scale) followed by concerns about the aging construction workforce.

PROGRAM MANAGEMENT USE

When respondents rated their organization’s capabilities and resources to manage a major construction program in-house, only 56% of the organizations responding rated their capabilities as 7 or higher on a scale of 1 to 10 (1 = low capabilities and resources and 10 = high). Comparing the capability ratings with the responses to the question of how much of the owners’ programs were actually
managed in-house, we found that, generally, those with low capabilities utilized outside resources more often for managing the construction program. However, many are still managing their programs in-house despite having fewer resources and capabilities to do so; for instance, 18% of those noting that their capabilities were the lowest on our scale, performed 80% or more of their program management in-house. Those with the highest capabilities to manage their programs in-house did manage more than 80% of their programs in that manner. (See Exhibits 2 and 3.) This comparison represents some zones of opportunity for organizations to take further
advantage of outside resources to manage their construction programs. The results may also represent the difficulties mentioned by many respondents concerning hiring and retaining personnel with the qualifications to manage complex construction programs.

Of the 171 responses to this year’s survey, 61% said that they were using program management according to the given definition to manage their capital improvement programs. (See Exhibit 4.) Twenty-four percent of respondents indicated that they were using program management, but their approach was different from the given
definition, while two percent of respondents said that they were planning to adopt a program management approach similar to the definition given. Of the 10% that said they did not use program management, the majority were schools, universities, municipalities, and quasi-public institutions. (See Exhibit 5.)

When we compared the use of program management with the capability/resource ratings, we found that there are a number of organizations with low capabilities in-house not using program management to manage their construction projects. (See Exhibit 5.) This misalignment between internal resources and management approach suggests that opportunities exist for service providers to better support these owners.

To help determine the owner’s expectations of program management, we asked which functions of the overall construction process should be managed by a program manager. The least likely functions that owners expected program managers to perform were design (61%), financing (36%), real estate/land acquisition (26%), and maintenance (18%). (See Exhibit 6.) This result reflects the owner’s capabilities and habits. Those areas that owners manage directly are more likely to be aligned with the owner’s strategy. As owners face larger, more complex projects, they are asking construction managers to provide additional services on groups of projects, thus expanding the construction manager’s responsibilities to reflect the level of program management. Fully integrated program managers involved in each of the functions yield the highest value results. On the other side, owners that concentrate

**Fully integrated program managers involved in each of the functions yield the highest value results.**
their efforts through internal staff also yield a positive result. It is those owners that stand in the middle with no consistent or discernible strategy to approach program delivery that struggle to find the most effective use of their project management resources.

**PROGRAM MANAGEMENT OUTSOURCING PRACTICES**

To get a closer look at the detail of owner program management outsourcing practices, we asked respondents to tell us how much of their program was outsourced by the various phases of construction and how they tended to choose service providers for each construction phase. Definitions were given for each phase to assure that everyone was rating the same services. Each question set included the following phases of construction listed. The percent of outsourcing for each phase is included as noted by respondents:

- Pre-Design (average of 30% outsourced)
- Design Oversight (average of 30% outsourced)
- Design Services (average of 78% outsourced)
- Construction Oversight (average of 39% outsourced)
- Construction Performance (average of 76% outsourced)
- Program Activation (average of 33% outsourced)
- Operations and Maintenance (average of 27% outsourced)
Construction performance and design services were the most heavily outsourced phases of construction. The amount of outsourcing by phase of construction reflects the owner's internal resources and capabilities. We also expect outsourcing practices to reflect the owner's decisions about which capabilities should be maintained in-house and which should be outsourced as needed.

We compared the degree to which an owner outsources each phase of construction with both the organization type and average annual construction spending of owners. (See Exhibits 7 and 8.) When compared by organization type, the relative differences were few. Federal owners were much more likely to outsource operations and maintenance activities, especially when compared with other government entities like municipal authorities and state programs. Quasi-public organizations were among the least likely to outsource pre-design, design, and construction activation, but were the most likely to outsource design and construction performance services.

Looking at the same set of outsourcing responses for phases of construction by the average annual amount owners spend on construction programs shows that organizations with the largest programs are the most likely to have sufficient inside resources and program budgets to manage their programs internally. However, when we compared the
amount of outsourcing for each phase with organization type, we found few significant differences in the amount of construction services outsourced by phase of construction.

**OUTSOURCING SELECTION METHODS**

With the exception of choosing construction performance service providers, the majority of respondents said that they consistently select from a small group (four or fewer) of service providers for each project for all phases of construction. (See Exhibit 9.) Those owners that always select a different service provider for each phase of construction in most cases are restrained by the need to use a design-bid-build project delivery method.

We did not ask for sufficient detail in this survey to ascertain the degree of collaboration or integration between owner and program/construction management service providers, yet we routinely observe in our consulting that firms consistently selecting from a short list of qualified service providers exhibit more collaborative and integrated behavior with those service providers. Exhibit 1 demonstrates the potential gains available to owners that approach this effort in a collaborative and concentrated way.

**PROGRAM MANAGEMENT COSTS**

To obtain cost information for the management of construction and construction programs, we asked respondents to estimate the percentage of their budgets spent on managing the construction process. While not scientific, the responses to this question were interesting and quite variable, and we have dropped the few responses of 0% and those above 40% from our analysis. The percentages should reflect both internal and external costs of construction oversight. (See
The average fee for total management costs was 12% across all firms with a median of 8%, indicating the data is not normally distributed. From this data set, the best performing firms are approaching the 4% range, with the higher cost organizations paying greater than 15%.

We also asked respondents to estimate fees for hiring external program management resources. Again, there was a wide range of responses. (See Exhibit 11.) In part, this reflects the fact that the responses were only estimates as well as the wide variation in the use of outside program managers to manage various aspects of a program. As shown in Exhibit 9, there is a good deal of variation in the owner’s use of internal and external resources for the management of various phases of construction. So this response can only serve as a rough guideline for the cost of program management services.
PROGRAM MANAGEMENT SERVICES

As discussed above, the majority of owners use some form of program management to accomplish their construction goals. When we asked respondents to break down their usage of different service providers to manage their construction programs, we found that only 20% said that they used a program management firm or agency for these services. Thirty-four percent of respondents said that they use internal resources. Design firms were used 10% of the time to manage construction programs, while construction management firms were the most utilized external resource for managing construction programs. (See Exhibit 12.)

When using outside service providers for program management, most owners use an owner-led model with the program management firm providing staff support. The integrated owner and program manager approach selected by 39% of respondents answering this question reflects what we think of as a true program management model. (See Exhibit 13)

While trust is certainly a key factor in selecting any service provider, we asked respondents to rate a series of more tangible factors used when selecting a program manager. The responses to the different factors were rated much the same. The fact that experience, on-time delivery, and capabilities of the lead program manager are the highest rated factors reflects the high degree of trust and integration that an owner expects from a program manager. (See Exhibit 14.)

If the owner can find a program manager that satisfies the top needs on the list of factors, it is more likely that other factors will be in line. From a service provider's point of view, the responses to this list suggest that more time in the proposal stage should be spent on preparing qualifications documents than on price considerations. It is clear that, when selecting a program manager or a construction manager, as we have found in past surveys, the owner is willing to pay for experience and knowledge, and that the decision is value-based.

When we asked respondents to our survey to list the most important changes to the construction process that owners would like to see in the next five years, most
of the responses reflected concerns about the issues listed in Exhibit 15. One of the goals of program management is to integrate the construction process and develop standards and efficiencies over the course of a program involving many individual projects. This often involves breaking down “silos” to increase collaboration and communications to make better use of available resources. Whether located internally or externally to the owner’s organization, the program manager must be integral to the owner’s strategic plan. The results of our survey demonstrate the potential for owners to decrease the cost of construction by increasing the use of collaboration and concentration in their approach to program management. Interestingly, the five critical areas seen as posing challenges for the construction industry in the next five years — material costs, aging workforce, globalization, BIM, and LEED/Green Building — are all big-picture strategic issues. These types of issues resist tactical solutions, and the use of both collaboration and concentration is an appropriate approach to jointly developing strategic solutions for these concerns. Owners, contractors, engineers, architects, construction managers, program managers, and building material/equipment suppliers working collectively are much more likely to affect these issues than a single organization working alone.

We think the results of this survey should serve as a starting point for a closer examination of program management practices since the use of program management is increasing even while the concept of program management is being defined. One concern often discussed in association with program management decisions,
outsourcing, does not lead to lower construction management costs unless the decision to outsource is made in conjunction with other considerations. Instead, we found that owners that used a collaborative approach to manage their programs and concentrated their use of service providers had, on average, lower management costs for their construction programs.

Whether the management of an owner’s program is internally or externally based, it is clear that the choice of manager is value-based. Experience and professional qualifications are the most important aspects considered when selecting a program manager, and the majority of owners are outsourcing those services to construction management firms (30%) and program management firms (20%). Considering the importance of this decision, it would help owners to know that their construction managers and program managers were certified in their capabilities. Past studies have shown that leadership is the most important component of any team's success. When selecting someone to manage your program, it is important to realize that you are selecting a leader. Further definition of the practice of program management will help owners decide how to source these services in order to achieve the best results for their capital program.

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Martin Allgood, president of Allgood Commercial Contractors (ACC), was concerned that business was showing signs of slowing down after five years of record-breaking growth. Revenues were up 20% over the previous year, and the backlog was strong enough to carry them into the next fiscal year, but profits were slipping. He discussed the numbers with his vice president of business development, Karen Sharpe, who had just run through the list of current bids and proposals.

“Our hit-rate is up 15% in the Atlanta branch, and we have RFPs from three customers to build facilities in Florida and Texas. Even though we are slow in the Carolinas, it looks like the new branch offices are paying off. I’m proposing we do the same in Florida and Texas, if we get some of these jobs.” What troubled Allgood was that they had recently lost a couple of big projects from some old customers in his home state of North Carolina.

Despite Sharpe’s optimistic outlook and recent track record of finding new business in non-traditional markets, Allgood felt that the company might be losing out in its core market, North and South Carolina. That market still represented 70% of Allgood’s business. He talked with Sharpe about losing customers in the Carolinas.
and their lower profits. She said the subject had come up in her department meeting and that everyone agreed it was due to a market slowdown. The competition in the Carolinas must be cutting prices in order to get the business. Sharpe said they were budgeting more dollars for advertising next year, and new business in Atlanta would make up for the loss. Allgood wasn’t ready to give up on the Carolinas, however; so Allgood and Sharpe agreed to survey customers in their markets and get more information on potential business in Florida and Texas. Allgood was close to achieving his goal of growing the business to more than $100 million-a-year in revenues, but he meant that growth to be profitable. In addition to his goal for growth, he planned to leave a legacy to his son who had recently joined the business.

This is a fictitious case, but its characteristics are not unusual in the construction industry. Allgood Commercial Contractors is an amalgam of several actual cases of general contractors in various regions around the United States. Common symptoms of growth in this scenario are experienced by many contractors at one time or another. Like many contractors in a booming construction market, ACC seems to suffer from its own success. The business is growing and expanding into new territories, but the president and majority owner has an uneasy feeling about growth that seems almost beyond control. Yet, the company has seized on opportunities to grow with its customers, and revenues have increased over 50% in three years. However, rapid growth caused Allgood’s profit margin to fall from around 7% to little more than 3%. According to Sharpe, this is the cost of growth in new markets.

Allgood and Sharpe have different opinions about growing the business, but that is often healthy for a business. Considering other points of view like the opinions from top managers in operations and accounting complicates the case. While it is true that the president in a closely held company could solve differences of opinion by decree (especially if backed with majority share ownership), in this case Allgood decided that management needed better information before putting a strategy together, especially one that would change the future of his company.
TESTING MARKET PERCEPTION

Martin Allgood has a lot of confidence in his team. In only a few years, the company has grown from building regional bank branches, health clinics, and office buildings to a general contractor and construction management firm building a full range of projects. Allgood wants to know why the company lost its project bid for one of their oldest and best customers and why they were not even considered for another project that went to one of ACC’s competitors. His first tendency is to blame the salesperson, but, in this case, the salesperson was Allgood himself. He isn’t as active in the day-to-day selling for his company since Sharpe came on board and since his son took over sales in the Florida region, but he has tried to stay in touch with his long-term customers. While Allgood could call this customer himself and ask why he awarded the project to someone else, he decided that a third-party interviewer could get an impartial view and provide a look at the broader market. This would help in upcoming strategic planning sessions as well.

A market research project was developed collaboratively with a third-party research firm to take a closer look at the two markets currently served by ACC and the two new markets under consideration because of recent RFQs. Frequently, a construction firm will expand its geographic reach to follow the market moves of a good client, but ACC wanted to know if there was sufficient potential in the new markets to justify the expense of launching branch offices there, as well. Did ACC have other customers that might be expanding in those markets?

Secondary research (existing and available data) would provide an overall view of the sales potential in ACC’s geographic markets by customer and building types. Many companies like ACC will have some secondary research on file; however, that information is often out of date or is a compilation from several different sources. In this case, ACC had some analyses of their Carolina markets that were several years old. The available analyses did not cover new markets or the building types currently being proposed. Market sector activity can change rapidly as technologies change, new companies start up, and others change hands so it is important to have a fresh look at construction put-in-place by segment and region on an annual basis and even more frequently in some markets.

Primary research is the focus of a market perception study. In this case, primary research included telephone interviews and a mailed survey (see Exhibit 1) form to

Frequently, a construction firm will expand its geographic reach to follow the market moves of a good client, but ACC wanted to know if there was sufficient potential in the new markets to justify the expense of launching branch offices there, as well.
collect impressions from ACC’s customers. Two key factors in primary research design are questionnaire development and contact list development. Contacts for the two Carolina customers where ACC had missed recent projects, Banking Now Ltd. and Emerging Health Clinics Inc., were included in a contact list of more than 300 names from Allgood’s customer database. The goal was to interview at least 30 of these customers, selected randomly. The full list would receive a separate survey form with multiple-choice questions that would be returned to the market-research firm for compilation and analysis.

Companies like Allgood often want to assure that certain companies are included in the market perception study interviews. For instance, they may want to determine why recent projects have been lost. However, sometimes clients will only want to provide a list of their best customers to call. While a market perception study is not a fully randomized, statistically rigorous sample, an element of randomness in the calls and a larger calling list taken from all customers assures that an appropriate number of calls are completed and that the mix of customers are representative of all project types and customers. Occasionally, and especially when a company is considering a number of strategic changes, focus groups will be conducted before the interview.

Exhibit 1
Impressions Collected from ACC Customers

How would you rate the company compared to other general contractors that you have used?

<table>
<thead>
<tr>
<th>Scale: 1 = Greatly inferior, 10 = Greatly superior</th>
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<tbody>
<tr>
<td>1-6</td>
</tr>
<tr>
<td>7-8</td>
</tr>
<tr>
<td>9-30</td>
</tr>
</tbody>
</table>

Note: From the results of the mailed survey, it was apparent that ACC’s overall reputation was sound but not superior when compared with the results of market perception surveys performed for other general contractors. This correlated with the slippage that ACC was seeing in its core markets.
Focus groups and face-to-face interviews can often uncover attitudes and issues that brief telephone interviews cannot.

**INTERVIEW RESULTS**

The interview guide was developed with the participation of ACC’s management team. Such a guide is primarily constructed from standard questions that have been tested in the market to provide measurable results in several critical areas that determine a contractor’s strengths and weaknesses with its customers. Often, there is a tendency to want to ask too many questions in the telephone interviews, but experience shows that the questionnaire should be able to be completed in no more than 15 minutes. Questions should also be open-ended to allow interviewees to offer their opinions on topics beyond the questions asked. To get more detail and be able to compare responses across a number of respondents, there is usually also a mailed and/or electronic survey with multiple-choice and fill-in-the-blank questions. Together, interviews and mailed survey results form a well-rounded picture of the customers’ market perception.

Subject areas surveyed in interviews:
- Relationships
- Selection Criteria
- Competition
- Strengths and Opportunities for Improvement

Subject areas covered in formal questionnaires sent by mail and/or electronically:
- Pre-Construction Process
- Construction Process
- Post-Construction Process
- Recommendation Score

The survey is called a market perception survey because the responses are perceptions from customers, not facts like the project cost X, was over- or under-budget by Y, and took Z days to complete. Perceptions are feelings and impressions, often about projects completed years before the interview. To be sure, memories can be faulty, but it is notable how well people actually remember, especially the extremes of good and bad impressions. The mailed survey form also tracks impressions and perceptions, but it has a greater numerical element and greater numbers of responses. In addition, quantitative responses from all returned forms can be compared graphically. For instance, a tracked statement about pre-construction might be: “Allgood suggested effective alternative solutions for major building systems components and materials...
during the value engineering process.” The answer sought is a percentage indicating to what extent the statement is true. All answers to questions for a particular category are combined to give a picture of how the company scores in the category.

One of the interesting things about interviews is that there are usually unexpected responses. These are the things that often aren’t learned when a salesperson talks to the customer. The following responses to the interviews for ACC demonstrate a range of concerns:

“Allgood has given key positions to good people and allowed them to move up in those positions. I think that’s a positive move. We have grown up with one guy that they just promoted to vice president in charge of operations. The morale is usually good because you can start as a laborer and end up as a V.P. if you work hard, do your job right, and apply yourself — even all the way down to their laborers.”

“Time and time again, on the different selection committees that I have worked with, regardless of department, the members most want to know who they are going to be working with. Who is going to be the point of contact for the actual work on the project? Once the meetings are over, the contractor is chosen, and the work begins.”

“I don’t know how you replace a giant. A lot of companies deal with this. Don’t mistake my comments as anything negative about Martin Allgood Jr. I just don’t know what you do when that happens. ACC is dealing with that right now. So how do you build around them to maintain momentum? That’s the issue you’re dealing with. Martin Allgood Sr. is that strong and that highly thought of, and to an extent, that was a great thing for the company. However, right now, it’s a negative because the company’s reputation is wrapped up into his reputation. When he retires, will the company keep going?”

“I don’t have any complaints, but if I had to think of an area for improvement, I think it’s the consistency issue. That’s the main thing that could improve, and this applies to pretty much every contractor.”

“From any owner’s standpoint, trying to work with the same people and having the same teams on different jobs are nice features. This avoids the learning curve and re-acquaintance time that is inherent when the same contractor, which you usually work with, sends a new/different crew for each project.”

“Keep the same project manager all the way through the project. I don’t like dealing with new PMs.”

“I think the potential for friction and tension across the groups — the project manager and estimating and the project manager and the field superintendent — could become a real problem for them. I may be off base, but it’s my observation.”

Interviews may generate hundreds of comments to sift through, but the results will form a picture of what the idealized customer thinks about a contractor.
Allgood’s bank customer expressed concerns about continuity. They felt that they were losing contact with ACC and needed to develop new relationships with other contractors for the long run. At the same time, other companies noted how ACC was growing and promoting from within and thought that was a positive policy. They liked working with companies whose personnel had a great work attitude. That impression of ACC was not universal, however. At least one customer experienced friction within the ranks. When a company’s internal problems affect their external relationships, customers lose confidence in the company’s ability to get the job done.

One theme that came up several times in the interviews was that, although ACC appeared to have some stellar superintendents and project managers, the crew that started the job was often not the crew that finished it. Customers placed a high value on knowing that a certain project manager or superintendent was on their job. In this case, familiarity breeds confidence as it makes communications easier, and there is no wasted time teaching new project managers the ins and outs of the project. The responses were mixed: not all projects experienced changing crews or at least changes didn’t cause them any trouble on the project. Others made it a point to mention this problem.

Often the results of a market perception survey will be confirming to what the contractor already knew, but there are usually a few surprises and “ah-ha” moments. While Martin Allgood Sr. had been thinking about his potential retirement or at least easing his way out of the president’s chair, he didn’t have a formal plan, especially as concerned his market and customers. When he read some of the interview comments, he knew that recent projects may have been lost because he had not transitioned the sales responsibility very well, for instance with the bank customer. To him, it was simple: ACC would outlive him now that his son was showing an interest in taking over the company some day. However, he had not made this clear to any of his customers, yet. Though not an expected outcome of the market perception study, one of the first resolutions for Martin Allgood was to start a formal ownership transition plan because of comments that surfaced through the research.

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Often the results of a market perception survey will be confirming to what the contractor already knew, but there are usually a few surprises and “ah-ha” moments.
THE VANISHING SUPERINTENDENTS AND PROJECT MANAGERS

Smooth transitions in the executive suite weren’t the primary concerns of ACC’s customers. There were numerous mentions of changing crews before the end of the project. (See Exhibit 2.) When compared with the results of the written survey and set against the completed jobs analysis, it became clear that, when ACC’s best project managers and superintendents were on the job for the full project, the jobs were more profitable and the comments were usually good to glowing. This was the type of response that Martin Allgood expected to hear from his long years of business. He worked hard to build that kind of business. The analysis showed that crew transition concerns were most notable in his core markets. The company’s best crews were being sent to work in the new markets. There weren’t enough experienced crews to go around so the decision was made to put the best crew on the project to get it off the ground when the project was in its critical phases. Upon closer analysis, this was found to be the source of concerns for poor internal communications as crews moved from project to project and personnel took on new responsibilities.

RECOMMENDATIONS

ACC’s problems were driven by rapid expansion into new markets. To make matters worse, the company appeared to have taken its traditional markets for granted. For instance, the company received higher marks for the...
question, “Would you recommend ACC to a friend or colleague?” in their newer markets than they did in their traditional markets. (See Exhibit 3.) This was a surprise until Allgood and others at ACC realized they were giving much more attention to the newer markets. Sharpe and her business development team saw it as their goal to develop new markets. That goal should not, however, mean that the company overlooks its traditional markets.

The company had priced projects in new regions lower than their current margin levels in order to get the business, but it was costing more to move crews around and learn how to produce new types of projects. The major recommendations considered in ACC’s planning sessions as a result of the market perception study were:

- Start an ownership transition and management succession plan.
- Hire more top project managers and superintendents to manage the growth in volume, and start a formal training program to grow all crews to the standard of ACC’s best crews.
- Consider starting a closeout crew, and make it clear to the customer that the transition will be smooth with no breakdown in communications between crews. The closeout crew should be especially trained in closeout and commissioning.
- Grow ACC’s capacity to best-in-class performance so the company has a reputation that it can build upon to move into new markets seamlessly and profitably.
- Refocus on traditional markets in the Carolinas to win back the business and assure high customer service.
- Formalize hiring plans for long-range growth.

Exhibit 3
ACC Customer Referrals
How likely it is that you would recommend the company to a friend or colleague?
Average of all contractors vs. ACC results

Rating: 1 = Not at all likely, 10 = Very likely

Note: The results were mixed when ACC’s customers were asked if they would recommend the company to a friend or colleague. This signals that ACC’s long-standing reputation was slipping, perhaps resulting from ACC’s attempts to grow in new markets.
The results of market research do not always end in clear conclusions, but the information gained lends itself to better analysis than just the gut feeling of a contractor’s management team. When making big changes or strategic moves, fresh market information is a minimum requirement for decision-making. It also helps to encourage the management team’s creativity and avoids just doing the same old thing until something breaks. When the opportunity for growth comes along, whether planned or not, it is natural to seize upon the moment and capture as much volume as possible because every contractor knows that lean times are coming. ACC had planned to continue to grow the business. Allgood was working to fill key management positions with the best people, but he had underestimated market growth. Not wanting to alienate customers that wanted to work with ACC in other states and wanting to accommodate the growth plan, ACC’s operations manager started moving crews around the best way he could to get the work done. All this growth and change was spilling over to customer relations as signs of disharmony from within the company. While ACC managers realized that there was some friction in the ranks, they did not realize the potential damage to their reputation as perceived by their customers. This realization helped ACC set some clear strategic goals for the company that included taking the time to get feedback on internal problems and to search for solutions before problems turn into customer relation issues. Solutions included training to help everyone understand their role in customer communications and service. Martin Allgood worked for many years to build a company with a great reputation, and he understood how hard it would be to win that reputation back again once lost.

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