

Quarterly 2011 ISSUE 1

GROW YOUR BUSINESS

THIS QUARTER

Growth 4
BY JERRY JACKSON

BUSINESS DEVELOPMENT

Getting Published: Why It Is Worth Your Time and Effort! 6
BY SALLYANN HULICK

BUSINESS DEVELOPMENT

Social Media: Coming of Age of an Ageless Idea 9
BY RYAN HOWSAM

STRATEGY

Beyond Strategic Planning 14
BY STEVEN J. ISAACS AND KAREN L. NEWCOMBE

LEADERSHIP

Changing the Tiger's Stripes 19
BY PETER NIELSEN

BUSINESS DEVELOPMENT

Opportunities in Energy Services and Technologies on the Customer Side of the Meter 24
BY TIM HUCKABY

QUARTERLY INTERVIEW

The Changing Face of Business Development: Dana Birkes, Flintco 32
BY CYNTHIA PAUL



Mixed Sources

Product group from well-managed
forests, controlled sources and
recycled wood or fiber
www.fsc.org Cert no. SH-COC-002351
© 1996 Forest Stewardship Council

Publisher and Senior Editor

Jerry Jackson

Editor and Project Manager

Kelley Chisholm

Group Manager

Sally Hulick

Graphic Designer

Mary Humphrey

Information Graphics

Debbly Dunn

Board of Directors

Hank Harris
*President and
Chief Executive Officer*

Robert (Chip) Andrews
Senior Chairman

Will Hill
Scott Kimpland
Stuart Phoenix
Hugh Rice
Lee Smither
Charles Thomsen
Charles Thornton
Scott Winstead

Departmental Editors

Construction Materials
Will Hill

Contractors
Rick Reese

Engineers and Architects
Lou Marines

Heavy Highway/Utilities
Jay Bowman

International
Steve Darnell

Private Equity
George Reddin

Manufacturers and Distributors
John Hughes

Surety
Lanny Harer

Business Development
Cynthia Paul

Leadership
Peter Nielsen

Mergers and Acquisitions
Stuart Phoenix

Project Delivery
Gregg Schoppman

Trade Contractors
Randy Stutzman
Ken Roper

Strategy
Briston Blair

Talent Development
Ken Wilson

Compensation
Grant Thayer

Perspectives
Lou Marines

CONTACT US AT:

www.fminet.com

quarterly_info@fminet.com

FEATURES

What makes Best-in-class Contractors Better? 42

Setting a goal of operational excellence is more than a mantra. It requires hard work.

BY JIM SCHUG

An Overlooked Asset for Business Development 50

Being enrolled in Subguard is a sign to the owner that the general contractor has been vetted and is in a fairly elite group of contractors who have been invited into the program.

BY WALLACE MARSHALL

Branding Successes, Bobbles and Missteps 62

You need to be able to deliver 100% of the time on your brand promise.

BY CYNTHIA PAUL

Building New Business: Are You Losing Jobs in the Interview? 72

Know your prospect's needs well enough to adapt your message to serve the prospect's needs clearly.

BY KEN WILSON

Winning Work: Quit Chasing Your Tail and Close More Projects 80

Creating structure to your sales process helps streamline the time and effort needed to meet new customers and convert them to raving fans.

BY SCOTT HUMRICKHOUSE

Rethink Your Market Strategy and Grow! 92

Business development is the most difficult function for engineering and construction companies to appreciate and develop. It requires people with initiative and persistence, proactive planning and execution, and patience for results.

BY LEE SMITHER

Developing Winning Proposals 102

Good proposals are concise, provide clarity and, most importantly, do not take up unnecessary reader time. Provide the evaluator with a good road map, and make the navigation as easy as possible.

BY STEPHEN BOUGHTON

A Call to Action 112

Solving the world's great problems is too abstract and big an idea for us to act upon. But helping our own communities by leveraging our design and construction talents can go beyond offering green design to direct beneficial actions we can take immediately.

BY LOUIS L. MARINES

This Quarter: Growth

Dear Reader:

For anyone in business, the need for genuine and continual business development should be obvious. Revenue from new business fuels the economic engine of the organization and of the economy. Without private enterprise amped up by business development, most local and state economies have witnessed tax revenue shortfalls due to slowing business. Creating and sustaining thriving business is of considerable benefit to both the public and private sectors. Our theme for this issue is business development aimed at energizing growth in our readers' firms. We hope that you will find both thought-provoking and action-provoking information in every issue of the *FMI Quarterly*. In particular, we hope that our on-theme articles in this issue help you significantly to top your 2010 output in 2011.

For instance, in this issue's array of features, you will find Scott Humrickhouse's piece, *Winning Work: Quit Chasing Your Tail and Close More Projects* to be a solid overview of the business development process as described by a veteran of more than 30 years in helping people get work. Ever-productive author and managing director of FMI's Business Development practice, Cynthia Paul, gives sound advice on ways to improve your use of branding in growing your business in *Branding Successes, Bobbles and Missteps*. Lee Smither offers direction on pumping up growth in your business through a shift in strategy in his feature, *Rethink Your Market Strategy and Grow!* Both Steven Boughton and Ken Wilson look at actions dealing with landing individual projects in their articles, *Developing Winning Proposals and Building New Business: Are You Losing Jobs in the Interview?* Our sponsoring partner Zurich discusses the value of positioning durable products and services for current needs as a means of business development in Wallace Marshall's interview of Jonathan Halloran and Nils Sorenson, *An Overlooked Asset for Business Development*. Cynthia Paul mines for gold in her interview with Dana Birkes of Flintco, *The Changing Face of Business Development*.

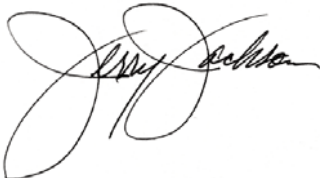
Our final on-theme feature for this issue is by Jim Schug, who exhorts the importance of performance in long-term business development in his feature, *What makes Best in Class Contractors Better?*

Lou Marines, Hon. AIA, founder of Advanced Management Institute for Architecture and Engineering and now a part of FMI's A&E Division, continues his *Perspective* series with *A Call to Action: Improve the World by Leveraging Your Talents Within Your Community*. Lou encourages us to broaden our vision and assume local leadership roles, not just in our companies.

In every issue of *FMI Quarterly*, we aim to provide both longer (feature) and shorter (departmental) articles. Don't be misled by volume, though. Some of our short pieces have equivalent value to much longer pieces. This issue contains both on-theme departmental articles as well as broader interest subject matter. Sallyann Hulick, executive director of marketing, explains how increased press results in increased business opportunities in *Getting Published: Why it is Worth Your Time and Effort*. Steve Isaacs offers *Beyond Strategic Planning*, a look at planning strategically for a world where firms are flexible and react appropriately to a variety of significant, continuously evolving drivers. In *Changing the Tiger's Stripes*, Peter Nielsen examines how firms and their leaders adapt to new realities in today's world. Tim Huckaby talks about our energy future in *Opportunities in Customer Side of the Meter: Energy Services and Technologies*. And finally, newcomer Ryan Howsam addresses social media in his article *Social Media: Coming of Age of an Ageless Ideas*.

Growth is important. Getting business is essential to that end and good business development practices make it easier. At the end of the day, however, the business that lasts is profitable business. Growth without profit is a losing proposition.

Sincerely,

A handwritten signature in black ink, appearing to read "Jerry Jackson", written in a cursive style.

Jerry Jackson

FMI Quarterly Publisher and Senior Editor

Departments

BUSINESS DEVELOPMENT

Getting Published: Why It Is Worth Your Time and Effort!

Think of your marketing program as a toolbox. When you reach for a toolbox, chances are that you have a purpose in mind that will require a specific tool. You may need a variety of tools, ranging from the basic hammer and screwdriver to power tools that will make your job easier. That is the way it is with a marketing program. A company needs to look at a range of different marketing strategies when it is seeking to raise awareness of its services or products. Most companies use more than one strategy to reach their target audiences. They may use direct mail, advertising, special events and websites, but one area that often is overlooked is media relations. Broadly defined, media relations is the building and sustaining of relationships with members of the media, such as journalists and editors, to communicate about an organization's activities.

That media relations is often overlooked is not surprising since building relationships with members of the media is not an easy task; however, it is an activity that can result in enormous benefits. This article will focus on one area of media relations — media placement of a company's content. In good times or bad, getting your company's articles published can be an effective avenue to increase market awareness of your company. In difficult economic times, media opportunities become a viable way to gain visibility, while reducing the cost of advertising. Positive press can build or enhance a company's reputation, which, in turn, attracts top talent, brings in new projects and opens the door to enter new markets. In addition, clients and potential clients who see and read these articles will begin to think of the author and his or her company as the subject matter expert on the topic of the article. It is one thing to self-publish your company's achievements and expertise in your organization's marketing collateral; however, when a third-party publication publishes your company's article on a certain subject, it carries more weight. There is implied third-party endorsement. Such placement is an excellent way to support your company's brand and image in the marketplace.

How can a company get its articles published? Quite frankly, often the hardest part is establishing a program. There are a number of steps you can take to facilitate the process.

Identify appropriate publications. Many print and online publications exist that publish articles relating to engineering and construction. However, you will find your media relations program to be more effective if you target a few key publications. When searching for the right targets, keep in mind that your placements need to appear where your prospective customers are likely to see them. These are not necessarily the same publications that you like to read.

After an article is published, if it is of broad interest, the subject may well begin to travel as individuals forward it to colleagues. This may also result in other publications or portals picking up the article, thereby raising awareness throughout the industry. Some time is required to research which publications would be most effective for your company. However, this is time well-invested. You can use online or printed directories of periodicals to narrow your search. Ulrich's Periodicals Directory has been published since 1932. Reedconstructiondata.com, thebusinesslibrary.com and constructionweblinks.com are just a few of the Web-based resources available. Another good resource to find engineering and construction-related publications is www.mondotimes.com. Review the offerings and choose three to four that will be your company's media relations focus. That focus, by nature of the markets served by those publications, should reinforce the corporate identity that you are building.

Know the publication. After identifying your target publications, get to know them even better. Most publications have editors who concentrate on specific areas or content. Contact the publication to identify the engineering and construction (E&C) editor that best fits your content. Get to know that editor by reading articles he or she has written and learn his or her style of writing and the topics typically addressed. Locate the editorial calendar online or request one from the editorial staff to learn the topics they plan to include in future issues.

Contact the E&C editor. After you have learned more about their publication, find out the editor's preferred method of contact. Does he or she prefer e-mail or phone calls to discuss upcoming topics and news items? Let the editor know of upcoming or current projects that may be of interest for inclusion in the publication, based on the editorial calendar and the topics addressed. Be considerate when contacting editors. Build rapport with them to become their go-to source for information on the industry. Provide commentary on trends and industry issues, not just current projects. Become

When searching for the right targets, keep in mind that your placements need to appear where your prospective customers are likely to see them.

known as a resource for information and observations. Editors willingly provide placement to those who supply value.

Provide written material. It may be helpful to supply the editor with written material that he or she can modify and drop into an article already in the works. For example, if the publication is focusing on project delivery methods, provide a few case studies addressing effective project delivery. First-time authors may want to collaborate with a colleague. Co-authored material brings in additional expertise and often makes the content more balanced, providing a better article. Recognize that the editor will probably rewrite the submission; the submitted material provides a starting point. Each journalist has his or her own unique way of building an article. What works for one journalist may not work for another.

First-time authors may want to collaborate with a colleague. Co-authored material brings in additional expertise and often makes the content more balanced, providing a better article.

Interviewing prominent or significant experts on the topic is another way to gather content and add originality to your material. Interviewing gives the author a chance to network within the industry, and the interview itself strengthens the company's image. It also helps the journalist by having facts and quotes already available for the finished piece.

Be persistent, tenacious and kind.

If your attempt to get to know the editor and submit material is not met with a warm response, do not take it personally. Often publications receive hundreds of submissions. In fact, the editor may have received hundreds of

submissions relating to only one particular article. Your submission may not be viable for the current issue he or she is working on. However, keep communicating because the time will come that you will have information the editor can use.

Add value. There is a fine line between pestering and persistence. Be persistent; do not annoy. The way to ensure that you are on the right track is to concentrate on adding value to the editor. In addition to keeping your company's goals in mind, consider ways that you can help the editor and his or her publication. There may be an opportunity to provide content to the editor, which may not be related to the project or idea that you wanted to pitch, but that will help the editor's efforts. Do it. If you can be viewed as a helpful resource and not just someone who is looking for free press, then you may become the go-to person for information. Always communicate appreciation to the editor for positive press, knowing that is helping to build your business.

Take advantage of reprints. The next step is to use that published article to further support the company image. To gain full benefit from published

articles, you will want to utilize article reprints from the publication. You must acquire permission from the publication before reprinting and, of course, you will need to cite that you are reprinting with the publication's permission.

Article reprints are a useful tool to reinforce the company's image. When using reprints, keep the publication dates current. Articles published more than five years ago may not be relevant in the present environment. Even if the content is relevant, if the only reprint available is five years old, potential customers will wonder why there is no current reprint. It is a red flag that your company may not be current in its knowledge and methods. If the material is still relevant, it would be beneficial to freshen the content and resubmit it for a more recent press date.

Post a list of publications on your website that have printed articles authored by your company's employees as well as articles citing your company. Any positive press that your company receives should be included. When possible, provide a link to the actual article. Not only does this provide credibility, but it also increases your search engine results.

The marketing media relations is not complete with simply being published. Promoting these published articles is to your company's advantage. With the right follow-up, increased press will result in increased business opportunities. ■

Sallyann Hulick is the executive director of marketing at FMI Corporation. She may be reached at 919.785.9236 or via e-mail at shulick@fminet.com.

The marketing media relations is not complete with simply being published. Promoting these published articles is to your company's advantage.

BUSINESS DEVELOPMENT

Social Media: Coming of Age of an Ageless Idea

Social media is not a golden hammer. It will not increase your revenue overnight. Just because you purchase a new titanium driver for your golf bag does not mean your short game is going to improve. Yet, just as a good driver can help your overall golf game, social media can be a big boost to your overall marketing strategy. In fact, over a 12-month period, companies with high social media activity, on average, grew revenues 18%. How do you define social media? It is a collection of online media, such as Facebook, LinkedIn, YouTube and Twitter, that allows people to engage and network with one another through talking, sharing and collaborating. With the vast

majority of business people accessing the Internet every day, you cannot afford to ignore the opportunity social media provides.

Mixing social and business occasions dates far back in history. When a master builder was looking for work in the 12th century, he went to markets where people gathered and socialized to make connections and drum up work. In the 20th century, socialization and business intersected frequently from athletic clubs and golf courses, to the fields and rivers for hunting and fishing trips. Social media will never replace this face-to-face socialization and contact. Yet connecting with people on a golf course and through social media shares a common thread — direct communication centered on meaningful discourse that can develop and sustain long-lasting business relationships.

In a flattened world, it is not possible to play a round of golf at a moment's notice with a potential business partner thousands of miles away. Yet in a fast-paced, highly fragmented society, connecting and engaging at a personal level with peers, clients and potential customers is all the more important.

The objective of any marketing effort is to improve the bottom line. Social media is simply a collection of instruments, made possible with the advent of the Internet, with which to communicate. Whereas in the past, media such as a newspaper or television report was a one-way street marketing effort, today social media is a two-way interactive dialogue. The value of social media to the construction industry is simple — to inform, communicate and engage with people to create long-term and loyal relationships with today's clients and tomorrow's potential customers. You engage your audience when you convey something of value to them. The selling of your services will come later when your audience sees a need for your expertise. In order to leverage this value, social media must be a part of your marketing strategy and talent recruitment. Every time customers and potential employees in your market conduct a Google search relevant to your industry, you must have a presence they can engage with, or you risk losing them to competitors who do.

There is much noise in social media, which tends to cloud its value and gives rise to legitimate objections and misconceptions. How does a contact updating you on Facebook with vacation pictures provide any potential value for you and your company? How does being a follower on Twitter win you the next job? Many object, "My clients are not using social media in a professional setting, so why should I?" Your target audience is already using at least some aspect of social media, with 85% of the U.S. Internet population being active

In a fast-paced, highly fragmented society, connecting and engaging at a personal level with peers, clients and potential customers is all the more important.

on at least one social network. It is your job to look beyond the noise, find out what aspects of social media they are using, and leverage this knowledge. For example, mediums such as YouTube can have significant uses for demonstration or training purposes.

Just as each golf shot requires a specific club, your unique company requires specific social media tools for your marketing strategy. Just as the construction industry is comprised of many different industries and players, social media is equally varied and caters to many diverse audiences. In order to break through the noise and provide value that translates into increasing your bottom line, you must develop a social media strategy that you incorporate into your marketing strategy. One of the easiest and most effective ways to begin this strategy is to slowly dip your toes into the social media pool and discover firsthand where value lies for your company.

First, find out where your customers are within this social media pool. There is no reason to have Twitter a part of your strategy if all your customers are using LinkedIn. Although the term social media can encompass a broad spectrum of tools from simple interactive websites to complex, search engine optimization, this article examines the most heavily used and impactful applications available to you: Facebook, LinkedIn, Twitter and hosting a blog.

Facebook.com is a social networking website that boasts more than 500 million active users and is growing every day. The average user is connected to 80 community pages, groups and events. Most people have been exposed to Facebook at some level, usually sharing or viewing pictures of family and friends. A friend posting his or her baby “just ate soft food for the first time” provides no more value than knowing someone is walking the dog. So where is the value to you and your company beyond this noise? For some companies, a Facebook presence is the perfect platform for communicating to their customers, especially those offering trade products or materials. The platform can provide instant announcements on new products, embedded videos highlighting services and a place for customers to ask questions and get answers from the company and fellow peers.

In order to find out if Facebook has a value to your company, search it for your competitors and topics relevant to your company and industry. If your competitors have a presence, what type of information is on their profile? Are their customers engaging with them? Search for topics and groups that relate to your industry. If you find a presence that is relevant, think about how to adapt your marketing efforts with a similar Facebook presence. This

Just as the construction industry is comprised of many different industries and players, social media is equally varied and caters to many diverse audiences.

presence could develop into valuable leads you otherwise would not have been able to generate.

Another overlooked avenue that Facebook provides is reconnecting with past acquaintances, both personal and professional. These relationships already have trust built around them and can be an invaluable resource for referrals or new business. Suppose you were traveling to a city for a business meeting or to attend a conference. In the 1980s, you would have thumbed through your address book and tried to get in touch with past acquaintances. However, if they had changed companies, phone numbers or addresses, you would have been hard-pressed to connect with them. Today, you can have Facebook search your e-mail contacts to discover who is using Facebook and then choose whom to contact. Childhood, high school, college and graduate school friends are all relationships that you can leverage for future business. You can instantaneously send out a post on Facebook announcing your pending trip. You will be surprised at how many old acquaintances might respond that they would like to reconnect, if only over lunch or between business meetings. For all the noise that Facebook may generate, the value lies in how you leverage it, whether building a presence via a company page or simply reconnecting with friends that could lead to business in the future.

LinkedIn.com is a similar social networking site that is business-oriented and used mainly for professional networking. LinkedIn boasts more than 75 million members in more than 200 countries, with a new member joining approximately every second. Many users of LinkedIn utilize the site to search for jobs or potential employees, which provides a rich environment for you to recruit top talent to your organization. However, there is great value beyond this. Think about those with whom you want to professionally network and your niche market. Search for your competitors and find out if they have a profile. If they have a presence, so should you. If they do not, then you have an opportunity to be there first. Next, test the waters by having LinkedIn search your contacts for those who might have a presence on LinkedIn. Invite the contacts you found on Facebook to your LinkedIn site. Determine what connections would be relevant and then engage. Ask questions, take part in discussions and join groups that are relevant to your industry. This will establish you as a professional and position yourself as an expert to potential clients. Additionally, your LinkedIn connections could provide you with valuable recommendations and referrals. For instance, if you are a general contractor in search of a good subcontractor in a market you are unfamiliar with, ask your connections for potential candidates in that market. A company profile can set up groups in which clients and potential customers can participate that are specific to their businesses. This not only fosters good discussion, but also gives greater credibility to you and your organization. Leveraged correctly, LinkedIn will not only expand your knowledge and enhance your professional profile, but also cultivate client relationships and present opportunities to generate new leads.

Blogging can be an essential part of your social media strategy. Just as many people say, "My customers don't use social media," a similar objection is raised saying, "My customers don't read blogs." As with Facebook and LinkedIn, test the waters. Your customers are on the Internet and searching

the Web for information; you want them to find you. Blogging is a two-way conversation with your audience that allows you to engage with your clients directly. You can publish articles, opinions and literature relevant to your industry and personalized to your company and receive instant feedback. Almost all of your competitors position themselves as “Number One,” “The Industry Leader” or simply “The Best.” If your company is really the industry leader, then a blog may be the appropriate place to prove it. Awards, case studies, tombstones and quotes from satisfied clients are important. You also need to leverage these accomplishments by proving the reason you achieved these accolades is that you are better than the competition. When a company has a project that requires a specific skill set and a creative and unique approach to the problem, it will search for solutions online. You can demonstrate these skills by publishing your new ideas and techniques in the marketplace by blogging. People can comment, challenge and ask questions about past projects that you can answer directly. Through blogging, you create discussion and interest in your company that keeps the audience engaged.

You can never have too many ways of maintaining contact with your clients and prospects. By keeping them engaged, you are always in the forefront of their minds.

You can never have too many ways of maintaining contact with your clients and prospects. By keeping them engaged, you are always in the forefront of their minds. It is one more way to portray you as the expert and be able to prove it through discourse and the exchange of ideas. Your company becomes a knowledge resource in the industry. As the blogging continues and the base of information grows, your audience and traffic generated to your website grows. This traffic will translate into lead generation and add value to your bottom line.

Twitter.com is essentially a mix of social networking and micro-blogging. Currently, Twitter has more than 100 million users worldwide. Those who have ever

used text on their cell phones will instantly understand what Twitter does. Text-based posts (or tweets) up to 140 characters are sent to followers of your tweets. Live professional sporting events are a great example of Twitter’s performance. Say there is one minute left in a tied Miami NBA game, a timeout has been called, the whistle blows, and the teams take the floor. However, LeBron James is on the bench! An instant check of your cell phone with the team’s Twitter site will show the coach deciding to rest LeBron for one more whistle before bringing him back in. Go to search.twitter.com and search Twitter in real time on any number of subjects that are relevant to you and your industry. There is a wealth of knowledge being exchanged at lightning

speed. The professional applications for Twitter are only constrained by the information you send out. You can position yourself and your company as thought leaders in the industry. You are able to tweet to your blogs, LinkedIn groups or existing or newly hired employees about new service offerings just introduced, acquisitions and new contracts awarded or completed. Tweeting is another way to keep your audience engaged, reinforcing your positioning of yourself and company as the No. 1 expert in the industry.

What social media tool or tools are right for your company? Explore each of them. Monitor new social media that is evolving. Find out where your competition and clients are in the social media landscape. See how they are using it and then decide the most effective avenue for you to pursue as part of your marketing strategy. Do not let your competition pass you by — if you can beat them to the punch, all the better. By keeping your clients socially engaged in a professional setting, you will create long-term relationships with loyal customers and attract many potential clients. Start engaging today.

A final note: Once you begin using social media, you must present a current image to your audience. If you cannot provide ongoing updates, then remove your listing and your historical posts. Nothing looks more tired than tweets, projects and press releases that have not been updated in years! ■

Ryan Howsam is a consultant with FMI Corporation. He may be reached at 303.398.7275 or via e-mail at rhowsam.com.

STRATEGY

Beyond Strategic Planning

The past three years have seen firms keeping their heads safely down, hiding from the bad economic storm and focusing on survival, which has meant too often, “Get any work at any cost.” As recovery rolls forward, albeit in an unsteady manner with both regional and national ruts and bumps, firms are finding they face a new set of challenges:

- What is this new business environment?
- Where will it go from here? Up? Down? Sideways? Sea change?
- How do our clients fit into this new environment?
- How do we fit into it?
- What do we need to do going forward?
- What needs to change so we can survive and thrive?
- Does anything work from the good old days?

THE ENVIRONMENT

Many of the CEOs we speak with regularly tell us they have never seen anything like this before. It is not like the Great Depression; it is not like previous deep recessions. They do not have parallel experiences to draw on for reacting to today’s situation or to project what next year will bring. In the past, it would have been enough to go back to the strategic plan to get clarity

on what direction to take, to base plans on our own confidence about where things would go. We all believe that next year and the year after will improve, but none of us is quite sure what that means.

For example, how can one make sense of what is happening (or rather, not happening) in housing, and what does it mean? Suburban development has been a main economic driver in the hot Sunbelt states for years. However, home sales of all kinds remain flat, foreclosures continue and developments abandoned in 2007 are of interest only to raccoons. One mystery in this event has been that, by contrast with the suburbs, urban housing has retained more of its value or, at least, has lost less of it. In his article “Here Comes the Neighborhood” in the June 2010 issue of *The Atlantic*, Christopher Leinberger says, “In densely built inner suburbs, like Arlington, Va., and in the walkable, urban neighborhoods of the District of Columbia, prices typically dropped about 20%. Housing on the suburban fringe, on the other hand, lost about half its value.” Homeowners in the suburbs are still far underwater on their mortgages, and it appears today that it will be some years before this disparity vanishes. Most people claim they would rather live in a big, open floor plan house in an expansive neighborhood out of town than rubbing elbows in a compact home or apartment in the crowded downtown area. Yet Leinberger believes that urban areas are more viable options for the future because of their intrinsically compact nature: they are walkable, bikeable and most have fair to excellent urban transit and streetcar systems. In the suburbs, every workday involves an expensive, time-draining excursion into town. Even a trip to the corner store for milk requires using the car, making that carton much more costly than the one in the city that was carried home on foot. The new future is coming. Fossil-fuel use is on the decline; homes are unlikely to see an artificially inflated value bubble again in our lifetimes; pressure is on the government to reduce immigration; people want to live in walkable, mixed-use environments with great public transportation. With these conditions emerging, will suburban development continue to be a significant factor driving the economies of the Sunbelt states?

Homeowners in the suburbs are still far underwater on their mortgages, and it appears today that it will be some years before this disparity vanishes.

HOW TO DEAL WITH UNCERTAINTY

Leaders of firms have already seen the complexity of the new future implied in the previous example. In the past it was likely sufficient to know your clients, keep a weather eye on your competitors, and review your strategic plan every few years to evaluate whether to open a new office,

enter a new geography or drop an unproductive service line. Today the firm leader deals with a business landscape that shifts from day to day, with long-standing truths about markets shifting as well.

There is an array of drivers that must be taken into consideration, and they are not always what we are accustomed to — they must be viewed at many levels from local impacts to international trends:

- Economic
- Political
- Environmental
- Social
- Global
- Technological

There are vastly differing opinions about what is happening in each of these drivers and how the current level of uncertainty will shape them going forward. A tool that can help work through the many permutations of all the drivers is scenario planning.

SCENARIO PLANNING

The major difficulties firms have found with scenario planning are the expense and investment of time needed to create future scenarios that are applicable to the organization. For the most part, the skills needed to build usable scenarios are not in the firm's toolbox.

Some firms have tried using a short cut, determining what seem like the best-case and worst-case scenarios and trying to plan for both. But as the forces behind the drivers listed above play out in the world and marketplace, the future will not be black and white — it is subtler than bleak or bright, so plans based on only two alternative futures likely will not offer a sufficiently robust framework for strategic planning.

For the most part, the skills needed to build usable scenarios are not in the firm's toolbox.

True scenario planning, based on a variety of possible future situations that have been extrapolated from actual trends, is the tool of choice for forward-thinking firms. However, the same difficulties remain — creating the scenarios and the large investment in time and labor that can require. Firms tend to have deep knowledge about their own

markets, their clients and local or regional conditions that are key to their current business. However, they are not trained to do either the macro or fine-grained analyses of world and national trends and extrapolate the deep impacts these trends carry with them.

To mitigate this situation, FMI's Research Services Group took on the task in 2009 of bringing together more than 50 leaders from firms in the A/E/C industry: academia, clients and industry organizations to develop a set of base scenarios for planning use.

The resulting four scenarios (see Exhibit 1) are designed specifically for architecture, engineering and construction firms in their planning process. These scenarios were created by in-depth analyses of trends and key drivers, analysis of implications by the entire team and expert projections through 2020. The scenarios explore four different directions as to how the future will play out, reflecting the complexity and changeable nature of the real world.

HOW SCENARIO PLANNING WORKS

Using the scenarios for planning is a multistage process that draws out particulars for each firm’s unique situation, and results in a specific set of

Exhibit 1
Summary of Scenarios

	Global	Social	Technological	Economic	Political	Environmental
Perfect Worldview	Very stable geopolitical environment Intensified globalization Smaller, flatter world	Diverse, mobile workforce High demand and competition for AEC talent Sustainability as a key social value Sophisticated public infrastructure	Rapid technological progress Innovative AEC culture Industrywide standards and interoperability	Strong GDP growth Strong financial investment in AEC industry (public and private) Strong adoption of public-private partnerships	Widespread adoption of AEC industry codes and regulations at national and global level	Strong control and protection of the natural and built environment National and global initiatives drive carbon footprinting in design and construction processes
Struggle for Stability	Unstable geopolitical environment Globalization slows down Governments focus on improving their local situations	Social disparities increase; middle class is threatened to dissolve Strong emphasis on building local human capital Crumbling infrastructure	Rapid technological progress (“leapfrogging” of dirty technologies) Grass-roots approach to improving collective well-being drives innovation	Slow GDP growth Government stimulus programs provide foundation for attracting private capital in AEC markets Protection of local industries Emergence of “pockets of prosperity”	Unstable local politics and continuous regional disputes Undue political influence and lobbyists impact development of capital projects	Local initiatives drive sustainable business practices in design and construction Focus on using local materials and resources
Building Walls	Very unstable geopolitical environment Slowdown in globalization; very limited cross-border collaboration Governments focus on protection and survival	Large social disparities Very high levels of unemployment Limited skilled workforce Very rudimentary public infrastructure	Low levels of innovation and knowledge sharing Limited industrywide technology standards High emphasis on defense technologies	Negative GDP growth Financial investment in AEC industry limited to defense-related projects Restrained exports of materials to ensure supply for local needs	Local regulation and nationalistic protectionism dominate Strong restrictions on labor mobility (limited cross-border collaboration)	Drive toward sustainability has come to a halt Most readily available resources used, irrespective of environmental impact
Controlled Environment	Stable geopolitics; highly regulated political and economic environment Governments focus on improving their local situation	Thoroughly planned and controlled sociocultural environment Strong unionization across all industry sectors Extensive solid public infrastructure	Governments place high emphasis on R&D Rapid technological progress Industrywide standards mandated at federal level	Slow but steady GDP growth Governments control strategic industries (including AEC) and allocation of key resources Restrained exports of materials to ensure supply for local needs	Industry regulations and policies dictated at federal level Labor rates and mobility dictated by unions and controlled by governments	Emphasis on sustainability of the built and natural environment Governments mandate regulations and policies for accessing and using natural resources

strategies for steering the direction of the firm, and contingency plans for the less likely, but still possible, scenarios (see Exhibit 2).

We begin by assisting the planning team to gain a strong understanding of the scenarios, the trends that they represent, and why the future could play out according to each of the scenarios. The planning team then identifies the implications of the four scenarios on the firm's direct business environment as scenarios play out over time.

The next step uses these implications to adapt the scenarios to be specific to the firm. These enhanced scenarios take into account such things as the firm's current markets, specific issues for the areas where they practice, the pressures on their clients, etc. Using the scenarios as the foundation, planning groups can quickly build firm-specific scenarios.

With firm-specific scenarios, the planning team brainstorms potential strategies to achieve success for the firm under each scenario. Comparison of the strategies for the four scenarios enables the team to find commonalities in the strategies. The common strategies, which appear to be effective in responding to multiple scenarios, give the firm the most flexibility and responsiveness and become key elements in the primary strategic plan.

The next step is to build a more detailed plan based on these common strategies. Using the best practices of strategic planning, the team crafts an implementation plan based on the selected strategies. For firms with multiple offices, business units or practice areas, the final step is to adapt the corporate strategic and implementation plans to fit each unit's or geography's specific needs and resources.

By examining how various strategies may play out over time, the firm also gains the ability to analyze how shifting trends could affect

performance, enabling leadership to adjust strategies as needed. Flexibility and adaptability are key to future success and are an intrinsic part of the scenario planning process. Part of the intent of the scenario planning approach is to develop skills in dealing with ambiguity and uncertainty.



Traditional, deterministic strategic planning that firms have grown comfortable with does not fulfill the need of the volatile environment we now face.

This process offers a variety of architecture, engineering and construction firms new levels of comfort in dealing with the uncertainties of our current environment.

CONCLUSION

Traditional, deterministic strategic planning that firms have grown comfortable with does not fulfill the need of the volatile environment we now face. The belief that we have a crystal ball in which to see the future and with that knowledge can set clear strategies is a 20th century concept. In this 21st century, we must plan for a world where firms are flexible

and react appropriately to a variety of significant, continuously evolving drivers. The scenario planning process offers the opportunity to practice how to act in response to changing drivers. At the same time, it allows organizations the opportunity to build strategies and plans for setting direction, growing confidence in their ability to compete effectively and respond quickly to changes in the world. ■

Steven J. Isaacs is a division manager for Architecture and Engineering Consulting Services at FMI. He may be reached at 925.934.7200 or via e-mail at sisaacs@fminet.com. **Karen L. Newcombe** provides research on trends, opinions, and the future of the industry as well as writing and editing. She has worked in the A/E/C industry for 25 years and currently assists on various FMI projects. E-mail Karen at newk@writebank.com.

LEADERSHIP

Changing the Tiger's Stripes

Change is all around us, and we constantly are pressured to adapt to new realities, both in our personal lives and in our businesses. Is it possible for people and organizations truly to change, transform and re-orient themselves to these new realities? FMI's Center for Strategic Leadership works with firms and their leaders to assist them in navigating the pressures of rising interest rates, skilled labor shortages, shrinking backlogs and increasing competition. Here we share some of the lessons we have learned.

WHY CHANGE?

"To cope with a changing world, an entity must develop the capacity of shifting and changing — of developing new skills and attitudes; in short, the capability of learning."

— Arie de Gues, *The Living Company* (Harvard Business School Press, 1997)

As the quote illustrates, change drives the need for all of us to adapt, including our businesses.

New economic realities drive the need for change

In the last several years, we have seen formerly powerful construction companies close their doors as building came to a halt and backlogs and credit lines dried up. To survive the inevitable down business cycles, companies have to be prepared to change.

Competitors drive the need to change

Sometimes competition forces organizations to change. Several years ago, FMI worked with a heavy civil contractor known for its outstanding commitment to quality and service that was facing shrinking margins across a number of its business units. A data analysis showed that the contractor was being underbid by companies that were willing to cut corners on quality and service, and in the contractor's markets, customers were obligated to accept the low bids. The big insight came when the organization realized its greatest

strengths were simply not valued by its customers. With FMI's assistance, the company redeployed its assets into a single new market that featured a small group of large customers. Now the company delivers outstanding quality and service and in return wins repeat business and record profits from its loyal customers.

Whether it is softening revenue, shrinking profits, swelling labor costs or increasing expenses, there is no arguing with financial statements as a motivator for the top leadership of an organization to consider changing established ways.

Results drive the need for change

When a company is losing money or just not making the kind of margins it once did, it can serve as a mandate for change. Whether it is softening revenue, shrinking profits, swelling labor costs or increasing expenses, there is no arguing with financial statements as a motivator for the top leadership of an organization to consider changing established ways.

Employees drive the need for change

An organization's workforce can often point out areas in need of

change. As many consultants and researchers can attest, people do not leave companies; they leave managers. The people closest to the work usually have the best ideas on how to do the work. Therefore, leaders need to listen to their employees' ideas as well as go one better and persistently ask for their

input. Continuous improvement is a mind-set of asking how to do things better at all points in a process. Asking frequently and responding to feedback is a proven way to keep the communication channels open. Not responding to feedback is a sure way to staunch the flow of ideas and de-motivate one's team.

THE PRICE OF CHANGE

With all the pressures around us constantly to adapt, it may seem as if change would always be a good thing. Any who have lived through frequent organizational change know better. Change is not always good, nor is change for change's sake something the company is advocating. The price of shifting an entire organization of people from doing something that used to make sense to them, to doing something new that may not yet make sense is difficult under the best circumstances. One of the scariest things about change is fear of the unknown. "Better the devil you know than the devil you don't know" as the saying goes. Clear communication from leaders during times of change ensures they are painting a picture of a better place for their organizations and their people. Humans have a tendency to criticize and resist new ideas, even needed changes, unconsciously. Therefore, it takes a great deal of organizational energy and effort to overcome those personal barriers to change. No organization can withstand constant, unfocused change, so leaders need to count carefully the human costs before attempting transformation of their organizations.

Any change, whether small and personal or massive and enterprisewide, necessitates an up-front, cost-in-time analysis, time to study what to change, plan how to do it and calculate the slowdown in performance associated with doing something unfamiliar. Add in the real costs, such as training employees; purchasing hardware, software or equipment; experiencing learning curves; and it is easy to see how large-scale change can become expensive. Occasionally the largest costs of change are the results of unanticipated consequences and come as an unwelcome surprise when it is too late to reverse course.

One of the key roles leaders play is an alignment function — keeping resources focused to achieve desired results. During times of change, the energy required to shift behavior in a new direction is significant, and companies that try to take on too many new initiatives at once often fail at all of them, resulting in wasted time, money and increased cynicism from the workforce. Leaders and leadership teams must be "on message" at every

With all the pressures around us constantly to adapt, it may seem as if change would always be a good thing. Any who have lived through frequent organizational change know better.

opportunity to reinforce priorities and keep organizational resources pulling in the same direction. It is essential that leaders are aware of their pivotal role in successfully implementing change. The firm has to count on its leaders to know the capacity of its teams for change and to be always increasing that capacity.

With all the resistance, human and organizational, and the costs involved, the price of not changing needs to be high in order to motivate everyone to make and sustain the change.

THE PRICE OF NOT CHANGING

With all the resistance, human and organizational, and the costs involved, the price of not changing needs to be high in order to motivate everyone to make and sustain the change.

How do you create the urgency to overcome all the inertia? In his book “Real Change Leaders” Jon R. Katzenbach talks about the need to create a burning platform. The idea is you are standing on a platform that is burning from below, and you have to get off or die. In companies, that burning platform can take many forms: a bad quarterly statement, criticisms from customers or

employees, crisis events or a gloomy strategic forecast. Even though the executive team may either intuitively know, or has seen evidence of the need to change, there is also a frequent need to share that burning platform with the leaders and employees who will implement the changes. This often takes the form of a business evaluation or a corporate culture survey process, which measures a variety of components of organizational success, providing the evidence, with numbers and charts and graphs, to illustrate the truth that the company cannot stay where it is — it has to move from the burning platform.

The next step is to paint a picture of a compelling future. Once leaders have explained why the team cannot stay here on this burning platform, they must be able to describe how good it will be at Point B. There are many ways to do this, but one of the best ways is by telling stories. Great leaders tell great stories. FMI works with senior leadership teams frequently to help them clarify their envisioned future with a vivid description of the future. This is an important step in helping senior teams get alignment and provide leadership team members with talking points and stories to go out and stay on message across the organization.

HOW TO CHANGE

Remember changes that did not work, like new Coke® or Microsoft Windows® Vista? There are plenty of examples to learn from about what not to do. For example, what should not be changed?

Many are familiar with the findings that have been published in books such as “In Search of Excellence” and “Good to Great” and in McKinsey & Company’s consulting work.

McKinsey places shared values in the middle of the model to emphasize the centrality of these values to the development of all other critical elements. The company's structure, strategy, systems, style, staff and skills all stem from why the organization was originally created and what it stands for. The original vision of the company was formed from the values of the creators. As the values change, so do all the other elements.

What McKinsey and other researchers discovered was the differentiator of the enduring companies was a core of shared values, or culture. The application is: When embarking on change, the place to start is with reinforcing and strengthening the core of the firm — culture and values. Leadership teams that clarify their values and identify and reinforce the positive aspects of culture are better able to harness those powerful forces in service of the desired change.

RECOMMENDED APPROACH TO IMPLEMENTING CHANGE

Begin at the Top/Set Direction

Start with the senior executive team, including the top leader. Without commitment from that group, it is much more difficult even to get started on true transformation. These senior leaders have the responsibility for surfacing the need for change and then clarifying and communicating that burning platform to their teams.

Develop Values/Mission/Strategies/Goals

To harness the power of culture, ensure leaders spend time aligning their purpose and values early in the process. Once leadership clarifies these values, the task of choosing and assigning goals becomes much easier.

Implement the Change

Over-communication during times of change is probably impossible. Leaders must continue to be on message through change initiatives to vividly illustrate the burning platform and remind of the bright future. Other than communication, the role of leaders is to lead; and leaders who best role-model the company values should be tasked with visible responsibilities to implement the changes, such as:

Create a catalyst. Change eased into slowly often results in little change; create a spark to ignite and signal the beginning of change. Recently, FMI used a large annual gathering of company leaders to kickoff an organizational transformation effort. The meeting aimed to provide a transformational experience for the leaders that would then cascade down the organization as those leaders went back to their respective teams. It launched the effort and included all the support leaders needed to reinforce and communicate the desired changes.

Train and model the new behaviors. To ensure that leaders are equipped to lead change, provide experiential training to allow those leaders to gain self-awareness and practice the skills to lead by example.

Alignment of systems and processes. Once the direction has been set, the leaders and employees are aligned, and employees are equipped to make the changes required, the organization's systems and processes are the means to keep everyone moving in the new direction. An obvious example is compensation. If leaders want employees to be team players, they may be sent to a training class on teamwork with other divisions and departments. However, if these employees' bonuses are based on individual performance, leaders can expect very little behavior change because people are still rewarded for acting selfishly.

FMI worked with a company several years ago in which the corporate staff and the field were at odds. Corporate was not respected by the field, and the field received no help from corporate. As the company worked to change its culture, it discovered that while the field employees competed ferociously for the annual awards and recognition that were given to the individuals and divisions that performed best, no such recognition or awards were available for any corporate staff who performed well. By adjusting the incentive system to include corporate staff, we soon saw a new spirit of service and respect take root, and it began a wave of change that turned that company upside down in just the right way.

CONCLUSION

Change is inevitable, costly and hard, but with enlightened leadership and some outside help at times, tigers can change their stripes. ■

Peter Nielsen is a consultant with FMI Corporation. He may be reached at 303.398.7257 or via e-mail at pnielsen@fminet.com.

BUSINESS DEVELOPMENT

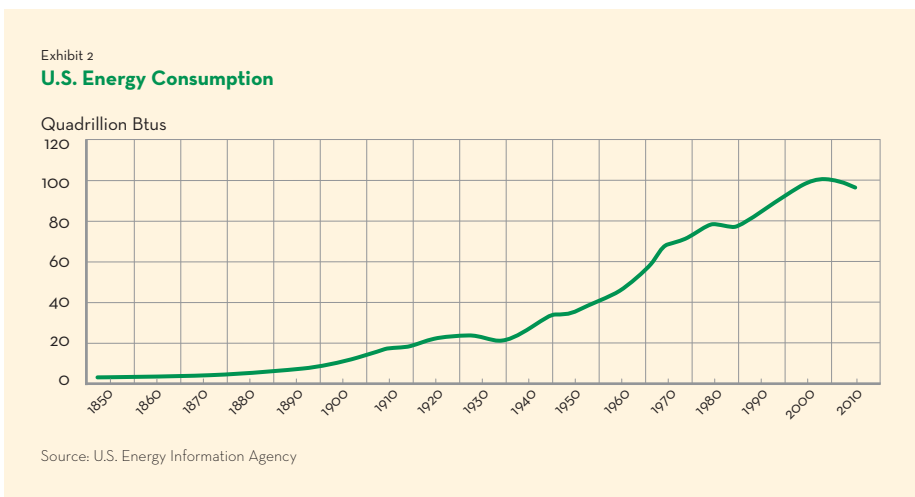
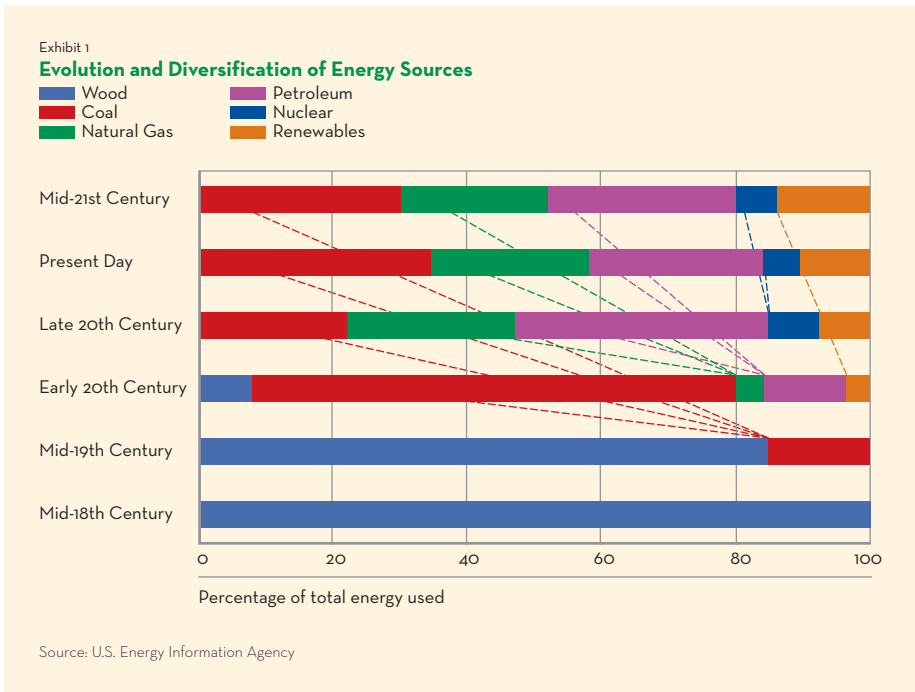
Opportunities in Energy Services and Technologies on the Customer Side of the Meter

Energy sources and technologies evolve and diversify over time. Only a few hundred years ago, muscle power (animal and human) and biomass (mainly wood) were the primary sources of energy. Innovations in energy technologies and sources have accelerated greatly since the mid-19th century. Today, we utilize more than 40 times the energy we used only 150 years ago, and our energy sources are far more diversified, with fossil fuels, nuclear and renewables (see Exhibits 1 and 2). Renewable technologies are reducing production costs with technology advancements and scale, and some are expected to reach grid parity within the next decade. Numerous market-changing energy technologies are in development, most of which will fail to

become large-scale sources, but one or a few may actually change the world, enabling massive economic growth and prosperity.

The new energy (or cleantech, green energy, renewable/alternative energy or green building) industry is large, complex and dynamic. This article focuses on energy technologies and services related to the customer side of the meter (as opposed to the utility side) in buildings or facilities in the U.S. We chose this focus for two reasons:

- **Massive Energy Use** — U.S. buildings use a very large amount of energy, consuming 72% of electricity produced and 44% of U.S. natural gas used (see Exhibit 3). Buildings account for nearly 40% of total U.S. energy consumption, costing more than \$350 billion per year (see Exhibit 4).

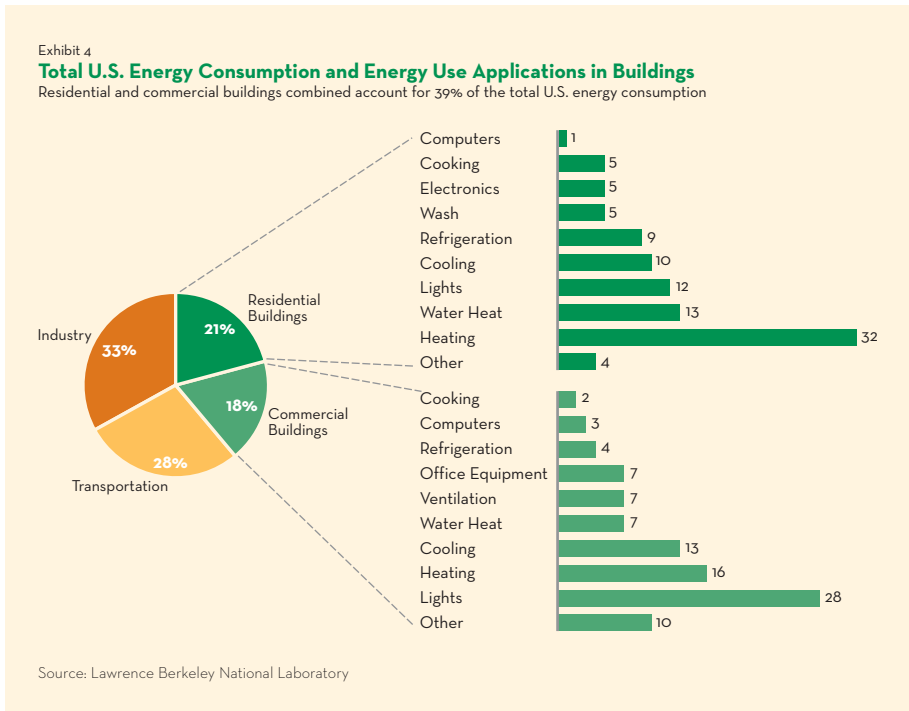
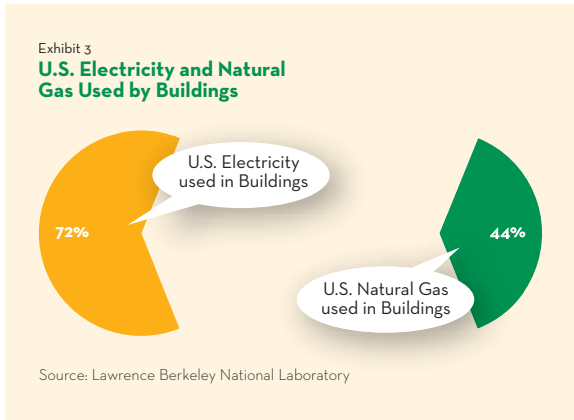


- Abundant Value Creation Opportunities** — The majority of U.S. buildings are highly inefficient according to the DOE and National Renewable Energy Laboratory (NREL) who just released a technical report on how to improve energy efficiency in large commercial buildings by 50%. Furthermore, distributed renewables are in early stages of market penetration and energy management/smart grid applications are rapidly emerging.

We are optimistic about the long-term energy future. We expect that, eventually, energy will be cheap, abundant, distributed and clean. This prediction is simply an extension of the historic evolution of energy sources and the proven abilities of markets to advance technologies and solve, or at least greatly mitigate, the major issues we face. The real questions are, “How long is the long term — 50, 100, 250 years?” and “How much pain

will we endure before we get there?”

To paraphrase and soften a famous economic quote, in the long run we are all retired. For most readers of this article, one’s career horizon may well be shorter than the aforementioned breakthrough to cheap, clean, abundant



power. Yes, some of us need to continue to push toward the next big, market-changing energy technology. But for many of us, there is significant value to be created (and a lot of money to be made) by intelligently applying, combining and configuring existing energy technologies and making incremental improvements to such technologies. This work of immediate importance and value — energy efficiency, existing renewable technologies, energy management, smart grid, etc. — is the purview of certain large and fast-growing segments of the new energy industry and the core focus of FMI’s New Energy group.

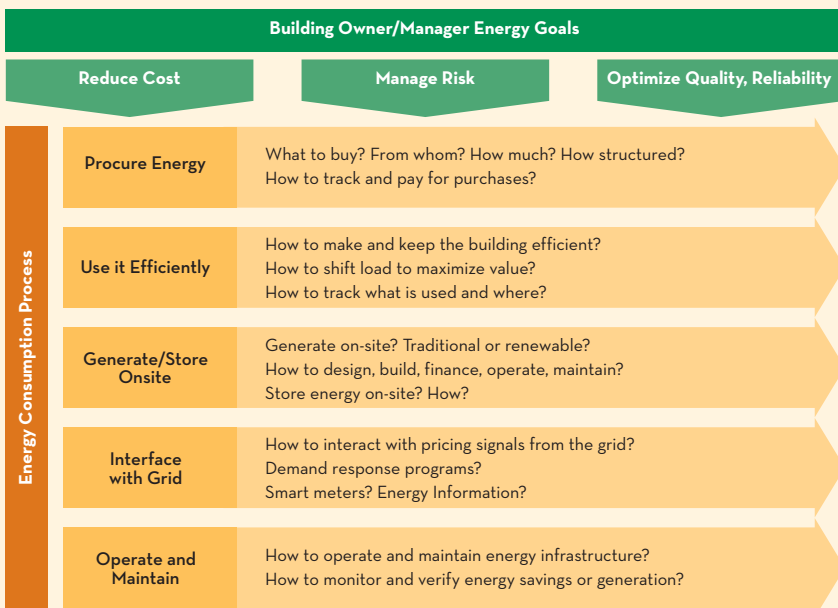
CUSTOMER SIDE OF THE METER ENERGY SERVICES AND TECHNOLOGIES

In exploring the customer side of the meter energy services and technologies, it is useful to view the world from the perspective of a facility owner or facility/energy manager. In its simplest terms, this individual seeks to maximize value via some combination of reducing cost, managing risk and optimizing power quality and reliability.

Using energy in a commercial building, industrial plant, school, residence

We are optimistic about the long-term energy future. We expect that, eventually, energy will be cheap, abundant, distributed and clean.

Exhibit 5
Energy Goals



or any other facility may be viewed as a transaction or a trade. The building owner/manager trades money for energy and then trades energy for light, heat, cooling, airflow, motion, computing, etc. As with many transactions in business and life, making a profitable trade is more complex than it may appear at first. This is especially true where technologies and markets are changing quickly and where measurement of results is difficult, as is the case with energy usage.

As with many transactions in business and life, making a profitable trade is more complex than it may appear at first.

To get a sense for this complexity, walk through the steps involved in using energy (see Exhibit 5). Building and plant owners/managers must procure energy (typically electricity or gas), use energy efficiently, determine whether to generate and/or store power on site, maintain suitable power quality and reliability levels, track energy needs and usage, interact with pricing signals from

the grid, operate and maintain expensive and complex energy infrastructure, measure and verify the results of energy efficiency and generation projects, and (perhaps) track their carbon footprints.

As awareness increases regarding the true cost of energy and the value creation opportunities inherent in the energy transaction process, an industry is growing to meet the customer side of the meter energy needs of building owners/managers. Exhibit 6 roughly illustrates the segments in this industry.

Exhibit 6

Customer Side of the Meter Energy Services and Technologies

Energy Procurement Energy Management	Energy Efficiency Load Shifting	Distributed Generation Quality and Reliability	Demand Response Smart Grid	Operations and Maintenance Measurement and Verification
Bill analysis, payment Energy analysis Energy procurement Energy consulting Risk management Energy software	Performance contracts Energy retrofits Energy engineering Cx, RCx, MBCx Efficient technologies Load-shifting technologies Utility/government programs	Traditional DG/CHP On-site renewables Energy storage PQ&R services Utility/government programs Renewable technologies PQ&R technologies	Event-driven DR DG grid connectivity MBCx Smart meters Utility/government programs Energy software	Outsourced O&M Third-party M&V MBCx Energy software

VALUE CREATION STRATEGIES

Some strategies that offer companies opportunities to create significant customer value and generate attractive returns on invested capital include:

Scale and Operational Excellence. There are significant opportunities for companies to pick one area of expertise and become best in class operationally while growing a regional or national footprint. Nearly all (if not all) of the segments are very fragmented and have room for national players. Furthermore, business models and modes of operation are currently diverse as the industry evolves toward best practices. Companies that develop and implement superior operating techniques can generate strong profits and growth.

Scope and Convergence. In addition to improvement within a segment, the market is demanding integration of these new energy segments. Often, a building owner/manager wants a turnkey energy solution, not a piece-it-together project. Accordingly, there are opportunities for companies to build service and technology scope across their organizations that provide real competitive advantages in the marketplace. The market is in the early stages of this convergence trend, and there will be a number of misfires in the market as some companies overextend their efforts to be a one-stop shop. Nonetheless, if executed well, the total-solutions provider model is a valid market strategy that can result in a sustainable competitive advantage.

Penetrating the Commercial and Industrial Market. Many of the technologies and services above have been effectively implemented in the government and institutional markets, although there is significant headroom remaining. Penetration of these markets was greatly facilitated by government programs that streamlined or even mandated implementation and project debt markets that are mature and well-functioning. Even though opportunities in the government and institutional markets remain vast, the prospects in the commercial and industrial markets may be even greater in the long run. Nonetheless, there are key barriers to overcome, primarily in the areas of project financing, business models and sales cycles. Companies that can effectively address the split-incentive, accounting (off-balance sheet), credit and other financing issues in the commercial and industrial sector and/or implement efficient and effective business models and sales techniques have tremendous growth opportunities.

There are significant opportunities for companies to pick one area of expertise and become best in class operationally while growing a regional or national footprint.

Extending Established Businesses into New Energy Markets. The new energy segments discussed above are a natural extension for established businesses. Many engineering, construction, environmental, equipment and facilities services companies already have the client access, infrastructure and some of the skills needed to penetrate these growing segments. Many existing businesses will enter these markets through hiring/organic growth

and acquisition. Some companies have real competitive advantages that will be properly leveraged to create strong new energy businesses. We also expect many others will fail in their attempts to penetrate this unique and quickly evolving industry.

Pairing companies with innovative technologies and companies with strong market access often provides the best path to success.

Market Access for Technology.

As has been well documented in other industries, the best energy technology may not become the market leader. Established sales and distribution channels are notoriously difficult to penetrate, and a credit-worthy balance sheet may be necessary to address performance and warranty concerns regarding a new technology.

Likewise, the large industry players with market access and financial strength are not always the most innovative. Pairing companies with innovative technologies and companies with strong market access often provides the best path to success.

Technology Advancement. Technology, including software and hardware/equipment, is advancing extremely rapidly for the customer side of the meter applications. Companies that consistently produce meaningful technology advancements for high-value applications likely will be positioned to capture a meaningful portion of the profits in the applicable value chain.

Technology and Service Integration. Certain technology providers may vertically integrate into services to pull their technology through to the market and stay close to the end customer. The solar segment has seen significant vertical integration in this fashion. Likewise, a service provider may seek to distinguish its service offering by controlling a unique and critical technology. This approach is less certain because technologies change so rapidly and customer needs differ meaningfully, often giving an advantage to the service provider that is technology-agnostic. Nonetheless, there are some situations in which a proprietary technology may benefit a service provider.

Synergistic Technology Aggregation. There may be cross-selling, bundling and other synergistic benefits of owning various technologies that support a total customer solution. For example, companies such as Honeywell and Johnson Controls own controls, meters, software, HVAC equipment and other components of an energy solution.

M&A AND CAPITAL FORMATION

As noted above, this industry is very fragmented. For most new energy entities, implementing a growth strategy will require strategic acquisitions in addition to strong organic growth. Expect consolidation in the industry to continue at a rapid pace as larger buyers seek to gain scale, scope, customer access, geographic coverage, technology and professional talent. There are tremendous opportunities for small- to mid-sized growth companies in the new energy industry to sell to strategic buyers or to partner with private equity firms, continue to grow and monetize in the future.

Other growth opportunities may be best realized via a capital raise. There is strong interest from venture capital and private equity firms in these sectors. In select situations, capital can be provided by large industry players when there is strategic alignment between the firms but a full acquisition is premature.

In summary, although there are compelling reasons to be very optimistic about our energy future, cheap, abundant and clean energy is likely decades away. In the interim and for the foreseeable future, significant value-creation opportunities are available in the customer side of meter services and technologies. ■

Tim Huckaby is a managing director at FMI Capital Advisors. He may be reached at 720.244.9426 or via e-mail at thuckaby@fminet.com.

Quarterly Interview

The Changing Face of Business Development

Dana Birkes

VICE PRESIDENT OF BUSINESS DEVELOPMENT
AND MARKETING FOR FLINTCO

The past few years have
seen significant changes
in economical, political,
technological, demographical
and sociological factors.
Our industry is in the midst
of a major transformation.

— DANA BIRKES

Call it what you will — marketing, sales, customer service or business development — the vital action of getting work has seen significant change in the last two years. Companies of all sizes and specialties are working to recapture revenue, to position themselves with the right customers and regain their pre-recessionary success levels.

New answers are needed to be successful and to thrive in the coming market. Though the recession is slowly moving into the past, the new market offers plenty of challenges and opportunities.

The recession has challenged new and old companies alike. In some markets, the largest of the companies have been the most dramatically impacted; in others, it is the midsize contractors that have endured the most difficult challenges in the market downsize.

The recession certainly forced companies to make difficult decisions. It has also provided the platform and stimulus to spark the level of creativity required to launch businesses into a new era of success.

The construction industry has not been the only one to feel the impacts. Customers have had their share of challenges and financial difficulties. With fewer construction projects being built, customers have once again become the group with enough control to demand that changes be made in how work is procured and built.

Dana Birkes, vice president of business development and marketing for Flintco, has been on the ground floor of many of the changes affecting our industry. Flintco is one of the largest commercial contractors in the United States and the largest Native-American-owned company. Dana is the past president of the Society of Marketing Professional Services (SMPS), whose members represent the entire A/E/C industry.

Dana has served on the board of SMPS for the past five years. She is currently on the board of the Associated Builders & Contractors Corporation and serves on the marketing steering committee for the Associated General Contractors of America.

The following is a conversation with Dana about the changing face of business development.

FMI Quarterly: You have seen a great number of changes through your roles at Flintco and SMPS. What do you see changing for business development in the next five to 10 years?

Birkes: The past few years have seen significant changes in economical, political, technological, demographical and sociological factors. Our industry is in the midst of a major transformation. We are going to experience a generational transition in leadership within our companies and our clients' companies in this next decade. The incoming leadership perspective is much, much different from those of our current leaders. Since business development professionals are responsible for looking ahead and advising our companies on positioning, we must understand these changes and promote the initiatives today that will allow our companies to compete effectively in this changing environment.



Richard Florida, in his book *The Great Reset: How New Ways of Living and Working Drive Post-Crash Prosperity* (2010), says we are pushing a reset button and starting all over. We have been in a crisis. Times of crisis reveal what is working and what is not working. We must rethink all our structures and standards of doing business to effectively compete. Frankly, from a business development perspective, it is both exciting and terrifying. The depth and longevity of this recession have brought into focus the need for more clearly targeting and measuring the returns on investment for all our processes and initiatives within our own companies and certainly the value that we provide our clients. This, combined with the growing sophistication of the people who fulfill the functions of business development and marketing in the A/E/C industry, is driving strong innovations and creativity in the way we are approaching client development and project pursuits.

Another transition is that business development is no longer a function isolated to just one or two people in an organization. It is the responsibility of the entire company. That is why there is a need for companies to have an effective CRM (Client Relationship Management) database. It is terrific at coordinating contacts and gathering information to share. This tool then enables the business development professional to serve as an orchestra leader and a trainer for accomplishing business development throughout the organization. This change will be the business as usual in the future.

FMI Quarterly: What difference do you see between the role of marketing and business development?

Birkes: Business development people are the face of the organization, working one-on-one with clients, organizations and industry partners. They are involved with strategies to develop specific market sectors and/or clients. They are helping to make connections and then doing specific capture plans and strategies around developing specific clients or specific markets. Those markets may be geographic, related to a specific project or a grouping of types of projects that a company is pursuing. Business development is a key part of how we keep in touch and build relationships.

Marketing is not as targeted in its focus. The marketing people work on public relations and positioning the company in brand awareness on a broader level. They provide support as it relates to proposals, company messaging and strategies to communicate those messages into the industry. Though it can have one-on-one customer contact, marketing is primarily focused on communicating with groups of customers and contacts.

FMI Quarterly: With Flintco solidly in the construction space, are the drivers different for firms that are just in the architecture and engineering space?

Birkes: Well, I have some experience in this since prior to Flintco, I worked for A/E firms. From a business development perspective, the primary drivers are the same. It's all about relationships, experience and the team proposed. If all of those things are equal, which sometimes they are, there is the added challenge with design firms in the factor of aesthetics.

Aesthetics are highly subjective. It is like going to a store for a pair of black pants and there are numerous styles to choose from. It is one item, but it is hard to know what aesthetic or style will appeal to any individual shopper. The key is to differentiate, market well and create demand for your specific niche. You want the client to look at your work and say, "I want my project to be similar to the work that I admire." That client will then seek you out and go after you full force.

That is why architecture requires a much stronger emphasis on the marketing side, branding in particular, in order to create upper-mind awareness on what your work looks like. With that said, lately I have been seeing a shift toward greater commoditization of design. One thing that has been an interesting

The key is to differentiate, market well and create demand for your specific niche. You want the client to look at your work and say, "I want my project to be similar to the work that I admire."

transition since I started in this industry 25 years ago was then the architect was “king” or “queen” and he or she led the entire development process. Architects were sought after and treated like artists by clients and the rest of the project team. Architects have been leading the entire development process; however, more recently owners are seeking project management leadership through the construction side of business, because contractors bring the skills of schedule, cost control and delivery which clients value.

Because of the value of contractors’ management leadership, the drivers of selection are weighted more heavily around relationships and past performance. The selection of a contractor requires a great deal of trust. We essentially end up being an extension of the owner’s staff over the years. So this kind of approach requires a tremendous, long-term community development strategy. Some contractors can carve a niche space and awareness. For some, it is sheer size that creates a national presence and is a compelling differentiator. For us in particular, it is our Native American ownership. However, it is harder to differentiate in the construction arena compared to signature design on a national or global level.

More recently owners are seeking project management leadership through the construction side of business, because contractors bring the skills of schedule, cost control and delivery which clients value.

For engineers, the drivers seem to be weighted more on the specific experience, project type and price. Their technical approach to the specific challenges of the project can give them an edge over competition.

FMI Quarterly: What are you seeing regarding teaming and joint ventures?

Birkes: Wow. More and more, the clients want the “A” team, so companies are collaborating to get the right team members to win the project. It is not the company that clients are looking for; it is a specific person they are asking for, demanding that person that did that exact job. There are some

projects that are requiring joint-venture (JV) involvement due to size of the project, although not as many, for sure, these days. There are also some more traditional JVs that are strategic to procurement — the local presence entity combined with the market expert.

Mandates sometimes come from an insurance and liability perspective; they drive the need for a JV. You have been hearing about IPD, Integrated Project Delivery, for a long time. What we are finding is that there are not a lot of

projects coming out as the pure IPD initially defined with the entire project team under a single contract and sharing joint liability. We do see components of it, like colocating the entire project team and setting it up as a separate business for the duration of the project.

Design-build continues to pick up momentum. We have been saying that for 15 years. I certainly see a drive in the industry for architects and engineers to seek out contractors to start developing relationships now, because they see design-build being more and more a delivery process in the future. Architects, engineers and contractors are all meeting now, in part because we have a little more time. That has been a really interesting dynamic that I have never seen in the industry.

The meetings are basically to say, “Hey, let’s share leads and opportunities because none of us can go this alone. When we combine our business development machines, we are all going to be much stronger than any one of us pursuing opportunities alone.”

FMI Quarterly: What kind of lessons learned do you have for firms getting into teaming and joint ventures?

Birkes: Get in writing components of the arrangement early in the process. You want to be sure that you do your homework on your partnered firm’s background and the client’s perception of it. It is fundamentally a marriage. You are going to have the best opportunity at success if you share common values. Values are one thing for companies to communicate in their marketing materials, but you really have to dig deep to make sure the culture and values are in alignment. Accomplishing this alignment in a boardroom is one thing. Where it becomes critical is accomplishing it in the field. You need to have the team personnel involved throughout the JV establishment process if the organizations are going to work together effectively. Companies who think alike and have the same values on delivering quality and client service, those are components to successful JVs. It takes a much deeper assessment truly to understand whether companies are in alignment in that regard. It is a key to a successful joint venture.

FMI Quarterly: What changes do you see in how clients are buying construction services?

Companies who think alike and have the same values on delivering quality and client service, those are components to successful JVs. It takes a much deeper assessment truly to understand whether companies are in alignment in that regard.

Birkés: We certainly see a reversion to lowest price. It is commoditization versus qualifications-based selection, even on projects that would greatly benefit from extensive experience and proven project performance. Customers resist admitting it, but the lowest price on bid day is not always the best value at the end of the day. I hope that we will see a little bit of a boomerang effect as a result of those low-price projects. Perhaps by not being a great construction experience, the bad memories and higher total costs will remind them that working with firms that truly bring a tremendous amount of experience to the table outweighs the momentary glow of the low-price decision.

Clients are looking to gain project efficiencies through technology and process improvements. We are certainly seeing more requirements around BIM. BIM has not reached the pinnacle of its full capacity. It remains difficult for the industry to integrate BIM from the beginning to end of the project, but that time is coming.

Everybody, thank heavens, is getting on the green bandwagon — it is just the right thing to do.

Owners are aware of the potential benefits technology can yield for the long-term operations of their buildings. Clients demand technological solutions, and we, as an industry, are working hard to figure out how to deliver on their expectations.

The drive toward green continues. It has been amazing to see how quickly green construction has taken off when it has really been around for a long time. Owners are

now willing to make greater initial investments, because they realize the long-term, life-cycle costs are better with those investments. Everybody, thank heavens, is getting on the green bandwagon — it is just the right thing to do.

FMI Quarterly: What other key drivers are pushing customers to buy differently?

Birkés: Demographics of the owners are driving changes in their value systems and in their companies. It is a reflection of the changing global demographical and sociological factors. For example, more women are graduating from college than men are today. There is a significant growth in our Hispanic population. Richard Florida's concept is that companies will go where the workers are. That means companies will be facing differing dynamics, even moving to places where there is tremendous diversity.

We are sitting across the table from decision makers who do not look like the leadership that is currently in place within our own organizations; they are completely different. People like to work with people where they feel a

common bond. The diversity of the people within our own organizations needs to reflect that of the overall changing dynamic in business. Matching our company leaders and clients demographically is critical and it is not something that is going to happen unless we, as companies in the A/E/C industry, are strategic about forcing that to happen. We need to proactively identify and develop leaders with diverse backgrounds, genders and ethnicities in order to be successful with the owners we are sitting across from both today and into the future.

FMI Quarterly: How should A/E/C firms react to the changing markets and customers?

Birkes: Greater emphasis needs to be put on the contributions of business development and marketing people. We are starting to see some of that occur in the market. In the 1980s, and even earlier in this recession, when faced with low prices on projects, some companies said, "That's overhead. Anybody can do that," so they cut their business development and marketing staff. A/E/C organizations are now realizing that they need people that have tremendous marketing and business development skill sets. They need to use them in much more strategic ways and bring them to the executive table. Good marketing and business development people have foresight into the clients' needs, what they value as well as what is happening in the industry.

We have a tremendous distance to go in business development in the A/E/C industry as compared to our peers on the product side. On the product side, chief marketing officers on the executive leadership team are prevalent. In comparison, within the A/E/C industry, business development and marketing roles have been pushed down into lower-level functions. They need be part of the executive leadership team, helping companies understand how to position to compete effectively.

I have seen companies start to transition toward an elevated importance of business development and marketing. Demand for strong business development people is increasing. Companies are realizing they need to make those types of investments to ensure their future success. What we are beginning to see is a convergence of increasing sophistication of the business development professional with deep A/E/C industry experience, using true fundamental return on investment benchmarks to test and prove the kind of things that professional marketers in other industries have been doing for a long time. This approach is proving greater value to their organizations and, hence, driving even greater expectations of the organizations for the function of business development and marketing. It is all a good thing. It is a sign of maturity of our profession and the A/E/C industry.

FMI Quarterly: How can firms become or stay nimble in this market?

Birkes: They are going to have to figure out how to do smaller projects profitably. That has been a big issue. Big firms that have big overheads have

tremendous difficulty because the majority of projects that are moving ahead are self-funded and smaller. As long as financing remains tight, that trend will continue. It is a huge challenge for big companies to address. They are going to have to figure that out because today it takes several jobs to equal the one job that we had before. This is a challenge that requires companies to be very nimble.

Another challenge is market diversity. Those companies that had most of their eggs in one basket, in markets like the lodging industry or retail were immediately impacted. If those companies are not out of business now,

they are, at a minimum, scrambling.

Companies that already had deep and varied portfolios are better positioned. Companies are going to need to look at how they can diversify to protect themselves from economic downturns. We all need to be more diverse in the project types we pursue, but also more diverse in our geographies. While it has been an across-the-country, across-the-globe recession, different geographies have been impacted at different levels. The challenge is that the time to make the changes is typically when people are trying to cut back and save costs. The investments they make today are what will drive their ability to be successful in the future. It is a challenge for those companies to make these investments that are just struggling to stay afloat.

Companies that do have reserves

and can make the investments in their infrastructure, like technologies and picking up available quality staff because companies have gone out of business, are the ones that are going to be better-positioned in the future.

FMI Quarterly: Dana, what advice do you have to companies struggling to find work?

Birkes: First, know that everybody is struggling to find work. That is what is happening right now. Go back to the comment I made regarding times of crisis — it gives us a chance to look at things that are not working and that need to improve. I do believe we are going to be a better industry in the long run as a result of this difficult market. We always come out stronger. We cut our excess. We have more people who are able to look at where the inefficiencies are and make changes. When times are great, business is great;

Companies that already had deep and varied portfolios are better positioned. Companies are going to need to look at how they can diversify to protect themselves from economic downturns.

when times are difficult, we need to tighten up and get better. We need to improve our processes and how we deliver services that will improve client satisfaction. Those are all good outcomes of difficult times.

Companies need to hold their clients tighter than they ever have before. That means that much of their business development effort should be around keeping their current clients, because every competitor is out to get them and they are making very conscientious investments to do so. You have captured their interest if you're working with them now. You need to have a capture plan for your existing clients to make sure you retain them. Ensure you do not sacrifice existing clients with your efforts to get new clients. I am not saying do not go out and get new clients; we all need to do that as well. Just balance your efforts between new and old clients.

The transitions occurring in the business development and marketing functions are creating both challenges and opportunities for companies. Changing client demands and expectations are adding new pressures to the role that marketing and business development play in the success of the company.

Gone are the days that business development and marketing were sidelined from strategic conversations in the company. They should bring fresh, client- and market-focused ideas to the strategy table.

Business development is now an everyday role of operations, estimating and pre-construction services. Once stand-alone staffs loosely linked to operations, they are now fully integrated teams, blending operational experience with the client-facing skills that have traditionally been the domain of business development.

Now is the time to look for new answers; now is the time to look for people with people and business skills needed to position your organization in the market. The face of business development is changing. Today, it is a face leading companies into the future. ■

Cynthia Paul is a managing director at FMI Corporation. She may be reached at 303.398.7206 or via e-mail at cpaul@fminet.com.

What makes Best-in-class Contractors Better?

Setting a goal of operational excellence is more than a mantra. It requires hard work.

By Jim Schug

Many people will recall a comical scene in the movie “Elf” where Will Farrell takes his girlfriend on a date to a New York City café so that he can treat her to the world’s best cup of coffee. Most of the audience knows that almost every café in New York City has a sign advertising the same. Probably most humorous in the scene is how convincing Will Ferrell is in believing that the coffee is truly the world’s best.

In many ways, contractors fall into a similar trap — fully believing they have great operational processes simply because they rely on overused clichés in their mission statements. This article aims to identify those areas at the root of what great contractors do differently.

OPERATIONAL EXCELLENCE CAN BE MEDIOCRE AT BEST

Since the onset of the Great Recession, many contractors set operational excellence at the forefront of their company strategy. This is with good reason. The benefits of world-class performance mean more wins on bid day (competing in a low-price market) or more profit at project completion. Done well, 65% of general contractors feel that they can improve the project schedule more than 5%,

while more than 70% of subcontractors can save more than 5% on labor costs with the correct management focus on efficiency. In addition, during this economic malaise, by focusing on satisfied customers and well-trained performance by our field personnel, we can ensure consistent and confident processes to complete projects successfully on time and budget. When the economy starts to return, this great operational base will allow expansion into new geographical markets or additional services (see Exhibit 1).

Because having great operations in a competitive market means that you have to top your competitors operationally, many contractors ask themselves if they truly are best-in-class. The term itself can mean many things and must tie into a company's strategy. For instance, a company focused on negotiated private work may want to be best-in-class in quality and timeliness, while another firm competing in a hard bid public market may aspire to be best-in-class in cost management. As seen in Exhibit 2, contractors can undertake resource-intensive initiatives to improve operations, without realizing they do not support their strategic goals. Many of the following slogans are found in strategic plans and the halls of great contractors:

- We are best-in-class in operations
- Operational excellence
- Execution-focused
- Experts in construction operations

I'M IN GREAT SHAPE... OR MAYBE NOT...

Leaders administer the Army Physical Fitness Test semiannually to soldiers. The rules to conduct the test (performance criteria) are specific in nature. While the test is often a gut check to push as hard as possible, it is highly dependent on how well one trained for the tested events: a two-mile run, maximum pushups in two minutes and maximum sit-ups in two minutes. Some find themselves failing

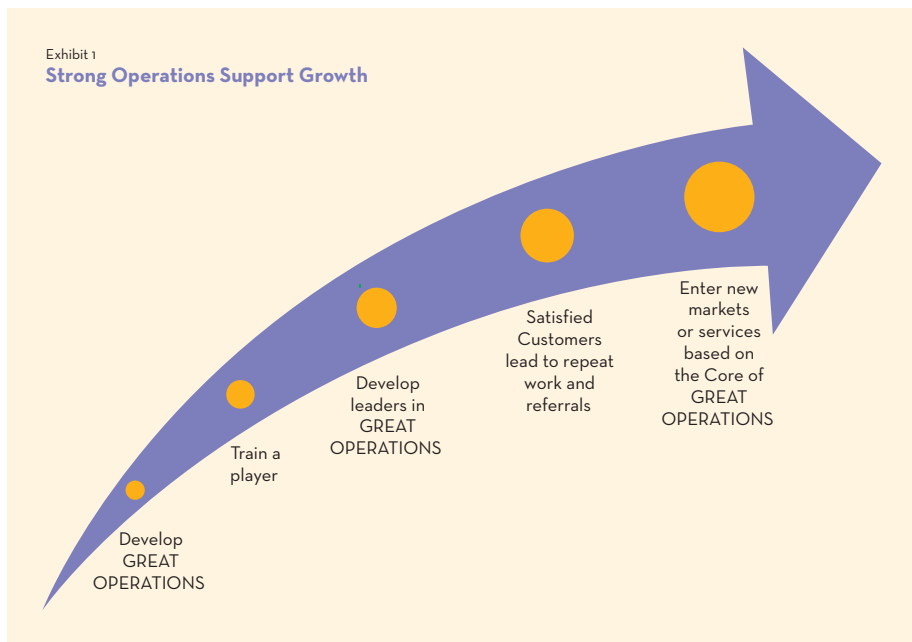
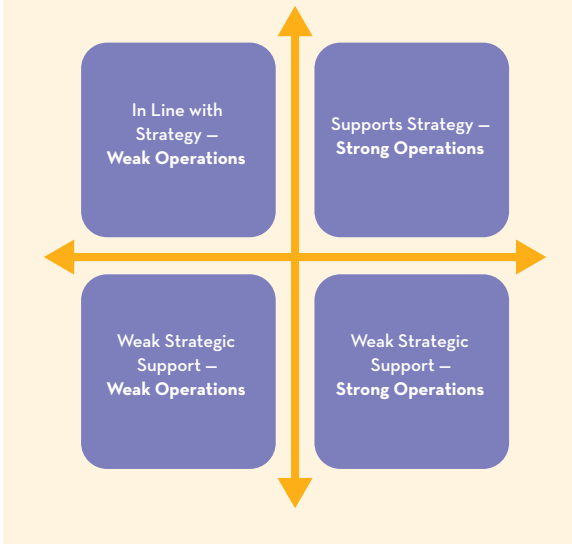


Exhibit 2
Strategy-Operations Initiatives Matrix



one of the three events, typically for lack of specific training. Bench presses may not improve pushup scores, nor would running long distances in cadence necessarily improve two-mile run times. Master fitness trainers often develop rigorous training routines and benchmark the unit's fitness levels to adjust as performance in the events improves. For individuals preparing on their own, as with anything else in life, it is possible between tests to feel too good

about the run time and slack off in training properly for it. There is no hiding at the finish line of the next test, when the clock reads 15:30, proving that the soldier was far from the 12:00 minute run time expected! This objective measurement forces the soldier to re-evaluate the physical training regimen and include more running and more specific speed work. By adjusting and focusing in the training, the soldier reaches improved results. The example of a physical fitness or weight-loss program is simple and demonstrates how performance can be tracked and benchmarked to see if someone is in best-of-class physical fitness shape.

Measuring performance for an organization that completes many separate and unique projects throughout the year can often be difficult and hard to correlate. Contractors have a much harder time knowing if they are world-class in operations as well as difficulty knowing if they are truly improving operationally over time.

MEASUREMENT OVERLOAD

Some contractors are bogged down with the wizardry of software and attempt to measure everything possible, only to find themselves overrun by minutia. "The data is on the server" is what supervisors hear, even while they struggle to find the correct link to start querying to see their scoreboard for the week.

Management meetings are typically just a recitation of data collected that

Measuring performance for an organization that completes many separate and unique projects throughout the year can often be difficult and hard to correlate.

month. A flood of information is not proper management. At the other extreme is a contractor who over-relies on one metric or measurement that is not robust enough to take into consideration the full scope of the business. The challenge with this approach is that it can likewise lead to problems. Consider the contractor who focuses on customer satisfaction and completing jobs on time, yet fails to consider the additional costs involved to get there. Only measuring outcomes without considering inputs is often detrimental to successful contractors. Having the right mix of data distributed at effective intervals reduces the needless flood of

data that swamps the field manager and reduces it to the most important focus areas (i.e., what changes would you make with a daily project profitability report?). When this information is presented clearly and distributed to the correct level of management, it provides the field a visual picture of their operations and leads to success (see Exhibit 3).



FLEXIBILITY WITH DISCIPLINE

FMI's 2010 Project Management Survey results highlighted the vast difference between the majority of self-identified "On Time On Budget" general contractors versus the "Not Always On Time, On Budget"

contractors. More than 80% of the great contractors indicated that they had a tried-and-true company way of doing things and that there was little difference between the processes followed by different project managers. This exceeded the "Not Always On Time, On Budget" contractor respondents by more than 40% (see Exhibit 4). This remarkable difference affects company performance in profit margin, timeliness, quality and customer satisfaction. Successful businesses orient their operations processes around a rigorous framework in order to prioritize resources and efforts across the company. Failure to establish clear guidance through project-oriented systems allows a reactive culture.

Discipline in Company

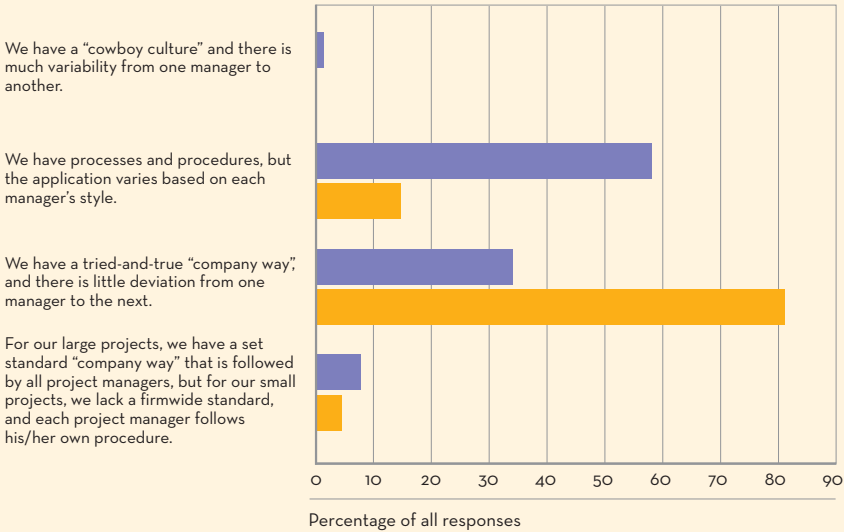
Operational processes results in clear communication between managers. Given some time to be proactive with resources, leaders will actually find more flexibility to complete projects in a timely manner. When the entire company has to surge to complete one project on time, working weekends and 24-hour days to keep the project

Exhibit 4

Consistency in Project Management Procedures

How consistent are your project management procedures from one project manager to another?

■ Not always on time, on budget
 ■ On time, on budget



Source: FMI's 2010 Project Management Survey

from running over budget or schedule, surrounding projects suffer. A precedent is established that the company will waste resources in the name of project completion and priorities are not set by proper planning, but rather by whichever project is most in need of rescue. This fire-fighting execution results in a doom loop as margin erosion becomes commonplace to preserve a cowboy culture. In many companies, this culture is bragged about and egos are tied up in "making it happen."

Companies that have clear and consistent operational procedures (great operations) can measure milestones and support the processes. Without uniform procedures to execute work, companies are unable to measure compliance and performance across several projects. Companies with a lack of consistent project management often have projects that resemble separate companies to clients. The company shop, finance department and even the general superintendent will each inefficiently run the same five projects differently. When this is the case, it is common to find a large company headquarters having increased staff to support the equivalent of five different companies.

PERSONA NON GRATA

Quality processes reach back through the centuries. They have varied through the years, including statistical process control, Quality Circles, teachings of Juran and Demings, TQM, Zero Defects, Six Sigma and Lean. Many of these processes include identifying an operational area to measure and adjusting until desired effects occur. While quality processes usually focus on manufacturing, the principles may often successfully be applied to construction. Much like the army soldier training for a physical fitness test, drastic improvements are made by measuring the right areas and working to improve them. What loses emphasis with some of

these manufacturing-based processes is the importance of people. Construction is a leadership-intensive industry. It is the people that have to make the processes work.

As an organization starts down the road toward excellent operations, most leaders quickly find themselves in the “murky land of human nature and group dynamics.”¹ In fact, the paradoxes alone cause confusion about the proper way to lead organizational change:

- Hire and promote the best versus Grow people and build a great team
- Hold people accountable versus Make this a great place to work
- Encourage initiative and responsibility versus Ensure discipline and that standards are followed
- Lead the organization to become action-oriented versus Do not micromanage

In many cases, this push and pull of conflicting actions is what leadership is about. The solution to the challenges above is clearly the tyranny of the “OR.”² Substituting each “versus” above with the word “and” appears easy in this written article, but requires emotional intelligence and leadership skills. In other words, hiring and promoting the best while growing people *and* building a team is a challenge. Bringing new high potentials into the company can challenge the Steady Eddies that have been loyal performers for years.

Processes and measurement assist leaders in giving clear guidance as well as holding managers and workers accountable. Employees should receive regular feedback (quarterly works well) regarding their performance as they are measured by their personal goals, their professional goals and their ability to execute.

THE CULTURE OF A LEARNING ORGANIZATION

Another leadership task critical to successful operations is cultivating an organizational attitude of continuous improvement. This runs counter to the climate of most contractors and to the natural instincts of the people in the company. Because of this, leaders must create an organization that can continue learning and improving.

Project managers and superintendents must comfortably discuss mistakes in search of ways to improve individuals as well as project teams. This candid discussion is very difficult because many employees, especially in this economy, fear losing their jobs. In addition, most field superintendents want to avoid showing any vulnerabilities and hesitate to ask for help. Leaders help people overcome these natural defenses and build a team willing to engage in lively debate regarding the issues that hold the company back. Done well, as each project is completed, the company improves. Over several years, the company begins to recognize

great operations. Culture becomes a dominant force in the organization. While strategy and processes are important, if the true culture of the company runs counter to them, expect only grudging compliance to processes and lip service to creating a trusting culture.

BLOCKING AND TACKLING AIN'T EASY

Setting a goal of operational excellence is more than a mantra. It requires hard work. Often senior leaders give little or no guidance, stating that we need to get back to “blocking and tackling.” This casual dismissal fails to recognize the hard and soft skills required to bring a contracting company to world-class status operationally. While watching

college football athletes can be inspiring to enjoy their physicality, there is a monumental difference from a graduated college senior and an NFL football starter. The difference can be attributed to the resources available to professional athletes, 24 hours, seven days a week. Professional football players dedicate their time to improvement under the guidance of dietitians, strength trainers, position coaches and improved technology. A year spent on a professional team takes the “simple” art of blocking and tackling to an entire new level. While there are athletes and companies that are the exception, making operational excellence a way of life requires commitment of resources, of leaders and persistence. By using the ideas discussed, contractors can take actions to achieve greater profitability and improved bid-day results. ■

While strategy and processes are important, if the true culture of the company runs counter to them, expect only grudging compliance to processes and lip service to creating a trusting culture.

Jim Schug is a consultant with FMI. He may be reached at 813.636.1254 or via e-mail at jschug@fminet.com.

¹ Kotter, John. 2010. How to Save Good Ideas. Harvard Book Review.

² Collins, Jim. 2001. From Good to Great. New York: Harper Business.

An Overlooked Asset for Business Development

Being enrolled in Subguard is a sign to the owner that the general contractor has been vetted and is in a fairly elite group of contractors who have been invited into the program.

By Wallace Marshall

Finding opportunities in stressed markets requires creativity and persistence. Similarly, finding work in tough times sometimes comes with unwelcome results such as contractor and subcontractor defaults.

Sponsor of the *FMI Quarterly*, Zurich is an insurance industry leader in product creativity. One Zurich product is Subguard, which was developed as a response to customer needs for simplifying and aligning interests in surety bond disputes between contractors and subcontractors, as well as reducing some of the frictional costs of insurance. Subguard is now 15 years old, attesting to Zurich's persistence. Recent growth in placement of the Subguard product reflects the durability of strategies that respond to customer needs.

FMI recently spoke with Jonathan Halloran, vice president of Construction Specialties at Zurich Construction, and Niles Sorenson, product manager for Subguard, to learn more about Subguard and its benefits to contractors.

Marshall: Let's talk about the state of the industry for a moment, Jonathan. At the beginning of the year, many people believed, or at least hoped, that the economy and construction activity would be on their way to a rebound by the beginning of 2011. The prospects for that appear rather dim at this point. You are talking with contractors across the U.S. and Canada on a regular basis — what are you hearing from them?

Halloran: At the beginning of the year, most of us were prepared for a dismal 2010 and 2011, given where contractor backlogs were. The most disturbing thing right now is that backlogs have continued to shrink or at least not rebounded as much as we would like them to, and I think contractors around the country are feeling that. The positive things are the pockets of more solid industry segments, such as health care, education and heavy highway. However, there are some concerns about a possible decline in government funding after the elections and how that might have an impact on those sectors. Therefore, 2011 into 2012 is still looking dim. Contractors are all optimists — otherwise they would not be contractors — however, I think it is hard to be optimistic about where things are going. That said, I do think we have hit the bottom. Most contractors I talk to say their backlogs are coming back, just more slowly than they would like.

Marshall: Tell us a little bit about the origin of Subguard. It has been around for some 15 years now, and as I understand it, its basic idea came from the bottom up, so to speak, from your customers.

Halloran: Yes, the original idea came from general contractors and at-risk construction managers who were frustrated with the process of resolving surety bond disputes when a subcontractor defaults. They came to us and asked us to work on building an insurance product, or first-party product, that would prevent the misalignment of interests that can occur when there is a surety bond in place and the subcontractor does not meet the terms and conditions of its contract. Subguard was put in place by Zurich in 1995, so we are excited about celebrating 15 years this year. That is a short time in the insurance world, but it has been long enough for Subguard to become established and understood as a key component of the industry. We wrote two policies in 1996 and now have approximately 145 rolling programs in place. We had some attrition over the last two years because some contractors who were in the Subguard program did not have the revenues to sustain it and had to put it on ice temporarily. However, the trend has reversed in 2010, and we have put 11 or 12 new programs on the books so far this year.

Contractors are all optimists — otherwise they would not be contractors — however, I think it is hard to be optimistic about where things are going.

Marshall: We are all aware of the well-worn, “our-product-is-not-for-everyone” sales tactic. But in the case of Subguard, this really is true. It is not easy to get into the program, and the application process is arduous. What kind of contractor should consider getting into Subguard, and what does it take to get in?

Halloran: You are absolutely right; it is not for everyone. Subguard is and will

always be a niche product. It is intended for midsize to large general building contractors. The minimum that we look for in the program is \$75 million of subcontract volume per year, though we have occasionally accepted less subvolume than that in the past and will in the future if there is a right fit with other factors. Generally speaking, \$75 million or more in annual subcontract volume is about where the program makes economic sense for most contractors.

And yes, there are some important qualifications a contractor has to meet to get into the program. The contractor must have a robust pre-qualification program for its subcontractors. If contractors are always selecting the low-bid sub, then Subguard probably is not for them. We also look for good subcontractor management procedures. The default process has to be clearly defined. Quality control is extremely important. And, of course, the contractor has to be financially sound and have a solid plan for managing and maintaining its profitability.

From Zurich's perspective, we have to have a thorough qualification process, because once we admit a company into the program, we have essentially turned over the underwriting of its subcontractors to that general contractor. We put a lot of risk into the program, but we are willing to do that because we believe we are selecting the right partners.

Marshall: How long does the approval process take?

Halloran: On the short side, it can take 90 days from when someone first approaches us. We have done that very few times, though. For most general contractors, it takes six months to a year to get into the program.

Marshall: One of the main things owners are concerned about in this environment is the financial viability of the contractor. So I imagine that having the Subguard "seal of approval" can be a real selling point when contractors are marketing themselves for a prospective project.

Halloran: There's no question that sophisticated owners — and maybe even owners who are not sophisticated — are paying a lot of attention to the balance sheet of the general contractors they hire. The other thing we are seeing more of now is owners who are paying attention to the general contractor's selection process for subcontractors. Many projects will have 85% to 90% of their work subcontracted, so there is an awful lot of risk on a project whose success resides so heavily with the subcontractors.

Having a qualified and adequately capitalized general contractor is always going to be paramount in savvy owners' minds. Now they are increasingly looking down the line and asking, "Are we getting the right subcontractors, and are we getting the right protection on the project in the case that one of those subcontractors doesn't perform?"

That is where Subguard has been a great aid to many general contractors in their sales process as they talk to owners about what they see as the risks of a project and their plans as to how to address those risks.

Marshall: So from an owner's point of view with Subguard, Zurich is really acting as a third-party verifier of the contractor's financial stability, its subcontractor selection process and its sub-management process — and not just

an independent third party, but a party who actually has a financial interest in those things being very sound.

Halloran: That's absolutely right, Wallace, because the vetting process to get into Subguard is so extensive. There's no company out there who has seen as many subcontractor defaults as Zurich has, and from our collective experience with general contractors, we have been able to come up with a set of best practices that minimize the possibility of defaults happening. I think the general contractors who have enrolled in Subguard have benefited from being able to avail themselves of those best practices.

Marshall: If a subcontractor runs into serious problems on a job, as to either performance or financial viability, explain how the Subguard insurance is activated and how that process is different from what would happen under a traditional surety arrangement.

Halloran: The process is actually quite simple. The trigger for Subguard to go into effect is when the general contractor declares a subcontractor to be in default. What constitutes default depends on how that is specified in the contract signed between the general contractor and subcontractor. Once the general contractor deems the subcontractor to be in material breach of the contract, it can issue the appropriate notices to Zurich and the subcontractor, and then the claims process begins.

The objective of the claims process is to assist in mitigation of the loss and to determine the lost costs resulting from the subcontractor default. The documentation process can take some time, but our risk engineers work closely with our clients to help them in that process.

Marshall: Owners really seem to like Subguard. Why is that?

Halloran: Besides what we have already talked about, another reason that owners have been so receptive and positive about Subguard is that under the traditional surety bond arrangement, the surety has the right to investigate the claim of default. Timely completion of the project is always important to the owner. The principal on the bond is the subcontractor, and the surety, as part of their agreement with that principal, when they receive a notice of default have an obligation to go in and investigate that notice. That investigation can take 90 days or even longer, and during that time, the general contractor is, in many cases, obliged to slow down or even stop the project in order to allow the surety to investigate the circumstances of default at that point in time. Obviously, this is highly unattractive to an owner, and with Subguard, it can be avoided.

Speed of resolution is the main thing owners like about Subguard. The other thing they like is that under Subguard, the coverage will extend to the full limits of liability. The value of a surety bond is typically the size of the subcontract; so a \$2 million bond would have \$2 million of coverage, whereas with Subguard, a \$2 million subcontract may have \$10 million, \$20 million or even \$50 million of coverage on it per the terms of the policy. We have seen many claims paid well in excess of the contract value — as much as 10 times the contract value. If Subguard had not been in place, these situations would have put the general contractor's balance sheet at risk.

Marshall: Business development has become the focus by many companies right now as the market has become more and more competitive. You are of the opinion that Subguard is a terrific asset for business development. We have already talked about one of those aspects, namely that Subguard is a mark to the owner that the contractor is financially and managerially sound. Tell us more about that.

Halloran: The market is certainly competitive, and in the private/negotiated sector, this is a time when general contractors need to think deeply about how they are selling themselves and to look for every possible angle — not just what they can sell themselves but what their competition is selling.

Being enrolled in Subguard is a sign to the owner that the general contractor has been vetted and is in a fairly elite group of contractors who have been invited into the program. As we just discussed, when bringing Subguard to the table, a general contractor can offer much broader coverage to the owner. Another selling point for the owner is the liquidity that Subguard can provide to a project. What I mean by that is when an issue does arise, Zurich's obligation is to pay claims within 30 days of a contractor submitting proof of loss. That can provide a fast turnaround of cash to the project, which from an owner's perspective is important — making sure that there are adequate funds to keep a project on time.

Subguard is a product that is focused on a project not only being on budget but also being on time, and those are the two things that are most important to an owner.

Many rating agencies and lenders look positively on having Subguard on a project for an owner's performance risk guarantee. If contractors sit down with owners and talk to them about how their lenders and the big project-rating agencies will look favorably on Subguard, especially if it's a P-3 project, that's a

The market is certainly competitive, and in the private/negotiated sector, this is a time when general contractors need to think deeply about how they are selling themselves and to look for every possible angle.

conversation owners are really going to be interested in having.

Some owners are actually specifying Subguard as a requirement in the RFP, and we will sometimes have contractors wanting to enroll in the program so they can bid on a project where it has been specified. Unfortunately, I have to tell them that the process to get into Subguard takes a while and they most likely will not complete it in time for that particular project.

Marshall: On the flip side, what kind of objections or prejudices might owners have against Subguard, and how can a contractor who uses Subguard answer those concerns?

Halloran: The primary thing we hear is that it is new and untested, and also that there's no case law on Subguard, to which I'm always happy to say, "Yes, that's true, and we are quite proud of the fact that our claims have not been litigated and that our policy has not been challenged in court."

And there is a very simple reason for that. The alignment of interests that Subguard creates is one that really avoids disputes. We run approximately \$40 billion of subcontract volume through the program every year. So if you compare that to surety volume and consider a typical 1% surety rate, that would make Subguard the equivalent of \$400 million in surety premiums, which would put us somewhere among the top-six sureties. So when you think about it that way, we're a niche product, but we're a large niche product, and we have paid many claims — several large ones and a lot of smaller to midsize claims.

The alignment of interests that Subguard creates is one that really avoids disputes.

Sorenson: Clemson University conducted a study for the NASBP and the American Subcontractors Association (ASA) that dispelled many

of the common myths surrounding subcontractor default insurance. It is a great resource for anyone who wants to look further into the issue of how to handle common objections owners might have against Subguard.

Owners will sometimes ask, "What's in the Subguard product for me, and why am I being asked to pay for it? Isn't it the general contractor's job to manage the risks associated with the project?" That is true. It is the general contractor's job to manage the project, and Subguard is just a more efficient way of doing it. Another answer general contractors can give to this question is that there is a cost associated with the activities of pre-qualifying subcontractors and managing subcontractor pools, and that Subguard provides a way of actually displaying that cost and allowing the general contractor to be compensated for that expense.

One other complaint you sometimes hear is that Subguard can be canceled. That is absolutely a myth. Once contractors enroll, they are covered for the life of the construction process of the project and for a certain period after substantial completion.

Marshall: Subguard coverage can last for up to 10 years on a project, correct?

Sorenson: Yes. Just how long depends on the needs of a general contractor's projects, but it can go for as much as 10 years following substantial completion of a project. That is something the general contractor and Zurich decide on together.

Halloran: One other elephant in the room that I did not address is the accusation that Subguard is a program that provides rebates and kickbacks to general contractors. I think that results from a misunderstanding of the difference between insurance and surety.

Marshall: You're referring to the fact that with Subguard, Zurich will pay back to the general contractor a significant portion of the premium it pays, and this money goes into an account the contractor can use towards paying its deductibles on any claims filed, correct?

Halloran: Exactly. Subguard has a large deductible, because it is really a risk-sharing program, so there is an element of risk and reward. This stems from the financing or funding for the deductible layer, just as there is for any other large line of insurance a contractor carries — workers' comp, general liability or any other lines where the insured take a deductible. If there is a good experience, there will be a returned premium, and if there is a bad experience, there will be an additional premium. It is a large-deductible program and has the same features in this regard as other large-deductible insurance programs.

Marshall: I know that when Subguard first came out, one concern owners had was that it was a new product and might not be around for very long, especially if the industry went through another bad round of subcontractor defaults like we have sometimes seen in the past. Do you still encounter that concern?

Halloran: Occasionally, and the way I always address that question is to point out that Subguard is now in four countries and is expanding aggressively. We are looking at the European market, for instance, and that is not something we would be doing if Subguard were not viable. We have certainly paid our fair share of claims and will continue to, but we feel really good about Subguard's place in our portfolio.

Marshall: I would imagine that if you look at owners in higher education, health care and certain government agencies, which right now are where most of the negotiated or select-bid work is occurring, there is a much greater need for contractors to educate those owners in risk management than is the case in the developer-driven market where a contractor is dealing with an owner who is much more likely to understand the ins and outs of project financing and risk management.

Subguard has a large deductible, because it is really a risk-sharing program, so there is an element of risk and reward.

Halloran: I think that is absolutely true. In the institutional sectors, you may be dealing with a client that has not built very much in the past, and being able to educate them in project risk and risk solutions can be a tremendous differentiator for a general contractor. If owners think you are sophisticated in that area, that will be a strong indicator for them of your overall sophistication as an organization.

The other thing to keep in mind if you are relatively new to the institutional sector is that those owners are not going to flip their building over to a property owner as some developers do. They are building for their end-users who are going to use the new facility for the next 50 years.

Marshall: Are there any contractors that stand out to you as companies that do a particularly good job at integrating Subguard and other insurances into their business development efforts?

Halloran: For reasons of confidentiality, I cannot share specific names of general contractors, but what I can do is give you a list of the some of the practices that have been successful in the business development efforts of contractors in the program.

The first thing a contractor needs to have in place is a sophisticated sales process. However you sell yourself as a contractor with regard to the particular strengths and areas of expertise you may have, successful contractors in our program have figured out how to do the same thing with regard to how they manage insurance programs and risk on a project. In the construction industry, risk comes in many different forms; but the one thing the risks all have in common is that they are big.

Risk management is an important topic in the mind of owners, and we have seen some great examples of contractors who have learned how to market themselves to owners as solid risk managers.

They will train their business development people in risk management, and some contractors even have — for each of their divisions — a specific business development person who can talk to owners about risk management solutions.

Repetition is a big part of it. Over time you come to really understand how an owner reacts to Subguard, and then the ability to create marketing materials around that understanding is a great asset.

I should also point out that Subguard is not the only insurance product a contractor can use in business development. Contractors can also use their surety line. There is nothing more important to a contractor than its ability to be able to

Risk management is an important topic in the mind of owners, and we have seen some great examples of contractors who have learned how to market themselves to owners as solid risk managers.

bond a job. But even if they do not do bonded jobs, having a quality surety and a good surety line is a powerful statement to an owner that you have been vetted from a financial perspective in the same way Subguard vets you from an operational perspective.

A contractor controlled insurance program (CCIP) indicates a level of sophistication in a general contractor in understanding risk management. It is a great way for a contractor to convey the benefits of a CCIP to an owner without putting the responsibility and administrative burdens a traditional CCIP often create for an owner.

A well-managed and well-constructed builders' risk program can be a great selling tool with owners. Successful contractors need to have stories they can carry with them into business development: horror stories about things that have happened with poor risk programs, as well as success stories about how they have been able to use their relationship with their carriers to get problems resolved quickly.

You need to have a comprehensive umbrella approach that can discuss all the what ifs of a project, including ones that may be completely beyond the control of either the general contractor or the owner. Then you need intelligently to discuss the options for covering those risks. Show them how you can protect the project and protect the reputations of all the parties involved.

Zurich has a tremendous team of risk engineers who regularly visit job sites. We know of at least one government agency that is really positive about Subguard for that very reason. It likes the idea that our risk engineers — we have about 150 dedicated construction risk engineers with 32 specifically dedicated to Subguard — are out on the jobs looking for any possible issues with design, subcontractor performance and anything else. It appreciates having that second set of professional eyes on the project — people who have spent 15–20 years in the construction or design industry and now form the backbone of our organization. That is something that brings tremendous value to both the owner and the general contractor.

Marshall: Subguard is not exactly popular with most of the surety industry, but Zurich offers both the traditional surety bond and Subguard. How did that come about, and how does Zurich manage the tension that usually exists between Subguard and traditional surety products?

Halloran: I think within Zurich, the Subguard people have a great relationship with our surety team. David Hewitt, who runs the contract surety group, and I talk at least once a week and collaborate on industry issues. We recently did an interview together for a magazine on how we are viewing contract risk in the cycle the industry is coming into now.

Over the last 15 years, much of the tension you mention has gone away, and within Zurich it has turned into a positive collaboration. Being able to deliver a true total solution to our clients and, in turn, to their clients — the owners, in terms of being able to provide the performance and payment bonds to the general contractor and then wrap up the subcontractor default risk in Subguard — creates a compelling product and program for our clients.

I agree that there remains some tension with the larger surety industry, but I

would say that even that has largely moved on. I speak regularly at NASPB [National Association of Surety Bond Producers] and SAA [Surety Association of America] events, and generally I have been warmly received there. I have heard many comments from the surety industry about how Subguard has been a great challenge as well as a wakeup call to improve the claims process. And I think Zurich has led the way in that regard by improving our own responsiveness to claims on the surety side.

So in general the relationship between Subguard and traditional sureties has become a positive one. There is always going to be some tension, as surety bonds and Subguard do compete as products in some ways. As I said previously, Subguard has always been a niche product. Early on, the surety industry was a little suspicious of that claim, but it has come to realize that is indeed the case. It is a niche product and is not at any point going to be replacing sureties.

Marshall: Can you comment on the relative popularity of Subguard in the U.S. versus that in Canada?

Halloran: Canada is our most densely penetrated market, and there is a very simple reason for that. Public-private partnerships have taken firm hold there, especially in Ontario and British Columbia, and the P3 structure lends itself to a solution for subcontractor default risk. Owners there have embraced Subguard as a way to manage their projects. If you look at the major infrastructure and public health projects in Canada, almost every one of those has been a Subguard project.

In the U.S., we still have a big market and a long way to go. In Canada, we have a few new clients we are targeting, but there are not nearly as many opportunities as we have in the U.S.

Marshall: Two to three years ago, there was much talk about P3 projects here in the U.S., and much of that went away with the turn the financial markets took shortly thereafter. Did the same thing happen in Canada, and when do you expect P3 projects to return to the front burner in the U.S. market?

Halloran: Canada has benefitted from a strong banking center and a better government balance sheet than the U.S. has, and I think P3 projects will continue to move forward there.

As far as the U.S. goes, we are finally starting to see P3s take hold here. So far, it has been more on the infrastructure side than the building construction side. What is going to distinguish the P3 sector in the U.S., though, is that there are 50 states with all kinds of different regulations, and so there will have to be 50 different solutions to accommodate each of them. Not to mention the thousands

of local municipalities that will be involved in P3s, which will also require their own distinctive solutions. Therefore, P3 will be more complex in the U.S. than in Canada, where three provinces are doing the bulk of those projects.

Marshall: Can you comment on how Subguard might intersect on P3 projects with the InfraSolutions product Zurich has developed?

Halloran: InfraSolutions is a comprehensive solution that has been developed specifically for infrastructure projects, whereas Subguard is concentrated on the vertical building market. I think that as more building construction enters the P3 arena, Subguard will be able to fit nicely into the InfraSolutions program.

Marshall: Jonathan and Nils, thanks very much for your time. You have given us a clearer understanding of how Subguard fits into both the Zurich portfolio and the surety industry in general. We are particularly grateful for your insights regarding the use of Subguard in business development. As I mentioned earlier, business development is getting an awful lot of attention from our clients these days, and as you said, in this competitive market, a contractor needs to bring every asset it has to the table. ■

Wallace Marshall is a consultant with FMI Corporation. He may be reached at 919.521.5843 or via e-mail at wmarshall@fminet.com.

Branding Successes, Bobbles and Missteps

You need to be able to deliver
100% of the time on your
brand promise.

By Cynthia Paul

You are at a bid opening, competing against 15 other contractors. You need the work so you went in competitive, and branding is the last thing on your mind. The other contractors are in the same strategic place you are; they need the work too. With customers so focused on squeezing the last penny out of a project, why is branding even a consideration, much less important?

Branding is not getting much attention today, given the competitive posture of the market. Nevertheless, branding and brands remain as important now as they were in the boom years several years ago. Strong brands continue to pay dividends to the companies that have them, edging out those lesser-known companies with fuzzy or lifeless brands.

A brand, in a service business like construction, is nothing more than your reputation. If your brand, or your reputation, is vague or flat, expect your future to be much like the past several years — very competitive with too many contractors racing to compete on price. A well-done brand reinforces the customer's perception that you are worth more than the competition. When there is an oversupply of contractors from which to pick, branding can be the thing that sets you apart from the pack.

A brand will not guarantee you a couple of percentage points on your selling price, but it can be the basis for giving the customer a business excuse to either give you a second look or engage you in a conversation about the job. If you provide much of what every other good contractor does on a project, your brand is not going to be your saving grace. To stand out, brands need to be distinctive, superior to others and resonate with the customer.

Brands come from the promises you make to the marketplace in the process of winning jobs that you deliver on during construction. If you promise four things in the get-work process but only deliver three, your brand will suffer. You will be known for over-promising and under-delivering. You will feel the impact, as customers demand more and more price concessions to continue to work with you. The key to ensuring you only promise things you can deliver is to build the systems and structures needed to deliver 100% of the time. Contributing to

The key to ensuring you only promise things you can deliver is to build the systems and structures needed to deliver 100% of the time.

why many contractors' brands are in the tank today is the ineffective handoff among business development, estimating and operations. Ineffective handoffs almost always result in the customers' perceptions of unkept promises.

BRANDS TODAY

The recession and the challenging markets that result have negatively impacted the amount of work available. Private markets still feel the pinch of funding and financing. Public market projects have an overabundance of contractors competing for their fair share of the work. The result is that too many contractors are chasing too little work. Customers have unprecedented choices of which architects, engineers

and contractors (A/E/C) to select for their projects. Customers can make demands on how A/E/C companies engage in work and with whom they team. They can even control much of the construction process.

Prior to the recession, when markets were hot and booming, A/E/C companies held a great deal of the market control, a seller's market, in other words. Those days will remain behind us for several years yet to come. Today customers have the biggest and best A/E/C companies fighting tooth and nail to win work. Three years ago those same big A/E/C companies would have passed on the opportunity to chase midsized projects. Today they are fighting to win the work. Customers are truly in charge and are enjoying the resulting tumble of market pricing on projects.

Brands help accelerate the customers' understanding of you and your company. Your brand allows them to get to know you better in a shorter amount of time. Of course, that acceleration presupposes that your brand is clear, concise and compelling to the client. Brand management is the process by which your

company communicates, strengthens and keeps your brand at the forefront of the minds of targeted customers and markets. Customers and prospects are who own your brand.

Your job is to nurture and grow your brand. Evolving the brand is much more difficult, since that refers to changing how customers understand, experience and think about you and your company. Your brand is your reputation, representing the technical, economic, service and social benefits of using you on a project. If you want to change your reputation, you will need to do more than simply say you are different or that you are going to be different in the future. To change your brand, you will need to change how your people go about their work, change the systems that support them, focus on different outcomes and objectives, etc. and then communicate those changes to the customers and the market. Demonstration of these changes is more effective by far than merely claiming that your organization has changed for the better.

Your brand is fighting for space in the customer's brain, and there is a lot of competition. Think of the number of messages you receive each day about companies and products. There are thousands, if not tens of thousands, in the form of radio and television advertisements, billboards, signs on trucks rolling down the highway, logos on shirts and stores, beverages, e-mails, newsletters and even from other people recounting a message about a product or service that they have recently used. The messages can be positive or negative, but the point is very few ever make it through our filter system. We are very effective at filtering out the majority of messages so effectively that we cannot even recall we have seen or heard them.

A quick test: Think of the last brand message that you heard or saw. What were the last five? If you are thinking of something you saw yesterday, you are fooling yourself. From the moment we wake up, the bombardment begins. For some it starts in the form of the brand of alarm clock, message on the radio or the coffee pot. We see it in the newspaper on our porch, the brand of car we drive, the advertisement on the bus passing us on the way to work, and the name of the clothing we wear. If we were unable to filter all these messages, it would overload our ability to think, preventing us from functioning. The filters we have in place are actually healthy and beneficial. The challenge is not in our ability to filter out unwanted messages; it is our ability to get our customers to filter some of our brand into their brains.

Be careful that you are not actively promoting elements of your business needed just to be a good contractor. For example, unless you are leading your

If you want to change your reputation, you will need to do more than simply say you are different or that you are going to be different in the future.

competitors in safety performance, telling customers in a proposal or a sales call that you are safe is a “me-too” strategy at best. That is called brand parity (see Exhibit 1).

If your brand is a “me too” doing nothing more than matching a competitor, then it does not give you a substantial advantage. It makes you a commodity at best. You need to let customers know that you are as good as your competitors by giving them something of value that they can only get from you.

Brand parity not only commoditizes the brands but also reinforces customers’ perceptions that all the good contractors shortlisted are all equally qualified for the job. When everything else is perceived to be even, how could the would-be customer possibly discriminate on any basis other than price?

A common challenge with construction company brands is they become too complicated, with too many elements. Customers are busy focusing on their own company and concerns. It is not likely they are going to remember 15 different elements that comprise your brand. The message needs to be concise. Yes, a customer could recall probably 20 or 30 different good things about your company, but you would really have to push them to produce that list. They might say that you have an extraordinary level of talent at the field level. They might even mention that Joe Montoya or Susan Ellerton is the best there is. Concise, unique brands are easier to remember and are much easier on which to deliver.

Focus on the benefits that the customer gets from your brand, not the elements that make it up. For example, Exhibit 1 on Brand Parity focuses on the elements of the brand (i.e., outstanding safety performance) rather than the benefit to the customer (i.e., keeps its plant running during construction, helps it meet company’s safety goals, etc.).

REBRANDING: SLOW DEATH OR LIFE PRESERVER?

Most rebranding efforts in the construction industry are expensive adventures that generate little to negative results for the company. Changing your graphical identity, your logo, company colors, etc., does little to change your brand. Those

Exhibit 1
Brand Parity

Brand Elements	Your Company	Competitor A	Competitor B	Competitor C	Competitor D
Outstanding safety performance	●	●	●	●	●
On-time performance	●	●	●	●	●
Building information modeling	●	●	●	●	●
Résumé of similar projects	●	●	●	●	●
ASHE-certified people	●	●	●	●	
LEED-certified people	●	●	●		
Local senior management engaged in project	●			●	
95% Customer satisfaction rating	●				

items can signal that a change is occurring in the brand, but they do not change the brand. For that reason, 90% of rebranding in the construction industry does not work. You cannot just say you are a different person and expect your personal reputation to change; the exact same thing is true about your brand. If you want to rebrand your company, you will need to do more than just talk about it; you will need to create the systems and structures that allow you to create different outcomes. To change your brand successfully, you have to change your company.

The majority of rebranding efforts in the construction industry are doomed to a slow, meaningless and painful death. The idea of rebranding is great. The challenge becomes implementation of the brand. Systems, processes, skill levels, rewards/incentives, roles/responsibilities, etc., may all need to change to support rebranding. As

soon as you signal a change to customers and the market, they will expect you to be able to deliver that change 100% of the time. If the company is not ready to execute consistently, putting the cart before the horse on the announcement will do little besides frustrate customers and make it more difficult in the future for them to believe you will deliver on promises.

The majority of rebranding efforts in the construction industry are doomed to a slow, meaningless and painful death.

BRANDS IN ACTION

FMI gets involved in helping clients win specific projects. We help these clients discover or create a compelling reason for the customer to select them over all the other competition. We help them with project- and customer-specific market research, create the “win strategy” and get pre-positioned with the customer. Helping them create a hard-hitting proposal that sells their full capability is the easy part. Helping them create the compelling reason they should get picked over the competition is the challenging part.

On one recent project, we helped a regional contractor win a small, \$10M health care project. Normally, that is not a difficult adventure, especially given the strength and brand of this regional contractor. What made this specific chase so difficult is that the regional contractor was competing against seven other large, national general contractors. Three years ago, those large GCs would not have had this project in their sights; but for this chase, they all pulled out all of the stops to win this health care project in a semi-remote geographic location.

The impact of brands today can be seen in customers, like the health care systems, wanting to pick the safest choice for their project. The safest choice today means this customer was leaning toward selecting one of the biggest and best general contractors, and not wanting to risk selecting a local or regional contractor. Brands might not seem to stand out in the marketplace. However,

when a customer can get a large, sophisticated general contractor that has deep experience with large-scale health care projects to compete for a small project, it is leaning toward and selecting the mega-firms in project after project. That level of safety creates a compelling reason to pick the larger, more experienced contractor over a smaller, local one.

When the playing field is level, the larger, better-known contractors have the advantage. They are perceived to be the safest choice today.

Some brand preference benefits include:

- Reduces the time it takes to close the opportunity, helping to avoid rebidding.
- Creates client willingness to provide preferential treatment, inside information, access to people or processes and few/no competitive firms.
- Generates trust such that the client will try a new idea, approach or concept.
- Improves the likelihood of closing the opportunity, which improves overall higher hit rates.
- Justifies a higher price than competitors due to additional value being perceived.
- Reduces the likelihood of trying a competitor for the first time.
- Increases the work directed to you; you gain a larger share of the wallet.

THE MIND OF THE CUSTOMER

Brands only have value when they deliver what is important to the customer. Brands live in the mind of the customer and the market. Who actually owns a brand? The customer does. If you have a great reputation for safety and the customer does not know or value safety, that aspect of your brand has little, if any, value to the customer. If you have a deep résumé in green hospital development, and the customer is a hospital system, your brand is very valuable to the customer, more so if the customer is also a green movement supporter. The customer has confidence that you have extensive experience delivering new hospitals, can share with it best practices in hospital construction and have a staff that is well down the learning curve in all things green. Because of your brand, this customer is assured that your team will deliver a high-value project, anticipate potential challenges and deliver the project on time and within budget.

Using a contractor without a reputation for deep hospital construction experience simply becomes too risky. Where the hospital used to have to weigh the level of risk with the price and responsiveness, today it is more concerned with experience on the project. Health care clients, like many other market segments

today, are leaning toward larger contractors since they are perceived to have deep staff, solid systems and are the safer choice. Today the large contractor is seen much like the IBM of old when it was still in the mainframe business. “No one was ever fired for buying IBM.” Today that saying goes — “No one will be fired for picking the biggest and best contractor for the job.” However, you could be fired for taking the risk on a smaller or local contractor who ends up not performing.

Brands only count in the mind of the customer. Unless the customer cares and can see the value that you bring, your brand has little or no value. Until the customer cares, your brand will not generate an advantage for you with the customer or its company. Unless your brand generates value in the mind of the customer, you have left the customer with the price between your bid and your best competitors as the only significant differentiator to use when picking an architect, engineer or contractor for a specific project.

BRANDS AND RELATIONSHIPS

Social marketing has been around since the dawn of time. Today we think of that process as technology-enabled. But social marketing of old involved creating personal relationships with customers and getting to know them on a first-name basis. Those relationships remain important, but today you need to also give the customer business reasons to pick you and your company. Relationships have become just one tool in the social marketing toolbox needed to win work.

Since people enjoy doing business with people they like, if you are able to create a personal relationship, you are able to communicate your company’s capability, or your brand, simply and easily. But you need to be strategic with your relationship building.

Contractors can remember times when a good customer did not even mention a project to them and simply selected a competitor. When asked, the customer responded that he/she did not know that the company performed that type of work, size of project or worked in that specific geographic area. We must remember that customers are as busy as we are and forgetful of all the things that your company can do for them. That is part of the importance and magic of brand management. It gives you tools and systems to communicate your company’s capabilities consistently without feeling like every time you see a customer you need to give it a new commercial.

Brand management helps you communicate fully your capability over time and in smaller doses. You start to build a mosaic of company capabilities in the mind of the customer. It is important that your brand remains concise and

Brands only count in the mind of the customer. Unless the customer cares and can see the value that you bring, your brand has little or no value.

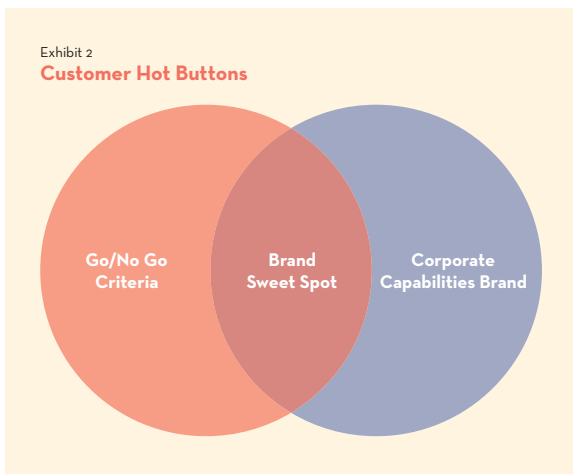
vibrant. A brand management strategy gives you many different ways to keep your company in the forefront of the customer's mind.

Fuzzy brands lack the business reasons (or excuses) customers need to have in order to give you preference on a project. Today most of your customers have to be able to justify selecting a contractor. If you cannot give them solid business reasons for selecting you, and your brand does not demonstrate it, you will be competing with the increasing pack of competitors trying to get prices down.

PICKING CUSTOMERS

Not every customer values what your company offers. Generic brands do not apply to every customer in the geographic market or market segment. Brands apply to individual customers, individual projects. Your discovery process with customers needs to identify their points of value or their hot buttons. When the customers' hot buttons match what your brand delivers, you have an advantage on a project (see Exhibit 2). Of course, if the customer does not know about that advantage, it does not count. Your brand helps you communicate your capability long before the project hits the street and before you sit down with the customer for the first time.

Brand management efforts need to be very proactive in communicating with customers and prospective customers who you are and what you offer. Brands

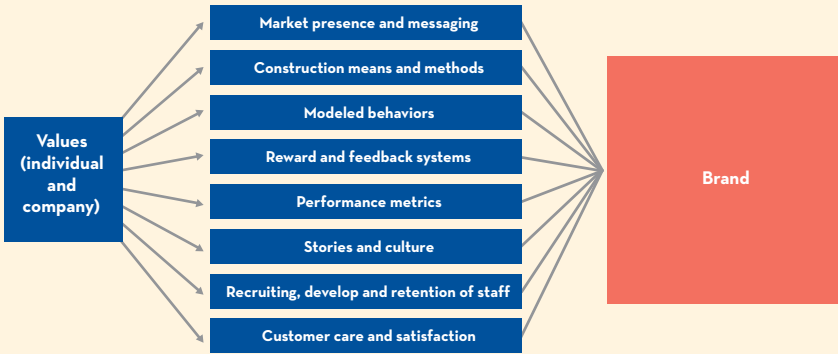


become iconic, with meaning, memories and experiences all rolled together.

When you drive by a McDonald's today, you might not think about your first experience with McDonald's as a kid, the smell of french fries filling the air, excitement spreading through you as you looked around at all the people smiling and eating hamburgers.

You might not even remember the old McDonald's signs that proclaimed "One Million Sold," for that quickly changed to billions. But what you do have today is an association with McDonald's that is built on experiences, advertising and conversation with friends. That is the essence of its brand. If McDonald's wanted to rebrand itself, it would have to change our experiences, not just its marketing and advertising campaign. Advertising and marketing might get us to try McDonald's one more time to see what has changed. But, at the end of the day, if only the marketing message has changed while the experience stays the same, the effort of rebranding will actually increase customer dissatisfaction. Brands are more than a clever marketing campaign; they encompass all our memories and experiences. Since we build new memories slowly, creating a new experience is the best way to create a new brand for an existing business. Exhibit 3 shows how brands are created.

Exhibit 3
Where Do Brands Originate?



FINDING YOUR BRAND

Start with the customers when you want to identify, clarify and build your brand. Ask customers what you do well, where you exceed competition, where you are inconsistent, and what opportunities exist for improving the value you deliver. Brands live in the mind of customers and the market. If you want to know what is on their mind, you will have to ask.

The market today is very competitive. Brands are as important now as in good markets. Brands can literally help you weather the storm. However, you need to be willing to be proactive and communicate the value you bring to customers. You need to be able to deliver 100% of the time on your brand promise. Your brand needs to deliver a value to the customer that the other good contractors cannot deliver. If you do that, your brand will help you weather challenges in good markets and bad. ■

Cynthia Paul is a managing director at FMI Corporation. She may be reached at 303.398.7206 or via e-mail at cpaul@fminet.com.

Building New Business: Are You Losing Jobs in the Interview?

Know your prospect's needs well enough to adapt your message to serve the prospect's needs clearly.

By Ken Wilson

You know you have the best-qualified team to build the project, but you did not get the job. Your inside contact with the client even told you that your team looked the best on paper, but that it just did not “connect with the board” during the interview. How can you overcome this shortcoming and prove to customers that you have the right resources to build their projects?

Remember those glorious days back in the roaring '90s when the market was so strong that you did not have to work very hard to pump up your backlog? Even if you did not blow them away with a stellar presentation, construction demand was so overwhelming that owners did not have much choice when hiring contractors to satisfy their building needs. There was not enough capacity to meet the demand, and owners were eager to get their projects completed quickly so they could start generating revenue sooner.

Times are different with today's economic climate, and buyers can afford to be much more selective in which firms they hire. All stages of the selection and decision process are vital to your success in securing work from fewer and fewer available jobs. The real key to successfully meeting the needs of your target customers is to have built a positive relationship well before those targets even knew they needed a project. With this kind of advance positioning, you may

even have an opportunity to help design the projects to fit your unique skills and team capabilities and offer preconstruction services to reinforce your relationship with those customers.

Presentations range from the simple, two-minute elevator speech to a more orchestrated production that is designed to convey a specific message to position your firm as the only logical choice for the client's project. For all presentations, you should make sure you have established a consistent branding message and that everyone in your organization understands and communicates it with confidence. Although some people may think it is unnecessary to create this

For all presentations, you should make sure you have established a consistent branding message and that everyone in your organization understands and communicates it with confidence.

uniform branding message, just walk around the company and ask random people to tell you why your company is different from other contractors and what they would tell a potential customer if asked. The wide range of responses might scare you into investing the time and effort to create a standard response so that all employees always respond with a consistent message.

The message does not need to be complicated, but it should be uniform. In fact, it might be better if it is short and simple so everyone can automatically convey the same message when the need arises. Just make sure that it goes beyond the expected response, "We build quality projects, on time and under budget." If your competition is saying the same thing, and it probably is, how will you distinguish your company and make

a lasting impression in the minds of potential customers? Wouldn't "We simplify complicated projects" or "We provide the best construction experience you will ever have" be stronger and more unique than the same old same old?

Once you have completed this step, then you can create different versions of your message to satisfy a variety of situations. For example, think about your project manager being introduced to a new prospect at a local architect's office. He or she is just there to review the shop drawings for a minor change order on an ongoing project, but your good friend, the architect, wants to do your firm a favor by introducing this project manager to the director of facilities for the local school district. As a designer, he knows from recent news that there is growing demand for new schools and that there will be a bond referendum on the ballot for the next election to generate the funding for new school construction projects. He also knows from your long-term relationship that you have a strong resume in K-12 schools and will represent him well with his client.

Here is the project manager's chance to make a positive impression with this

potential new customer and to get it right the first time. Make sure all of your people are prepared to communicate your distinctive message and brand whenever they are called upon to do it.

Creating the message is just one component of your overall efforts to get more work. You should make sure that all phases of your marketing are focused on identifying the customer's real needs and then develop a creative solution to satisfy those requirements. In fact, as you prepare your proposal, that is the right time to begin preparing your presentation. Coupling this early start on presentation development with proposal development will help you design the presentation focus on those key factors that will motivate the buyer to choose your team over your competitors — at the same time, making your company look different from the others.

KNOW THE RULES OF THE GAME

Are there specific restrictions on the format and timing of the interview? How many people will be on your team? Has the client requested that you bring certain members of your project team to the interview, such as the project manager and superintendent? Nothing will get you disqualified faster than ignoring the rules established by the owner.

Owners may also dictate the format and length of the presentation. For example, you may or may not be able to utilize the old standby PowerPoint for your presentation. Some people are put off by the monotonous nature of this medium as a presentation vehicle. In fact, you might even think about not using it in order to differentiate yourself from the growing crowd of competitive bidders on most projects. Of course, several other presentation software packages available are capable of wowing the customer. Some might contain animation and embedded video along with the standard slides to convey specific information. Nevertheless, make sure you do not project an image that is too slick at the expense of missing the client's real issues and concerns.

Understand why the client has established these rules. Is there a legitimate reason for each rule? Do the presentation requirements seem fair? That is, are they objective or do they seem to favor one firm over another? Ultimately, you should ask yourself, "How can you turn those requirements to our advantage?"

Where in the batting order is your team's presentation? What if you have a choice? Would you want to be first or last? You want to go last! That way you can leave a strong and lasting impression and overcome the mistakes and confusion that your predecessors may have created. The customer may have discovered an issue that no one else has addressed and now you will have a chance to provide a solution.

DOES YOUR TEAM NEED FORMAL TRAINING?

Although your CEO or business development manager may be an accomplished presenter, others in your company may not be and will need some help to get ready. Even if these employees did a good job in an interview a few years ago, they may require some formal training or just a tuneup to prepare for a specific customer opportunity. There are many resources for formal presentation skills training, so make sure you identify the kind of training you want for your team. Consider the following when evaluating the resources you choose for your training:

- Follow a structured approach to give the participants a model for organizing their own future presentations after they finish the training.
- Select an accomplished professional that knows the techniques, but also has the empathy to help your people overcome their anxiety about making presentations.
- Incorporate individual presentation workshops to let participants practice their skills. These short presentations should be digitally recorded and then replayed to allow feedback from both the professional trainer and peers of the presenter. The trainer should provide structured guidance for the group so that the suggestions are positive and provide encouragement rather than just criticize the negative aspects of each presentation. Negative feedback too often comes naturally while confidence building can result from positive feedback channeled with skill.
- Utilize a systematic process for “doing your homework” to prepare for the presentation. This is important not just to decide what you are going to say, but how you will present your message.
- Gain an understanding of how to interact with different types of people. You may want to adjust your delivery style in response to your audience to make the right connection with it. For example, if the people in the group include technical experts, be prepared to justify any claims you make with detailed facts to validate your position.
- Practice, practice, practice! There is only one way to become comfortable in making presentations and that is to practice. The training should include a series of different individual workshops coupled with the structured feedback process.

Team presentations will require additional techniques and skills to ensure that the team is well-prepared to wow the customer. For example, the trainer should help:

- Identify each team member’s responsibility. The customer wants to hear about your contributions to the success of their project, so be prepared to show how they will benefit from your being part of its project team.

- Create a consistent message among all team members. Even though each person will have a specific role, establish a common thread to knit the messages from him or her together so the customer will recognize the value of this continuity on the project.
- Prepare for a smooth transition from one team member to the next to demonstrate that you can work together as a team right from the beginning.
- Plan for what to do if your mind goes blank. Have a back-up plan to help you recover if you are stumped by a question or just forget your next thought.
- Generate ideas on how to help a team member get out of a jam without embarrassing him/her or the team. This is a real opportunity to show that you are a coordinated team and know how to help each other for the overall good of the project.
- Practice handling potential questions and giving the right answers. What if you do not know the answer? Do not try to bluff your way through it. That can make your team look unprofessional. The client may know more about the answer than you do, and it is better to say, "I'll have to research that and get back to you." You may want to ask a follow-up question for clarification to ensure you understand what the customer really wants to know.

Everyone responds differently to training, but one thing is certain: Training must be interactive to get the attention of the adults in our industry.

Here is an example of a presentation technique that is sure to get buy-in from a challenging audience like an owner or architect.

THE "SO WHAT?" SIGN

Afraid your sales interviews are as thrilling as gray paint? Wish your customers would hang on to every word of your presentations? The "so what?" sign could be your salvation. At your next interview or presentation, while introducing yourself, hand one "so what?" sign to each member of the customer's selection committee. Instruct the panel members that if at any time during the interview they feel you are wasting their time or talking about things that do not seem relevant to them, they are to hold up the sign.

The group will think this a little odd, but the novelty will intrigue them and they have sat through too many lifeless interviews to object. It will not take long for old habits to surface. However, this time if you begin rambling, someone will hold up his or her sign. At that point you should stop, thank the client for helping you make a more relevant interview, and either move on to a new topic or explain why it is you think the topic you are discussing has direct relevance to its interests.

Everyone responds differently to training, but one thing is certain: Training must be interactive to get the attention of the adults in our industry.

Be prepared! Your interviews will never be the same again. Instead of a stuffy monologue, you will spark a high-energy dialogue like you have never seen before. You will have an electrifying exchange of ideas allowing you and the client to kick off a dynamite relationship.

When the interview is over, the client will either hire you or fire you. There is no middle ground with the “so what?” sign. However, chances are good he or she will appreciate your bold move, your enthusiasm and your willingness to take risks.

Have a good supply of “so what?” signs on hand. In every case where they have been used, the client wants to keep them and use them at its next meeting. In fact, you should use some of those signs yourself during presentation practice sessions so that witnesses to the practice have the opportunity to signal their need for more information or for moving ahead.

NEXT STEPS

Now that your team has completed the tailored training and improved its presentation skills, what is the next step in utilizing your newly acquired talents? Ideally, you will have timed it just right so that your team is preparing for a real, live project presentation. This is the best way to leverage the benefits of the training to see if it really has an impact on your team’s performance.

However, your timing may be a little off and you may have to wait for the real show. If that is the case, do not let your tools get rusty. Assign one of your veteran presenters to act as coach to work with your team to stay sharp and ready for its next interview. If you already have a targeted future project in mind, then use it to get prepared, even if you do not know exactly when it might be scheduled. Work with your team members to improve their techniques as individuals and as a group. Always try to use digital video to record these practice sessions and replay them to show the progress that group is making.

Finally, make sure you continue to reinforce the contribution that these efforts are making to the future success

Recommended Resources

Here are a few recommended resources that are among the best references on presentation skills:

I Can See You Naked

by Ron Hoff (Andrews and McMeel, 1992).

Communicate With Confidence

by Dianna Booher (McGraw-Hill, 1994).

How to Win Friends and Influence People

by Dale Carnegie (Simon and Schuster, 2009).

Powerful Presentation Skills

by Dennis Becker and Paula Becker (McGraw-Hill, 1994).

Equip your presentation team with skills to demonstrate their professionalism. Train, practice, practice, practice.

of the company. Celebrate their commitment even it is with praise for incremental improvements. People may not always be able to see the payoff for training if they do not have an immediate application for the training.

CONCLUSION

Identify and articulate the differentiating message on which you base your brand. Build relationships with your prospect. Know your prospect's needs well enough to adapt your message to serve the prospect's needs clearly. Make sure that influencers as well as prospects know that message. Know the rules by which this particular presentation will be judged. Develop your proposal and plan your presentation simultaneously. Equip your presentation team with skills to demonstrate their professionalism. Train, practice, practice, practice. These few steps should help you qualify for more profitable work, more often. At a minimum, you will not lose the job in the interview nearly as often. ■

Ken Wilson is a director at FMI Corporation. He may be reached at 919.785.9238 or via e-mail at kwilson@fminet.com.

Winning Work: Quit Chasing Your Tail and Close More Projects

Creating structure to your sales process helps streamline the time and effort needed to meet new customers and convert them to raving fans.

By Scott Humrickhouse

Construction projects are successful because the project team comes together to define the vision, create a plan and implement it. The industry talks about the importance of pre-job planning and its impact on the success of the project. If planning is so good for projects, why do so few companies truly plan how to target and win the right customers and the right opportunities?

KEY CHALLENGES

Contractors face two challenges related to today's market: the first is the competitive environment; the second is the changing nature of how customers buy contracting work.

Let's start with the difficult conditions in the marketplace. There is too little work being chased by too many contractors. That creates a couple of situations that make business development exponentially more difficult. First is the natural tendency of buyers to buy on price. When there are more contractors than work, the pressure on price-driven awards increases significantly. Contractors needing work cut their prices to beat competitors, pulling the market pricing down with them. With few perceived differences between contractors competing for the

work, customers see the lower-priced solution as an opportunity to get more projects for the money. It is understandable for customers to be attracted to the perceived cost savings, at least in the short run.

The decision to weigh price heavily in the selection criteria exacerbates the challenge for contractors. Customers are not inclined to think about negotiating or about any value added in the process. The information that customers think they need to make a value-based decision is minimal in their mind. Looking closely at the value-added difference between contractors becomes a distraction.

When customers make decisions with little depth of consideration beyond price, contractors tend to be pulled into their wake and begin believing themselves that only price matters.

That mind-set deters gaining access to the decision makers — decision makers are simply not as aware as they need to be about how to select good contractors. When customers make decisions with little depth of consideration beyond price, contractors tend to be pulled into their wake and begin believing themselves that only price matters. This mind-set heightens the challenge to contractors to communicate a tangible difference to price-prone buyers.

Today's market conditions make picking a good contractor easier, since even the best players in the industry are working hard to become more competitive and win a larger share of the work available. The low-price market has been a short-term advantage

for customers. However, the lessons learned from making poor award decisions largely driven by price will soon become more apparent both on the jobsite and as those jobs come to completion.

The second problem is that most business developers do not have a defined process for taking an opportunity, or even a relationship, from ground zero to successfully winning the project. The process too often has fits and starts, filled with inconsistencies. Historically, the mechanism in our industry for client development has been reactive. This reactive approach springs from the design-bid-build (DBB) methodology that shaped much of the history of construction in the U.S. Prospects who are already into the design process contact a contractor. A close alternative delivery method involves design-budget-bid-build (DBBB). Too many sales processes currently have this model as their foundation. The project is well into development before a contractor is contacted. When projects achieve that level of development, it is simply too easy to put it out for competitive bid. Today that often means that 10 to 15, or more, contractors will respond. The low bid is not necessarily the best fit for the customer, nor is it necessarily the lowest cost by the end of the project. Customers focus on the initial price of the work because they are extremely experienced and can help manage the project, or they are a bit naïve,

thinking that all the contractors on the project are equally qualified. Regardless, this environment equates to a very difficult business development situation.

The reactive approach to finding and winning customers in either a DBB or DBBB atmosphere clearly communicates to all that it is the project and not the customer that is the key for the contractor. With true customer focus, the contractor develops the customer long before the project. The contractor is positioned to help frame the approach to the project and help the customer shape the concept as well as execute the project. How can we fault the customer for employing a transactional, project-based selection process, when the reactive, project-based approach taken by the contractor is also to blame for this state of affairs?

An alternative approach proactively identifies the customers who value what you offer, have a long-term building program and focus on the types of projects that you have historically been successful building. Today, even those customers are leaning heavily toward price as a major selection criterion. However, as the market begins to see the results of selecting contractors with alarmingly low prices, and the general economy in construction continues to improve, opportunities will be available to contractors who invest in targeting, educating and winning solid customer relationships.

A quick test for your organization's level of customer focus can be measured by the amount of time that you spend with customers who do not have an immediate project available to bid. If you are customer- or relationship-focused, that should command the most time that you invest in the marketplace. You might think of this as a program to *Build Loyalty*. The first step is to establish the right targeted customers. The second is to create a process for taking the relationship from where it stands today to a higher level where some level of loyalty exists; loyalty of them to you and of you back to them. Traditional business development processes have no steps that focus on building a relationship first. Starting with a budget is just a shortcut to communicating to the customer that the relationship will be short and transactional.

That said, simply having a relationship is not valuable enough for a customer to be loyal to you and your company. You still have to work hard to build value, create competitive barriers and deliver on promises that meet this unique customer's needs. The relationship needs to be genuine. The access provided by a strong personal relationship allows you an inside track to understand the customer's true concerns and hot buttons. The access should provide you with answers as to what it will take to win the work and delight the customer.

CHASING THE WRONG LEADS

Most contractors are spending 80% to 90% of their time chasing projects that they have a very low probability of winning. Sometimes the low probability is because the contractor found out about the project too late; other times the

customers are not going to be responsive to a value-based selection process. The bottom line is that too much of the activity is misdirected. Contractors are spending too much time directing energy at the wrong end-use customer or those that do not fit the contractors' targeted market pursuits. The net result is the contractor is wasting resources on the wrong customers rather than using a consistent and stringent qualification process and targeting the right kind of work. It is spending too much time poorly aimed and generating results that are too low for the effort invested.

Effective contractors are still applying stringent qualification processes to both customers and opportunities, even though the qualifications may have been modified by market conditions. Consequently, those contractors are investing more time on the right opportunities and the right customers. They spend time with the customers where the contractors have been able to influence the decision-making process and communicate value as important elements in the decision process.

What success would you have in winning work if you had more time to spend on the right opportunities? Would it beneficially change your backlog?

KNOWING WHO TO CHASE

Knowing who to chase is as important as knowing how to chase them. Focusing on the right market segments is the first step to knowing whom to chase. Just because a market is expected to grow does not make it a key segment for your company. If you do not have a unique approach or offer something that is different from the competitors, the new market will be nothing more than yet another opportunity to compete to win projects based on the lowest possible price.

The second part of knowing whom to chase is understanding the customers within the market sector. If you focus on the market segment itself, you are obviously concentrating on supply/demand as the key drivers for the marketplace. An example is the number of contractors today looking to win work in the federal sector with the Department of Defense, Corps of Engineers, NAVFAC, General Services Administration, etc. Many contractors who have never worked

in the federal sector are chasing work and now actively bidding work. Where once there were three or four competitors for a potential project, today there can be 20 to 25 or more. In fact, there are so many bidders chasing projects today that it is actually slowing down the process of awarding contracts. Federal procurement teams are forced to wade through a historically high number of proposals. Many federal departments are adding temporary and contract staff to meet the procedural demands driven by the short-term oversupply of interested contractors. The result is that federal contracts, which one time provided an

opportunity for a fair price for a fair project, are seeing estimates come in well below engineering estimates. The federal market is yet one more market segment tipping toward rock-bottom prices.

Some federal clients still focus on factors other than price. They still make value-based decisions about quality. Much of the process depends on how they make value-based decisions, how they weight selection criteria, and the approach/background of the proposing contractors. Deciding which market to chase is the first decision to increase the amount of backlog you are winning. The key is focusing on market selection factors that enable successful projects for you, not simply focusing on what is the biggest market segment. Focus where you have the chance of winning a project that you can be successful building. Start with the end in mind and you will see your results soar.

Once you decide on a sector, what is inside the sector? For example, you determine you are not doing well at winning private work, so you want to get into the public work market. If you do, obviously chasing this market requires resources and expertise to be successful. Too many contractors try to penetrate a market when they do not have the experience to be successful. The experience enables you to build the project successfully, certainly. But experience also helps you win the work. If you do not have a team with deep experience in a new market, the chance of winning work drops dramatically. You need to approach the market knowing that you will be bidding more work to be able to win a single project, until you have built your experience credentials that underscore your ability to bring value beyond low price to the project.

Customers have the choice of working with the biggest and best contractors in their area. Why would they pick a newcomer with little or no direct experience in building the work? The only answer that comes to mind is price. To win work in that scenario, you might find that you are bidding at margins the experienced contractors are not willing to match. Can you afford to pay these dues?

Finding customers is not easy, but it is very doable. Define what criteria make for the most successful customers for your organization. The answer requires a lot of combat research and an understanding of where you have been successful with customers in the past. You will have to do a lot of phone work and database searching to try to find the names of targets by sector.

Once you find the company, then your time and effort must focus on calling the right people on the inside. Finding the right sectors is easy; finding the right customers within the sectors is more challenging. That is when more calls need to be made. Few contractors do an effective job at researching, qualifying

Focus where you have the chance of winning a project that you can be successful building. Start with the end in mind and you will see your results soar.

and prioritizing customers. Most contractors do not have the resources to conduct the research, so they throw it on top of business development's pile or they expect somebody else to do it. However, if you are diligent at finding the right customers, it will give you an advantage over other contractors looking to break into the market.

FINDING THE RIGHT CUSTOMERS AND BUILDING ON FACTS

Building on facts means using some direct, but mostly indirect, methods of research. It means contractors need to establish mechanisms that can track current and future potential work. For example, consider maintenance in the food processing market. You need to know the engineers who service that sector directly, the key customers and competitors. You need to know what the players in that sector are thinking, what market trends are affecting the markets and how

You need to be proactive and get out in front of your competition in information gathering in order to win work in today's market.

customers' buying practices are changing. Some information can be gathered by direct mail, e-mail and Internet research. But, at the end of the day, you will need to talk to somebody directly on the phone or face-to-face to find out the information you need to break into the market and the customer contact information.

SOURCES AND TOOLS

Architects and engineers who specialize in providing services in the market segment need to be part of your plan. They should have already been interfacing or communicating with some of the key market resources.

In the power sector, for example,

targeting equipment and big system suppliers can help you gain interaction directly with the utility companies. They are probably going to know more about the market and the construction players involved than the contractor does. Simply waiting for this information to materialize is a poor strategy for winning work against tough competition. You need to be proactive and get out in front of your competition in information gathering in order to win work in today's market.

Every market sector has suppliers. In most cases, they have salespeople who are out there that are pushing their products. Use these existing market resources to help you leverage your research efforts. Integrate with design firms to better leverage your efforts. They know the market in terms of what is out there, challenges being experienced and likely future trends.

HOW YOU CAPTURE AND STORE INFORMATION

Every company needs a place to capture the results from the research and canvassing effort. The most successful tools tend to be simple methods: spreadsheets, databases, etc. Good decisions are difficult to make based on the mountain of information you will be amassing on a particular market sector.

You do need some mechanism to compile the information, sort it and make some informed decisions about your next course of action. Making those decisions is not something that can be done by a coordinator or a marketing person; it is a process that must involve senior managers.

TARGETING CRITERIA

What is the most successful targeting criteria? The real answer is found in your internal track record on projects and the associated facts about the project and customer.

Funding and planned spending is one of the biggest associated facts. The type of construction services is another one. In other words, does the customer have a history of a CMGMP delivery model? You need to find out if it usually works with a group of contractors or a single contractor representative, if that is a driver in your targeting criteria. Look into how it views terms and conditions in the contract. Does the customer strictly interpret letters of the law or is it looser with the contractor, wanting the contractor to make money?

Find out about its relationships with specific competitors. There are probably three or four other facts that will be obvious when you do an internal analysis. If you are not doing the research ahead of time and finding out more about breaking opportunities, you are just reacting to bid opportunities that come up on websites or through various news agencies. If the opportunity is old news, it probably will require a reactive, low-price response.

PUTTING THE RIGHT TIME TO THE RIGHT OPPORTUNITY

You need to have a realistic way to determine how much time and effort it is going to take to win work. You need to know what level of investment you can afford to commit. Think about the gross margin return on your efforts at some point. There are contractors that do a lot of budgeting for potential customers and

do not get any return. At a minimum, get some additional dialogue that will help you get the inside track for the next opportunity. If you are not getting that, you are simply a free budgeting service, and the return on your invested time is poor at best.

Quantify the investment that you are making. Consider the costs of business development, estimating, senior management time, etc. If you have the investment quantified, you can make better decisions. If you quantify the costs, you have another opportunity to step back and say, "OK, here's what the cost of pursuits is, what's my potential gross margin return and how many people are involved?" You must look at the numerator and the

You need to have a realistic way to determine how much time and effort it is going to take to win work. You need to know what level of investment you can afford to commit.

denominator. Use the cost to chase at the bottom and gross margin potential at the top. Think about the time, out-of-pocket costs and soft costs.

The senior management team needs to develop a fairly rigorous definition of what a good opportunity and what a good customer look like. What does a marginal customer look like, and what does a bad customer look like? It may be just as important to define what you do not want. It is almost easier to define what you do not want in today's market than what makes a good customer, because many of us are doing business with customers that used to be good but are now marginal customers.

You have to commit the time to do the analysis and set up the criteria. Define what you will absolutely say no to regardless: customer or opportunity. That could be on the lines of payment terms, interpretation of contracts, prior dealings with contractors, etc. There are probably eight or 10 questions to ask about a given customer before you say, "Yes. Let's go for it." (see Exhibit 1). Most of the responses to these questions are not dead ends or will not shut down the process.

A structured approach to Go/No-go decisions is a process exploration and means of finding out what could work.

Exhibit 1

Questions to Ask Customers

Potential Open-Ended Questions

- What is the current status of your project?
- Who are the end users/customers and what are their needs?
- Describe your expectations for the GC managing the total project budget.
- Why is this project important to you?
- How can the contractor best serve your needs?
- What do you know about our firm?
- Tell us more about your organization/culture.
- What is your history with the company?
- How did you get involved in the project?
- What issues are important to your business?
- What kinds of issues are important to you?
- What would make you successful?
- What do you like about how you are using existing buildings now?
- What would you like to change?
- What do you look for in a contractor?
- What are the key customer issues and concerns that we should address?

Potential Closed-Ended Questions

- Were you happy with your last contractor?
- Was your last project successful?
- Have you done a similar facility in the past?
- Are you happy with your existing facility?
- Where is the project located?
- What are your top-five project expectations?
- What are your specific services desired?
- What is the budget?
- Who at city planning is aware of the project?
- Do you have any building standards?
- Are you aware of any off-site improvements?
- How much parking - covered?
- Are the utilities available?
- Who is the design team?
- What primary criteria do you use to select your architect?

BREAKING INTO AND NAVIGATING TARGETED ACCOUNTS

Targeting potential customers has obvious challenges. It is also challenging to pick the right person to target. Typically, there are a number of people or roles to target to help build a relationship with a client organization. There is a group of decision makers that provides you with the ultimately decision or final approval on a project. They are interested in the project strategically for what it means to them from a business standpoint and a return on their investment.

There are also gatekeepers who provide access to advisors, user

group individuals or final decision makers. Your objective is to ensure the gatekeeper does not create an obstacle to gaining access to the other contacts.

The ultimate goal with navigating accounts is to create a sponsor, who is really an internal advocate that helps you understand and navigate the internal landscape. When you are competing for a project, the sponsor is your source inside that business. It is a person who interacts with decision makers, advisors and users. Contractors

rely on their sponsors to help neutralize, or sometimes minimize, the competition.

Sponsors are essential and it is an area that requires many activities to try to advance their trust, professional respect and capabilities. Sponsors can help you to identify blockers, people who are actively out to affect you negatively. Sometimes it is because the blockers have preferred contractors of their own. Sometime it is because they do not know much about your organization, are relying on outdated information or have had a bad experience along the way. Regardless, it is important to convert blockers to supporters or, at the very least, minimize their negative impact.

FOUR CALL OUTCOMES

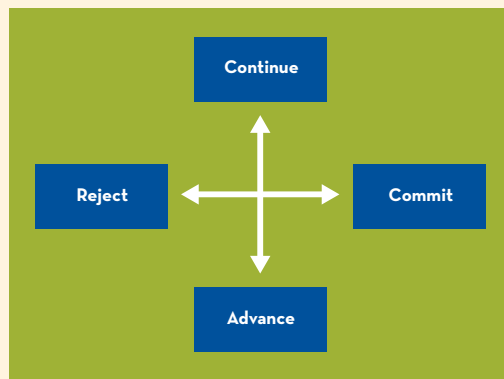
Calls with customers will result in one of four basic outcomes, which are reject, continue, advance and commit (see Exhibit 2). The better you plan for each of these alternative results, the better you will be at keeping the sales process moving forward and get your company in a position to be selected for a project.

Reject is what happens when a customer says no or thwarts your approach. It is not the end of the conversation, but it does mean that a different tactic is needed to continue to develop the relationship. Reject could occur with an individual or a group of people with a key decision maker. Continue is the key step in the

process, the only way to advance to the next point of the sales cycle. It might come from a contact inside that organization who points you to someone else, the key decision maker. But if you do want to reach Continue with most clients, then you have to step back and think about ways to continue with other people who

Exhibit 2

Four Call Outcomes: Potential Call Outcomes



ultimately will influence the decision maker and drive the opportunity toward your company. That is the best chance for getting some work down the road. The Continue process refers to the part where you convey information of value to a group of people. However, this group does not make a final decision, and more work is needed to bring the dialogue and the selection process to its end.

If you are advancing the opportunity, that means that whomever you are talking to has bought into the discussion, the people and information you need, whether it is the fact that you have a superior means of scheduling or you have some cost alternatives that are worthwhile investigating. It usually indicates that the customer is willing to invest time to learn more about you, your approach and business. The customers are willing come to the discussion, so you have established a relationship with them and they have learned something about you. Commitment is when you have somebody who is far enough down the curve to make a favorable decision for your company. Maybe there is still more commitment needed from

other people, but at least you have that person on your side. Those are typically the four outcomes of not just a single call but a series of calls or meetings.

Exhibit 3

Keep-In-Touch Strategies

Relationship Tactics – Keep-In-Touch Strategies (i.e., job walks, home office visits, etc.)

- Face-to-face meetings
- Job walks
- Home office visits
- Project site visits – related projects
- Key customer visits
- Owner meetings
- Calling references
- Pre-construction services
- Status update meetings
- Breakfast, lunch or dinner
- Meeting with operational team
- Architectural meetings
- Client Outings
- RFP development meeting
- Presentations
- Logo items
- Phone call to touch base
- Mail technical information or updates
- Share a lead or business tip

BUSINESS INVOLVEMENT/ ACTIVITY MATRIX

The idea behind the business involvement/activity matrix is to develop as many reasons and opportunities for you to communicate with all the targeted people in the account. Any type of business that has multiple contacts, whether it is maintenance facilities, administrative, strategic user groups, etc., is an account. You need to have a system that allows you to check off how you advanced your calls with each of those decision makers or influencers.

The game is to try to sell them on advancing their knowledge about your

organization through a variety of steps in the business development process (see Exhibit 3). All these steps are things that should be done with targeted customers, and in many cases regardless of whether the project is to be built or proposed, in the industry. So one of the steps might be for a targeted account to take two or three hours out of its day and visit one of your job sites. The objective is to see the job with a predetermined agenda, or game plan, and talk with the superintendent and the project manager. Because the prospect's representative made that investment and it is not you trying to sell him or her on something, it is a good opportunity for you to advance the relationship and position the quality of your work. Job site visits are at the top of the list of ways of advancing knowledge about your organization.

CONCLUSION

Creating structure to your sales process helps streamline the time and effort needed to meet new customers and convert them to raving fans. Systems allow us to refine and hone our approach into a high-impact, effective process that generates better results year over year.

Sales process does not have to be a cookie-cutter approach to benefit from standardization and structure. It simply adds structure to the process, allowing for creativity of approach while remaining highly responsive to unique customer needs.

Add advance planning and deep thought to your sales process and you find more time available for face time with the customers, to create unique approaches to win work and increase your likelihood of being selected over the other contractors in the race for the project. ■

Scott Humrickhouse is a principal with FMI Corporation. He may be reached at 919.785.9287 or via e-mail at shumrickhouse@fminet.com.

Rethink Your Market Strategy and Grow!

Business development is the most difficult function for engineering and construction companies to appreciate and develop. It requires people with initiative and persistence, proactive planning and execution, and patience for results.

By Lee Smither

In this current economic environment, any assertion that touts growth in the construction industry as a currently plausible strategy could be dismissed as ludicrous. Our industry has shrunk by approximately 20% in terms of total construction dollars put in place since 2008. Several markets, such as residential and multifamily, hospitality and retail, have been decimated and will take years to recover. One result of this upheaval is that some contractors and engineering firms attempt to survive by cutting margins simply to keep cash flowing.

Plenty of companies have downsized and cut costs, perhaps more than once, in their efforts to wring out profits from their declining backlog of work. As competition grows more intense, some firms are at a point of no return and must either grow or die. If they simply continue to bash their heads against the proverbial wall of hypercompetitive fees within their market, only more frustration and lower morale will result. Clearly, those who intend to survive must do something different. The leadership of these companies must rethink its situation and take

actions that propel them toward growth. Consider a few crucial points from the experiences of contractors who are faring quite well in the current market and currently hiring people to keep up with the growth they are experiencing:

- Any contractor can grow its business today. It may involve changing its view of the future of the company and its market.
- Growth is a choice made by the senior leadership of a company. The growth expectation is an attitude that begins with ideas that subsequently are acted upon. Not all growth is good. Growth for the sake of growth can be fatal, as shown in FMI's 2007 article "Why Contractors Fail." Growth here means the type of growth that is both profitable and sustainable.
- Not growing is more dangerous than growing. Retreating and holding down the fort while someone else is growing his or her business at your expense is the path to extinction. If you have no real growth opportunities:
 - Your market position is at risk — the competition never sleeps and never stops trying to gain a better foothold.
 - Your company's value is at risk — increased earnings from growth are a major component of stock valuations.
 - Your people are at risk — the best people are always looking for opportunities to grow and expand their horizons.

Changing one's view of the future requires an honest assessment of a company's market position. Obtaining relevant market research is the key to gaining an objective view of how your company compares to its competition in the markets in which it competes. Having a broader, externally focused viewpoint is vital to thinking strategically about the future direction for your company. For example, asking the question "How can we get more jobs in our market?" represents a limited view of the world that is frequently the result of long-held beliefs about your brand, core competencies and organization history. Successful companies have a lot of trouble overcoming "success inertia" and legacy baggage in order to change. Some representative comments that demonstrate those ailments include:

"All of our people want to go home at night and sleep in their own beds. They wouldn't travel that far to do a project."

"We have a reputation as the educational contractor who has been doing CM agency and at-risk work for school districts in this state for more than 50 years and we are not going to change the way we do business now."

"We do not know how to do public work, and, besides, it is not in our culture to behave the way required to be successful on those projects."

Consider the question “The entire nonresidential construction market is still \$600 billion in size — where are the opportunities to make money and what must I do to capitalize on them?” This question reflects a very different and expanded viewpoint, one not limited by the past nor constrained by what is most comfortable. Your market just became much larger because of changing how you defined it. As simple as this may seem, it is tremendously difficult for many presidents and CEOs of construction organizations to shift their view of the world. One way to facilitate this discussion of strategic options is to use a 2 x 2 grid, as shown in Exhibit 1.

This grid outlines the type of thinking and discussion that must occur in order for subsequent business development efforts to be successful. Any conclusion about the path a company chooses to take will fall into one of these boxes:

Quadrant A — Current customers/markets who need your current services

Quadrant B — New customers/markets who need your current services

Quadrant C — New customers/markets who need new services

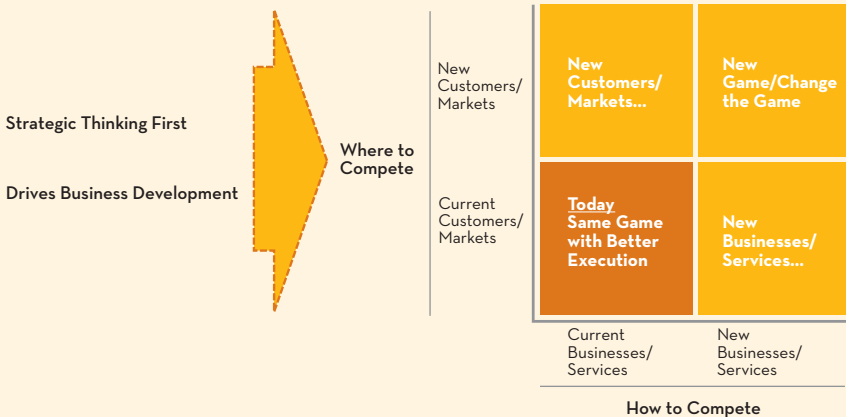
Quadrant D — Current customers/markets who need new services

Although the segmentation of what fits where is not always perfect, the point is to focus on the strategy of the quadrant you choose and the implications that result. The framework describes the options available as to how a company chooses to compete and where. Recently, McDermott, a global E&C company specializing in the oil and gas industry, utilized this framework throughout its operating regions. In preparation, each region developed various options for pursuing growth to understand better the implications of each option and to enable its regional teams to better prioritize these options.

Quadrant A — This is where most companies focus their attention. They remain steadfastly tied to their current market and their core competencies. The CFO has calculated potential cost-cutting moves and the possible restructuring of the company. While it is true that improvements can always be made through superior execution and attention to costs, they can also lead to limited thinking, such as, “If we only find a way to lower our fees by another 1%, we’ll be O.K.” Many

Exhibit 1

Strategic Priorities: Where to Place Your Bets!



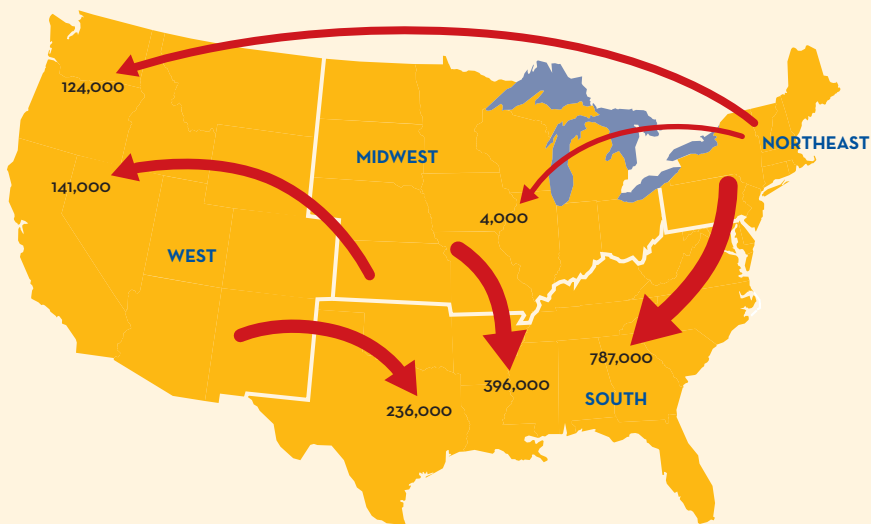
contractors are stuck to the notion that if they can wait out the recession, things will get back to normal. They are so averse to change that doing anything different with additional risk is anathema, even if that change could allow them to grow.

Quadrant B — Typically, geographic expansion is the most common way into this quadrant. Enlarging your footprint to include new customers is more risky than staying where you are, but it can be accomplished in ways that mitigate the risk.

- Follow a customer to a new geography. This approach has the least amount of risk.
- Follow population trends. In construction, demographics are destiny, and you need to go where the people are going and provide what they need. Exhibit 2 is an example of research data that project U.S. population trends.
- Joint-venture with another company in the market where you would like to participate. Learn from an insider on a project what it is like to be in that market.
- Acquire a company that is already there. Strategic acquisitions can, long-term, be the lowest-cost vehicle for entering a new market.

During this recession, many construction companies have learned the value of diversification, both geographical and by type of services offered. Those electrical and HVAC firms with strong service and maintenance components are grateful for the consistent base of revenue from those components. FMI has talked with many companies as to how they are dealing with their situation and less than 15% are seriously considering going to new markets. Our observation is that they are still not able to look outside the comfort of their traditional markets. If they were to expand their view of the market and realize that it can be defined as anywhere

Exhibit 2
Migration Flows in United States: Net Regional Migration — 2007
South and West make gains



Note: Arrows show data from sum of three one-year flows, 2005-2007. Numbers have been rounded.

and everywhere people are buying their type of services, the possibilities increase greatly. Call this attitude opportunistic, entrepreneurial or just a determination to increase revenue by gaining market share from someone else. Of course, competition abounds; but if your market research is sound and your business development strategy targeted, you may be able to capture a portion of a larger market with reasonable profits.

Quadrant C — This is by far the most risk-laden strategy and generally one that most companies avoid, particularly in this economic climate. Going to new markets, calling on new customers with new types of services, requires strong business management and exceptionally good leaders. This quadrant is where the “game can be transformed” and a truly new growth curve can eclipse current performance. Success in this quadrant can include the acquisition of a company that is in an adjacent segment of business (the heavy/highway firm that acquires a rock quarry) or the introduction of a new product or service (the electrical contractor who also has a low-voltage security, fire alarm, CCTV and network division). Two years ago, a local general contractor who was primarily in the private sector performing negotiated CM work decided to diversify by purchasing a small company focused exclusively on federal government projects around the country. Although vastly different in culture and business focus, the contractor worked to assimilate processes and people where appropriate. As the core business of the parent company continued to shrink, the revenue from the new company grew to become the major contribution to total revenue.

Quadrant D — Expanding your capabilities with existing customers is always an opportunity provided you know your customers’ needs. Customers generally have unmet or poorly met needs, which opens the door for you to capitalize on offering new or improved services. Depending on buyer preferences, too many contractors in a market may allow a company to consolidate several services and become the one-stop shop for their market. One general contractor added site work and geotechnical capabilities, which was attractive for developers who wanted more streamlined project administration. Adding a technology or equipment-related solution that differentiates your company

Going to new markets, calling on new customers with new types of services, requires strong business management and exceptionally good leaders.

from the competition would be another example. Owens Corning sold insulation and roofing materials for many years until it broadened its offerings to include acoustical insulation, windows, sunrooms and cultured stone. Today, Owens Corning defines itself as a leading building products supplier. The point here is that any new capabilities should be developed based upon what customers are demanding, not what you believe they want or need. There is no substitute for getting factual data on customer needs and buying practices.

Once the strategic marketing direction is understood, how will it be accomplished? Many companies struggle with this, particularly if change is required. Most senior leaders can generate ideas that are exciting to contemplate and discuss. Fewer can implement those ideas and bring them to fruition. Nowhere is this more evident than in the business development function. The role of sales has changed in every industry, and the construction industry sales roles are changing.

1. Customer loyalty is being challenged by lower-priced competition and competitors promising something more than your company can deliver. Construction has always been a relationship business, but tough times have put a strain on the best of these.

2. Speed has changed as well.

All services, even those that are currently value-added, trend toward commoditization at a faster rate than even 10 years ago. The innovator's dilemma is knowing that eventually that great differentiator will no longer be unique and a new one must be developed. Andy Grove of Intel said it best, "Only the paranoid survive."

3. The role of business development has changed. It has gained stature in many contracting organizations that now more fully understand nothing happens until a sale is made. Closing that sale is more difficult. In all markets, the sales cycle has increased and become more complex. Many companies that were enjoying a hit rate of 40%–50% before the recession are now seeing a rate below 15%.

There are plenty of reasons to choose a specific contractor over another: ability to meet the budget and

schedule, financial stability, expectations of quality and the degree of trust and confidence in assigned project personnel. Customers want to interface early with the people who are going to build their project before they make the award. This requires that operations staff be trained in how to sell to a potential customer and build credibility for the company during the sales process. Putting project managers, project engineers and superintendents through "charm school" can

New capabilities should be developed based upon what customers are demanding, not what you believe they want or need. There is no substitute for getting factual data on customer needs and buying practices.

make a powerful difference in your team's ability to capture work.

4. People do not like being sold, but they like to buy. Entertaining a customer at football or baseball games, buying dinner or playing golf is not enough to forge a deep alliance with a customer. Business development people need to be able to understand their customers' business and the challenges they face daily. Contractors must become solution-selling-oriented, not just people who are fun to hang around. Business developers must be active enough to get in front of the right people in the right companies. This takes determination, planning and follow-up. Once they make contact with the appropriate people, business developers need to be able to identify key issues and present

solutions so the benefits of selecting their company are readily apparent. Saying this is easy, but doing this is hard, requiring detailed work and well-developed skills.

Efforts required to build strong customer relationships might well be dismissed in the current market ... and that would be a mistake. Moving prospects to customers to advocates and ultimately to partners only happens with good business development planning and diligent execution. Exhibit 3 illustrates the stages of customer investment and how it evolves. At the lowest level, potential customers are *prospects* that need to be "won." Once the job is won, these prospects are now *customers*. If they buy more than once, one begins to move to *relationship building* versus *chasing customers*. When companies really invest in relationship building, they transform customers into advocates. Advocates refer potential customers to

When companies really invest in relationship building, they transform customers into advocates. Advocates refer potential customers to you and promote your company both internally and externally.

Exhibit 3

Customer Investment Hierarchy

	Level	Characteristics	Method
Building Relationships	Partner	Mutual long-term goals	Dedication to results that advance their success. Customer intimacy is developed
	Advocate	Enthusiastic references	Provide value added, total solutions provider
Chasing Customers	Customer	Have purchased our services once or more	Demonstrate a unique selling proposition
	Prospect	Aware of our company	Utilize marketing and brand management

you and promote your company both internally and externally. The top level and ultimate achievement in business development is where you have achieved partner status. At this point, long-term customers are yours to lose. You are planning your futures together and you continue to develop customer intimacy.

One particular general contractor client has had an ongoing relationship with a local hospital for more than 20 years. Its project manager, who has been on site at the hospital for more than 15 years, has an office at the facility and his phone number is in the employee directory. This project manager has become so entwined within the customer organization; he is thought of as a trusted problem solver who has the customer's best interest at heart. He looks for solutions that benefit the customer in the long term and, in doing so, builds trust in both himself and his company. This is true customer intimacy!

The common denominator required to move up this hierarchy is time. It takes time to craft a business development plan that concentrates efforts to target the most strategically advantageous companies in your

market, find the right people to access in order to demonstrate your capabilities, build strong relationships with those influencers and decision makers, and finally create solutions that actually deliver the results required for success. Accomplishing this can take many months or even years. Unfortunately, not many in our industry have that level of patience. They tend to move on to the next bright, shiny object to chase. Consequently, your business development strategy becomes transaction-centered which then leads to commodity-type pricing decisions. Proactive business development is crucial to creating a platform of long-term success.

One to two years before the proposal. Depending upon your market sector, projects may exist only conceptually 12–24 months before the RFP is released. Therefore, business developers must begin the process of positioning their companies for eventual success. If a relationship already exists, this is the farming aspect of business development. If there is no relationship, then the hunter aspect enables the business development person to uncover a potential opportunity with a new customer. Most great business developers are able to exhibit and practice both of these traits equally. This dual skill set stems from their ability to target and prioritize customers so that no one escapes their attention.

Six to nine months before the proposal. As a project becomes more definitive, business developers can consider the strategic fit for your company, begin to gather information on the customer's full range of needs, and begin to formulate a preliminary capture plan. Notice that nothing at this point involves pricing since the specific scope of the work is not yet determined.

Three to six months before the proposal. You are now positioned to discuss how working together you can achieve a more valuable solution. You are, in effect,

developing a capture plan that includes a collaboratively developed win strategy that delivers a highly customized solution to the customer. Clearly, not all of the opportunities that exist today will entertain customized solutions. But even having a sniff at these types of opportunities will not happen to the late comers who have invested nothing in the process and expect to win on price alone.

Zero to three months before the proposal. Prepare your team to deliver a customized proposal that reflects a unique win strategy. Essentially, this proposal is a confirmation of the discussions that you have had previously with your customer. If collaboration is not possible, the proposal should differentiate your company from the competition and express clearly your capabilities and the value the customer will receive by choosing you. It should address all of the customer's key issues. A well-crafted proposal is not simply a document that responds to a RFP; it is a sales tool.

In order for this scenario to occur, the customer must be educated early in the process on the difference between value received and initial bid on a project. In sectors such as health care, high tech, energy and many federal government projects, value is the primary decision-making criterion. When buyers are less experienced, you are able to teach them about your unique value proposition only after you have earned their trust and confidence. This takes time and that invested time will not provide immediate reward. Faith that your strategic business development plan will pay off in the long term will ultimately result in better opportunities and outcomes.

Business development is the most difficult function for engineering and construction companies to appreciate and develop. It requires people with initiative and persistence, proactive planning and execution, and patience for results. It also requires people with skills in personal interaction. Some leading companies are investing in business development resources at this time in order to steal market share and position themselves for further growth. They know this recession will not last forever. Perhaps it is time to rethink your business development strategy and prepare for growth. ■

Faith that your strategic business development plan will pay off in the long term will ultimately result in better opportunities and outcomes.

Lee Smither is a directing manager at FMI Corporation. He may be reached at 919.785.9243 or via e-mail at lsmither.com.

Developing Winning Proposals

Good proposals are concise, provide clarity and, most importantly, do not take up unnecessary reader time. Provide the evaluator with a good road map, and make the navigation as easy as possible.

By Stephen Boughton

Consider two different openings to a business proposal:

Number 1: “Reading this proposal is going to help you win more work. You will find all the tools and techniques you need to increase your backlog, and I will prove how my previous articles achieved this for other clients. **Number 2:** “I am pleased to provide you with this proposal. I have been writing proposals for more than 20 years and they have always been delivered on time, within budget and with very few errors. Please call me if you have any questions.”

Does the second choice sound familiar? For a large percentage of readers, the answer would be a resounding yes. Choice No. 2 is easily the most common opening to contractor proposals.

Did the second opening grab your attention, at least enough to read on? This is what you should be trying to achieve in your own proposals. A well-crafted proposal will distinguish you from the pack, perhaps enough to get you in the “to consider” pile. Creating winning proposals takes significant investments of both time and resources. With 15 to 20 bidders in the hunt on any project, small or mega, it becomes increasingly difficult to make yourself noticed. Extra effort is required at every turn.

When should a focus on winning proposals play a part in your business development process? Quite simply, when a scope of services and price alone is not sufficient to win work. Basic scope documents are a perfectly valid approach in a price-driven or preferred-provider (perhaps sole source) environment. But, by definition, a proposal is your version of delivering value to the prospective client, so it has to be more than a simple acceptance of scope. No two companies have the same people, capabilities, experience, systems, etc. Likewise, your proposal is your unique plan on this specific opportunity. Ideally, it is a distinguishable yet integrated part of your complete business development process — just one of many small sales battles on the way to winning a project and providing outstanding customer service.

What are the true challenges in developing winning proposals? Invariably, contractors struggle with getting reasonable return on their proposal efforts. Comments run the spectrum of concerns: “We spend days putting these things together, but all too often they are finished at the last minute and we still find mistakes,” or “What’s the point? They go straight to the price and then start beating us up. No one is interested in the details.” Many contractors measure the return in terms of projects won, which in this climate can be downright depressing. Contractors instead should focus on the following observations:

- Proposals are here to stay. Contractors are the ones who must adapt to meet prospective client expectations.
- Proposals help position contractors with prospective clients for the long term, win or lose.
- Proposals get contractors to the interview table but do not necessarily win projects. However, bad proposals have been known to lose projects.

Getting the organization to focus on these realities should help make the whole proposal process more manageable, perhaps even rewarding, in spite of the inevitable rejection letters.

What is the magic formula? What makes a winning proposal? What does the process look like? Three simple steps will instantly improve the quality of



proposals you deliver to prospective clients (See Exhibit 1). These steps are discover (research), define (plan to write) and develop (write).

To clarify, embarking on the proposal development process assumes you have evaluated the opportunity and decided it is a good fit for the

company. This evaluation includes choosing the right type of work, location, risk profile, etc. You have the expertise, related experience and resources to do the job. Developing a well thought out and competitive proposal sucks up time and resources

Guiding Principles of Winning Proposals

- Proposals are selling documents. Are you selling yourself as the best choice or the runner up?
- Customers eliminate the losers first.
- Sell the benefits of choosing your company.
- Plan your strategy first, write the content last.
- Start and end sections on selling messages.
- Proposals sell in words, graphics and layout.
- Communicate your difference or lose on price.
- Customers always drive the proposal design.
- Winning proposals are 100% responsive to RFP requirements.
- Regardless of the outcome, debrief with the client.

from all areas of the business. It is essential to use an effective go/no go decision process to ensure you are committed to winning this project, and the investment of time and resource is warranted.

DISCOVER

When given an opportunity to propose on a project, the immediate instinct of many contractors is to

gather easily available content and start writing. The most successful contractors view their proposal as the culmination of many hours of research and discovery, conducted long before pen hits paper. Even short notice opportunities require solid discovery in the early stage of the development process. The crucial step of discovery should not be eliminated simply because time is short.

A solid discovery process sets all available resources to work with a focus. What are the facts of the opportunity? What are the motivations of the prospective client? Ideally, the discover step of proposal development should begin before the RFP is issued, particularly if there is an opportunity to influence how the RFP is constructed. Either way, if a company does not invest time in these early stages, how will it be able to develop an offering that makes it truly unique?

The discovery process is the foundation of the next step, your value proposition for this opportunity, which needs to be built on specifics rather than assumptions and generalities. Focus the research efforts. What information is needed, what are the possible sources (including, but not limited to the RFP) and which team member is going to uncover it? Are you using all available opportunities to interact with the prospective client, particularly the users who may play a key part in the evaluation process even if they are not the prime decision makers?

How do companies learn about prospective clients and opportunities? Do they understand the clients' business? Are client markets expanding or contracting? What is driving the need to build? What has been written about the clients (newspapers, blogs)

The most successful contractors view their proposal as the culmination of many hours of research and discovery, conducted long before pen hits paper.

and what have they written about themselves (website, annual reports)? Knowing prospective clients is crucial. Are they sophisticated buyers of construction services? Are they likely to be interested in details or overviews? Will proposals be evaluated by a team or an individual and will there be other outside individuals or influences? These are all key components of any sales effort, but they come into sharp focus when dealing with a specific opportunity.

Do not forget the competition. While you may not specifically know who is going to be pursuing the opportunity, you should be developing a list of potential competitors. You cannot build an effective win strategy in isolation. What are

The real challenge is to read through the RFP to identify where you can effectively provide unique value while still being compliant with the terms.

your competitors' reputations in the marketplace both in general and for this type of opportunity? What projects are they likely to showcase to demonstrate capabilities? Which of their key team members are likely to be proposed on this opportunity? What operational problems have they had in the last six months? Knowing what you can do and what they cannot do will be a key driver of your sales message. If you are going to make a case for why you are different, you need to know the baseline you are measuring against.

Certainly, job number one is responding directly to the RFP. Do not treat it simply as an invitation to provide a general marketing pitch.

This is not to ignore the RFP, which should be reviewed with a critical eye by a number of your people, from all parts of the business. But remember, RFPs themselves are not infallible. They simply present a low-risk way for owners to manage a complex process. Do not assume they wrote a good RFP. At a base level, it drives the scope definition and service parameters, but often it resembles a horse designed by committee.

The real challenge is to read through the RFP to identify where you can effectively provide unique value while still being compliant with the terms. Ask yourself, is the prospective client missing something? Can you find an angle they have not considered? What are the unanticipated needs that you can identify and meet? A laser focus solely on responsiveness can cause you to lose sight of opportunities to position yourself.

DEFINE

Whatever you learned in the discovery process now needs to be filtered to hone the key selling messages. Remember, you still have not put pen to paper. This is the time to develop a balanced win strategy, which takes into account your strengths and weaknesses as well as those of the competition. Based on what you learned, what are you going to do now for this opportunity?

Develop this strategy by creating a cross-functional team. What better way is there to focus on your ability in the field than to have your superintendents help develop the strategy? After all, who is closer to a client on a daily basis?

Consider every paragraph of the proposal as an opportunity to send a clear message which explicitly or implicitly:

- Leverages your strengths
- Minimizes your weaknesses
- Counteracts competitor strengths, or
- Ghosts (or draws attention to) competitor weaknesses

All too often, contractors fall at this hurdle. Whether through overconfidence or lack of planning, many fail to build these key sales messages strategically (See Exhibit 2). If you fail to take the time to develop them now, it will be very difficult to identify and articulate them when you are close to the wire.

DEVELOP

Finally, now is the opportunity to put something down on paper! The truth of the matter is good preparation on the front end should make this step a whole lot easier. The overall objective is to focus on the key sales messages, and be sensitive to the prospective client's problems, issues and hot buttons.

This brings us back to the beginning of this article. Remember the two optional openings? This is where you need to focus on the attention grabber. Describing how you have successfully stayed in business and built similar projects for other customers does not meet the criteria of focusing on this prospective client. The cover letter is the perfect opportunity to demonstrate how you, the client and this project are unique, and this should be supported immediately in



the main body of the proposal. Be careful though. Providing a long list of capabilities or features is not a strong sales message. Clients do not buy features; they buy what is beneficial to them.

Based on what you have learned about the prospective client (the issues), explain how your capabilities (features) will deliver real benefits. Develop confidence in your ability to deliver through the use of project and personnel résumés as well as previously served customers who can articulate how you successfully identified and

solved their problems. Buyers are trying to mitigate their risk, and it is your job to demonstrate how you achieved that goal elsewhere.

The develop step is a team effort (See Exhibit 3). Do not ‘throw it over the fence’ to an unsuspecting member of the marketing department and expect him or her to produce a work of art in isolation. Appoint a lead writer, but make her or him the focal point for achieving consistency and compliance both with the RFP and your own win strategy. Involve other team members, whether as writing contributors or reviewers. Take a step back and conduct a Red Team Review to get input and challenge ideas, and make sure the operations side is involved. Not only will they help identify problem areas, involving operations also starts the process of preparation for the interview stage.

Write as if you are already a member of the partnership. Focus on ‘our’ challenges to help develop the sense you are already living the project. This is the opportunity to communicate your skills and enthusiasm in ways the prospective client understands. Most importantly, show you understand the problem — the specific description, its effects and the consequences of not tackling it.



STYLE AND FORMAT

‘Substance over form’ should always be your mantra. No amount of glossy graphics, perfect layout or professional binding will overcome an inability to perform in the field. However, reviewers are human and first impressions can easily cause a perfectly compliant and technically competent proposal to fail. The quality of the content, writing, editing, formatting and overall presentation will affect your credibility. If the proposal looks thrown together, the perception will be that your work on the project will be slapdash as well. A poorly crafted proposal will likely you earn you an early pick ... as a loser, by the client. As you develop the proposal, focus on the following:

- **Get the first impressions right.** Ensure the hard copy document reflects well on your company. Is it consistent with your marketing materials, including your website?
- **Multiple reading audiences.** A number of stakeholders are likely to read your proposal, some of whom may not be familiar with the construction

process yet are key decision-makers or influencers on decision-makers. Keep unnecessary jargon to a minimum, and most importantly, ensure that the inexperienced buyer understand every sales message.

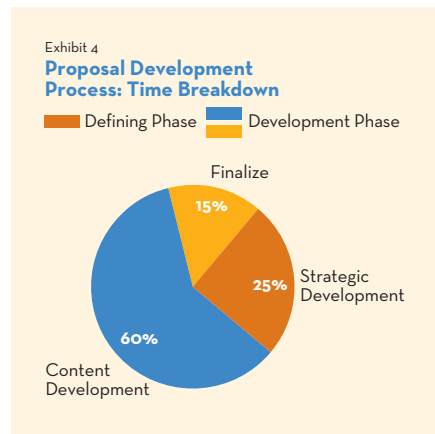
- **Length.** If it is going to take three hours to read the proposal cover to cover, it is unlikely to happen — particularly when there is a stack of 15 of them sitting on the desk. Make a distinction between the vital information and the supporting data. For instance, it is essential to focus on the key, relevant experience of the proposed team, but keep the full résumés as a reference. On the whole, if you have a large amount of supporting information that would interrupt easy reading of the sections, add it as an appendix.
- **Formatting issues.** Focus on substance, but remember that a poor presentation can lose it for you. Comprehension and retention are higher when you present information in an easily digestible form. Use captions, sidebars and quotes to focus on your key selling messages. Avoid pages of cramped text and lay out the page in a way that is easier on the eye. This is simple to do by balancing the use of charts, graphs and photographs. The one condition is these inserts must add value. Do not needlessly sprinkle illustrations, but make them a key part of the sales message.
- **Compliance.** 100% responsiveness is mandatory. There is no better way to raise the hackles of an evaluator than to leave out information they perceive to be important.

Good proposals are concise, provide clarity and most importantly do not take up unnecessary reader time. Provide the evaluator with a good roadmap, and make the navigation as easy as possible. This does not simply mean providing a table of contents. The basic outline should be straightforward — introduction, description of proposed services, procedures, cost, qualifications and conclusion. It is your job to point the evaluator to the most relevant sales messages. It is not sufficient to allow the reader to stumble through the document, and hope he or she sees why you are the right company for the project.

PROCESS

Possibly the most challenging task in this whole system is recognizing the need for process. All too often the focus is on getting to the starting line, and once you receive the RFP, you enthusiastically pull “boilerplate” information and throw in a selection of text that seemed to work on the last proposal.

Organizing and managing the proposal team is a key ingredient of success. Focusing the people on the end product and ensuring effective communication among the proposal team will achieve the most competitive and technically



accurate proposal. Manage this through timely meetings with action items, due dates and assignment of individuals. Everybody's job quickly becomes someone else's job, so closely link the RFP and win strategy requirements to a rigorous compliance matrix. This not only ensures responsiveness, it streamlines the whole development and final approval process. And remember, this is still the time for cross-functional input.

So is there a place for a boilerplate in the process? The objective of boilerplate language is to enable use on any opportunity, so by definition it is not unique. By the same token, most organizations simply do not have the resources to develop content from scratch for every prospect. The logical solution is to develop a boilerplate to help you stay ahead of the game, but make sure you always adapt it to the current opportunity. This takes commitment, particularly in the face of a tight deadline. The secret is to make the boilerplate a living process by constantly upgrading it based on past project and proposal experience. The more current you can make it, the more likely it will have close relevance to the current opportunity. Do not rely on it as cut-and-paste filler for the proposal, because this is exactly how it will come across to the prospective client. In a worst-case scenario, careless use of boilerplate information may lead to errors.

At this point, some of you may be thinking this is all very well for private work, but what about public/government entities? It is true the styles will vary, and the public/government RFPs will be far more prescriptive and inflexible. However, the fundamental rules still apply. Make the proposal unique to the opportunity, stress the benefits of the proposed solution and ensure that you are

100% responsive. More than ever, the evaluation criteria will focus on the substance of the document. That is all the more reason to follow the discover/define/develop steps.

At its heart, a winning proposal is a sales document, so make sure it demonstrates your competitive advantage. Regardless of how the opportunity came to you, and the time and effort you have committed up to this point, now is the tangible (and perhaps even objective) opportunity to distinguish you from the competition. Make the evaluator an enthusiastic

At its heart, a winning proposal is a sales document, so make sure it demonstrates your competitive advantage.

advocate for your company. Ensure the proposal is about the client, and demonstrate that you understand its challenges. Failing to develop a unique response to a RFP is a surefire way to lower your likelihood of success. Use the opportunity to establish confidence and trust in your ability to deliver, and make sure you answer the question, “Why you?”

You are not going to produce a perfect proposal every time, and you are not going to win every project. This makes it all the more important to see the proposal development process as just one component of your overall business development activity. Remember, win or lose, always debrief with the buyer. Like any good project lessons-learned process, this is the opportunity to connect the feedback loop for the entire proposal development process. Time invested today is time saved on the next pursuit. ■

Stephen Boughton is a consultant with FMI Corporation. He may be reached at 813.636.1245 or via e-mail at sboughton@fminet.com.

A Call to Action

MY PERSPECTIVE SERIES:
REPRESENTING THE AUTHOR'S
PERSONAL PERSPECTIVE

Individuals, firms and the industry itself must step forward and claim a larger role in how the commonwealth is preserved, repaired and improved.

by Louis L. Marines

The architecture, engineering and construction (A/E/C) industry inhabits a world suffering from economic, social and ecological ills. The industry has chosen to solve these problems by continuing to do a good job, focusing on climate change/sustainability and hoping to be invited to the table to help overcome the larger problems plaguing our nation and world. While many contribute time and money to solving local, national and global problems, there is more they can — and must — do.

DEFINING THE CHALLENGES

We face great challenges in the world on differing scales: global, international, national, regional and within our chosen professions, our immediate communities, homes and families. Many are far beyond the scope of individual action: climate change, migrations of people, armed conflicts, plagues, crop failures, the appearance of new and resistant diseases and the like. Most of these are not situations we can solve as individuals.

“Between the great things we cannot do and the small things we will not do, the danger is that we shall do nothing.”

— *Adolph Monod*

“Nearly 50% of the world’s population — almost 3 billion people — live on less than \$2 a day. 840 million suffer from hunger. Ten million children die every year from easily preventable diseases. AIDS kills three million people every year and continues to spread. One billion people lack access to sanitation. One billion adults are illiterate. About one-quarter of children in poor countries do not finish primary school. Meanwhile, the richest 20% of the world’s population own 77% of the world’s wealth, while the poorest 20% own 1.4%.”¹

We speak of carbon footprints and global warming, but these abstractions hide from us what is actually a human rights issue tied to our need for energy to power our civilization. Looking at one item, the use of fossil fuels as our primary energy source, can make this connection clearer. The extraction and refining of fossil fuels cost human lives directly: miners, oil platform workers, refinery personnel and others frequently are killed on the job. Users of fossil-fuel energy are killed by toxic chemical exposure, bad air quality and wars over the control of oil, gas and coal supplies.

Tied to our use of fossil fuels is the concept that the greatest danger to the planet is that of climate change produced as we generate energy. The buildup of carbon dioxide will destroy the earth, we frequently are told. Yet there is little — perhaps nothing — we can do about it. Robert B. Laughlin, a physics professor at Stanford University, reminds us “Climate is a profoundly grander thing than energy. Energy procurement is a matter of engineering and keeping the lights on under circumstances that are likely to get more difficult as time progresses. Climate change, by contrast, is a matter of geologic time, something that the earth routinely does on its own.” Though our efforts may be able to temporarily mitigate our effects on the atmosphere for decades, as Laughlin points out, “Were the earth determined to freeze Canada again, for example, it’s difficult to imagine doing anything except selling your real estate in Canada.”²

No number of LEED-certified buildings is going to stop, slow or measurably affect the earth’s geological cycles. Humans will have no more than a temporary effect on the earth’s overall carbon dioxide cycle, which is measured in time spans of tens of millennia. On a 24-hour scale, if the earth began 24 hours ago, the entirety of human civilization has existed for only .003 seconds.³

Where our actions do have a direct and immediately recognizable effect is on other human beings and other species. This is good news for all of us working in the built and natural environments, because it means we can let go

We speak of carbon footprints and global warming, but these abstractions hide from us what is actually a human rights issue tied to our need for energy to power our civilization.

of responsibility for saving the entire planet and take direct action to help people at a more manageable and accessible level.

WE MUST TAKE ACTION

Admittedly, we tend to isolate the great problems we face from the human context by calling them “climate,” “economy” or “infrastructure,” or by way of statistics. “Because of the scale of the problem, individuals feel powerless to help and so the temptation is to offer a token response without any real involvement or commitment,” says Lord Brian Griffiths, former director of the Bank of England, in his book, *Fighting Poverty Through Enterprise*.

To conquer this powerlessness, we need only to change the scale. To be motivated to take action that is meaningful in the world, these actions must be meaningful to us. If our concern of the environment is, as it should be, a human rights concern, let us take action and do it in our communities where we can make a noticeable difference.

The human experiment of living in large urban centers is about 5,000 years old, less than the blink of an eye in the 6 million year tenure of hominids, and we may yet decide that it is not an effective strategy. Wendell Berry, the farmer, writer and economic critic from Kentucky, tells us in his May 2010 book *What Matters?: Economics for a Renewed Commonwealth* that, “Decades of cheap labor, cheap energy and cheap food (all more expensive than has been imagined) have allowed our society to incorporate itself in a material structure that will have to be seen as top-heavy. We have flooded the country, the roadsides and landfills with shoddy consumer goods. We have too many houses that are too big, too many public buildings that are gigantic, too much useless space enclosed in walls that are too high and under roofs that are too wide. We replaced an until-then-adequate system of railroads with an interstate highway system, expensive to build, disruptive of neighborhoods and local travel, increasingly expensive to maintain and use. We replaced an until-then-adequate system of local schools with consolidated schools, letting the old buildings tumble down, replacing them with bigger ones, breaking the old ties between neighborhoods and schools and making education highly dependent on the fossil fuels. Every rural school now runs a fleet of buses for the underaged and provides a large parking lot for those older than 16 who need a car to go to school. Education has been oversold, overbuilt, over-electrified and overpriced. Colleges have grown into universities. Universities have become research institutions

The human experiment of living in large urban centers is about 5,000 years old, less than the blink of an eye in the six million year tenure of hominids, and we may yet decide that it is not an effective strategy.

full of under-taught students and highly accredited professionals who are overpaid by the public to job-train the young and invent cures and solutions for corporations to market for too much money to the public. And we have balanced this vast superstructure, immensely expensive to use and maintain, upon the frail stem of the land economy that we conventionally abuse and ignore.”

In our enthusiasm for the large centralized schools Berry mentions, we removed children from their neighborhoods and were then surprised when they formed gangs to replace their missing community; ignored an ever-changing roster of teachers who were strangers to them and their families; and learned nothing

from a dull curriculum, dictated by executives at textbook publishing companies whose purpose is to sell new books at the most profit, not to teach young people how to think.

This same impulse for centralization and gigantism affects the safety and quality of our food supply, the ability of health care systems to serve people, the amount of energy we must produce to move everything long distances, the resilience of our financial system and the connection of our elected representatives to the welfare of our republic. We have let our communities get away from us.

Action is needed, and we need hope to fuel that action. Václav Havel, first president of the Czech Republic, has told us, “Hope is a state of mind, not of the world. Hope in this deep and powerful sense is not the same

as joy that things are going well, or willingness to invest in enterprises that are obviously heading for success, but rather an ability to work for something because it is good.” He also says, “The only lost cause is the one we give up on before we enter the struggle.”

As architects, engineers and builders, we entered these careers not only from a desire to earn a living and for the intellectual challenge of designing and building, but also to improve the world around us. We want to make our communities more viable, to create places where people want to live, work and recreate, and where they can do so safely, healthily, peacefully. Caught up as we are in the details of running firms, managing projects and raising families, it seems difficult and even overwhelming to find ways to take on this higher calling. But take it on we must if we are to live with ourselves.

Albert Schweitzer once said that there are three ways of changing the world: the first is through example; the second is through example; and the third — well, you’ve guessed it — through example.

As architects, engineers and builders, we entered these careers not only from a desire to earn a living and for the intellectual challenge of designing and building but also to improve the world around us.

Writer and political activist, George Monbiot, calls us to task when he says, “All those with agency — the ability to direct the course of their own lives — are confronted by a choice. We can use that agency to secure for ourselves a safe and comfortable existence. We can use our life, that one unrepeatable product of four billion years of serendipity and evolution, to earn a little more, to save a little more, to win the approval of our bosses and the envy of our neighbours. We can, quite rationally, subordinate our desire for liberty to our desire for security. Or we can use our agency to change the world, and, in changing it, to change ourselves. We will die and be forgotten with no less certainty than those who sought to fend off death by enhancing their material presence on the Earth, but before we die we will live through the extremes of feeling which comfort would deny us.”⁴ What, exactly is it, then, that we as individuals and professionals can do?

WHAT IS BEING DONE BY OTHERS

Action is not difficult to initiate, and results that ripple out through communities can be seen quickly. It is in our own interest to leverage our considerable talents and take action in our communities, both as infrastructure fixes that improve the social and economic conditions, and by bringing the design thinking, facilitation and collaboration skills of architects and engineers to serve our neighbors. These efforts not only improve and enhance our communities, but also tend to bring rewards and unforeseen benefits to the individuals and firms who engage in them.

Christopher Leinberger of the Brookings Institution, in the June 2010 issue of *The Atlantic*, says, “About a third of all the jobs lost in the recession have been in construction, real estate finance, architecture or building services. Housing prices, meanwhile, have fallen 28%, adjusted for inflation, since their peak in 2006 — that’s more than they fell during the Great Depression.” He goes on to

point out that the places where housing has lost the most value are in the most distant suburbs, which are the least walkable and most disconnected areas of housing. Nationally, we face a massive oversupply and weak demand for these areas, and as energy prices rise and commutes become more expensive and less convenient, demand for these areas will drop further. Places that have best retained their value are walkable, bikeable neighborhoods, often connected by rail to urban centers. Leinberger goes on to say that “... spaces of the kind that people want today feature mixed-use zoning

Action is not difficult to initiate, and results that ripple out through communities can be seen quickly.

and lots of stores and parks within walking distance. But most of all, they feature good public transit options, usually rail lines.” This connection among liveability, property value and transportation systems is key. “In the early 20th century, every town of more than 5,000 people was served by streetcars, even though real household income was one-third what it is today ... real estate developers not

only built the systems, but paid rent for the rights-of-way.” Leinberger says that transit lines have been shown to increase the value of both property and businesses they serve. Who will bring these issues to the forefront in your community? Who is better qualified than you are to explain to your town, city or metro leaders the economic advantages of enhancing economic viability by adding streetcar lines?

In Los Angeles, Mike Alvidrez, executive director of Skid Row Housing Trust (SRHT), now manages 1,500 homes for homeless Los Angelenos. In her *Financial Times* article of August 20, 2010, “Architecture of transformation,” Catherine Moye explains that a homeless person living on the street in L.A. costs the city \$2,897 per month (due to police, jail and court costs, as it is illegal to sleep on the street and the homeless are often arrested), whereas keeping that homeless person in supportive housing costs \$1,707 per month, including building costs, rent subsidy and social services. Due to the shoddy conditions at most conventional

shelters and the lack of medical and therapeutic help, most homeless would rather stay outdoors, even in dangerous weather.

Architecture firm Koning Eizenberg worked with the SRHT to create the Abbey Apartments, now housing 113 people. Next door stand the Rainbow Apartments, another SRHT project, designed by Michael Maltzan Architecture. Both facilities are designed to create community; offer the medical, mental health and occupational services that are known to best help the homeless; and are helping people make the transition away from homelessness. The same article reports on similar efforts in England that have resulted in helping 9,000 people off the streets since 1998. The Supporting People program, which provides housing support for England’s homeless and vulnerable

people, estimates the financial benefit from the program has been £3.41 billion per year, compared to a £1.6 billion capital investment and running costs since 2003. As in Los Angeles, architects have been key to the success of this effort, which relies heavily on design to create the transformative atmosphere necessary for people to engage in personal change.

THERE IS MORE

Designers Pavlina Ilieva and Keo Pao Lian look to the world’s slums and favelas (shantytowns) to learn why they work: They are high-density, walkable, mingle residences and shopkeeping side-by-side, and are almost entirely made of post-recycled material, much of which is “the stuff no one else will take.”⁵

Due to the shoddy conditions at most conventional shelters and the lack of medical and therapeutic help, most homeless would rather stay outdoors, even in dangerous weather.

Darrin Nohrdahl, a city designer, describes in his book *Public Produce: The New Urban Agriculture* how Americans became disconnected from the industrial food production system and the high value of returning to local, home and urban gardening. He believes cities should expand the use of public spaces to produce food locally — not as a demonstration or hobby, but as a major food supply. Crops grown and eaten inside city limits are less likely to carry the diseases found in industrial food processing plants and require much less energy to bring to the table. Backyard victory gardens in 1944, about 20 million of them, were estimated to produce 8 million tons of food.

The Weatherhead School of Management at Case Western Reserve

in Cleveland has a “Managing by Design” program that interweaves design disciplines throughout the curriculum and requires all students to take a yearlong course in the subject. The school is trying to foster creative thinking by embracing design practices and it is not alone. The Rotman School of Management at the University of Toronto also integrates design disciplines into the curriculum, and Stanford’s Hasso Plattner Institute of Design brings students together to work on innovative projects in law, business, education, medicine and engineering.

Edward Glaeser and William Kerr reported in the *Harvard Business Review* of July/Aug 2010 that the more small businesses a city has, the more jobs it creates. “Cities relying on only a few large firms for employment experienced slower subsequent job growth than cities with an abundance of small firms.”

Babson College has launched the Babson Entrepreneurship Ecosystem Project (BEEP) to help governments determine if they have the needed elements in place to foster entrepreneurship. The system helps assess for the crucial elements, so governments know where to focus their efforts.

Daniel A. Hatch, the Chicago chapter president and national board member of Architects/Designers/Planners for Social Responsibility, writes in the June 25, 2010, issue of *Design Intelligence* about how to bring design skills to bear on the challenges faced by communities. “The definition of sustainability and the focus of our work must include people as well as the environment,” he says. “We must expand our design process to include the overwhelming majority of the population — 98% — who cannot afford our services.” He makes a compelling case that designers can take direct action to address social inequalities through architecture and design, and that “As a profession we have the potential and the opportunity to make the world more environmentally and socially stable.”

In the same issue of *Design Intelligence*, **Nick Peckham of Peckham and Wright** describes his firm’s experience that grew from donating services to a local school to help replace a classroom lost in a fire. The project became the Eco School House,

a collaboration between design and construction leaders and the school district. Through an outpouring of community support, 100% of the labor and services were pro bono, with donations of design, materials and construction services from 40 organizations. The building has become a teaching tool for students to see, touch and learn about the building's environmental and sustainable components, and uses only 46% of the energy required by other classrooms. The school has reaped a long list of benefits from the project, including reduced absenteeism and reduced nurses' visits for courses held in the Eco School House, indicating that the sustainable materials used have a positive relationship to student health. Peckham and Wright has also continued to receive benefits from its pro bono work on this project. During the recession the firm continued to receive contracts and had strong financial success, which Peckham attributes to public awareness of its role in the Eco School House.

We can draw on the skills of architects, engineers and builders to ask questions, facilitate discussions, listen and coordinate and foster collaboration. This need is larger than any one project.

WHAT MUST I DO?

Wendell Berry has suggestions for where and how to begin. He believes that we should revisit our education and start fresh by asking ourselves the following questions about our own home community:

- What has happened here? By “here” I mean wherever you live and work.
- What should have happened here?
- What is here now? What is left of the original natural endowment?
What has been lost? What has been added?
- What is the nature, or genius, of this place?
- What will nature permit us to do here without permanent damage or loss?
- What will nature help us to do here?
- What can we do to mend the damages we have done?
- What are the limits: Of the nature of this place? Of our intelligence and ability?

“This conversation,” Berry asserts, “would collapse the rigidly departmented structure of our present academic and professional system into a vital, wakeful society of local communities elegantly adapted to local ecosystems.”

These are the provocative questions we need to ask our neighbors and ourselves. As the designers and builders of communities, we are in a position to convene town halls in neighborhoods or the entire community, inviting the

elderly and the young, immigrants and the disadvantaged, corporate and government officials, educators and others. We can draw on the skills of architects, engineers and builders to ask questions, facilitate discussions, listen and coordinate and foster collaboration. This need is larger than any one project.

The architecture, engineering and construction industry directly shapes the world inhabited by the rest of humanity — yet its unique skills are not being fully leveraged for the betterment of its communities. Individuals, firms and the industry itself must step forward and claim a larger role in how the commonwealth is preserved, repaired and improved. ■

Louis L. Marines, Hon. AIA, founded the Advanced Management Institute for Architecture and Engineering (AMI), which merged with FMI in 2008 and recently rolled into FMI's Architectural and Engineering Division. He is a sought-after business advisor and coach for CEOs, and is the author of *The Language of Leadership: Stories and studies in courage, wisdom and sacrifice* (Greenway Communications, 2010) in addition to hundreds of articles and several books about the design profession. Marines is a CEO Emeritus of the American Institute of Architects in Washington, D.C. He can be reached at 707.431.8068 or via e-mail at loumarines@gmail.com.

¹ Lord Brian Griffiths, *Fighting Poverty Through Enterprise*, Transformational Business Network, London, 2007.

² "What the Earth Knows," *The American Scholar*, Summer 2010.

³ <http://cassian.memphis.edu/history/jmblythe/Global%20Fos/UniversalClock.htm>

⁴ "Why We Conform," *Resurgence*, Nov/Dec 2003.

⁵ "Learning from Informal Cities, Building for Communities," *The Futurist*, Sept/Oct 2010.

CONTACT THE *FMI* QUARTERLY

CUSTOMER SERVICE:

quarterly_info@fminet.com

SUBSCRIPTIONS:

1.800.877.1364

ARTICLE REPRINT PERMISSION:

919.785.9236

VISIT FMI ONLINE:

www.fminet.com