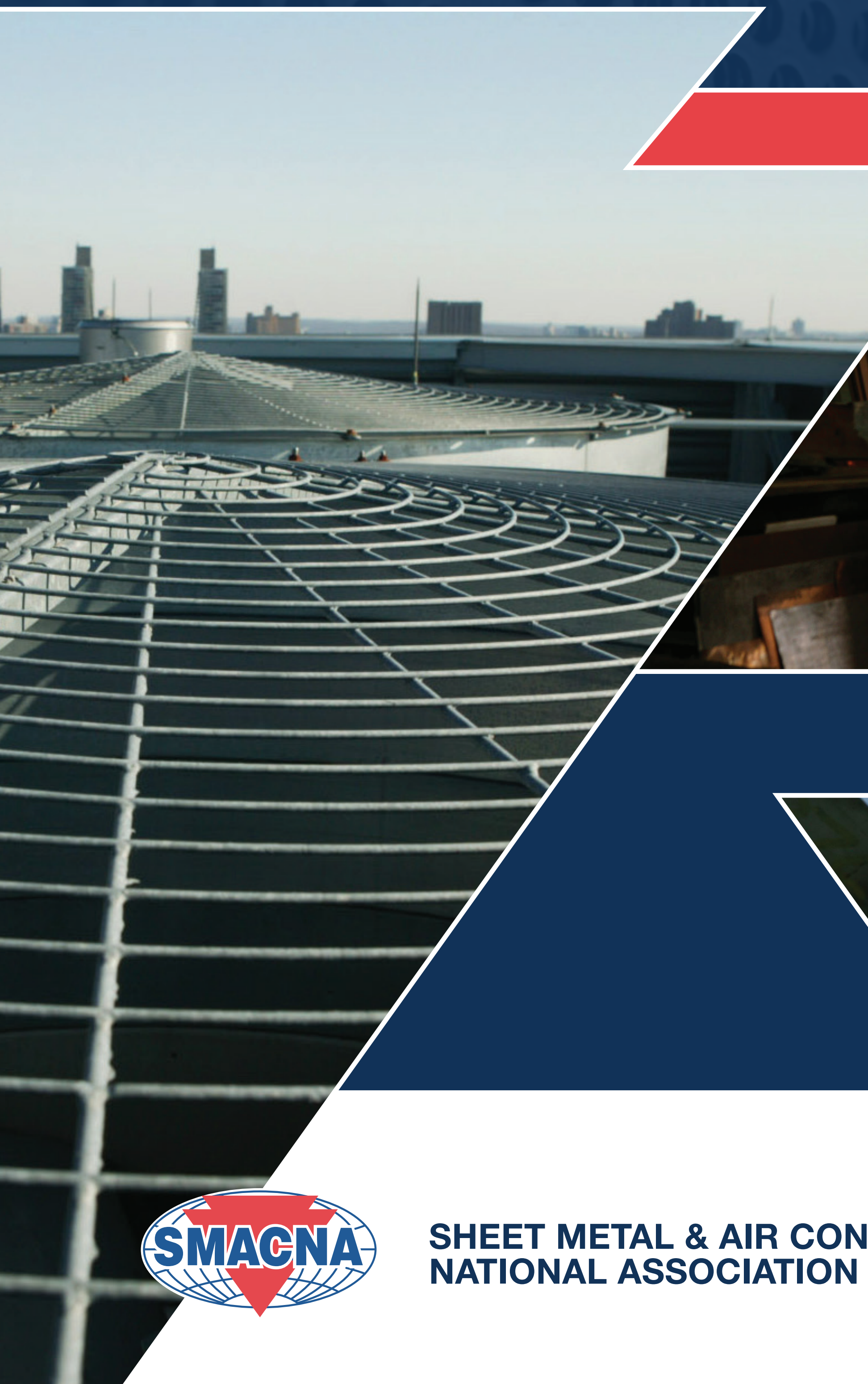
SMACNA PARTNERSHIP



SHEET METAL & AIR CONDITIONING CONTRACTORS' NATIONAL ASSOCIATION

Disclaimer/Warning

CONTRACTOR OPERATIONS MANUAL TASK FORCE

- **Thomas E. Martin, *Chair***
  T. H. Martin Inc.
  Cleveland, OH

- **Heath J. Allard**
  Climate Engineers
  Eldridge, IA

- **Paul Candelaria**
  Miller Bonded Inc.
  Albuquerque, NM

- **Ken Groeschel, Jr. PE**
  Butters-Fetting Co., Inc.
  Malone, WI

- **Todd W. Hill**
  Ventcon Inc.
  Allen Park, MI

- **Paul Le Bel, II**
  Walsh Mechanical Contractors
  Abington, MA

- **Kurt Mattson**
  DeKalb Mechanical, Inc.
  DeKalb, IL

- **Bobby McCally**
  The Brandt Companies, LLC
  Carrollton, TX

- **Mark Terzigni, *Staff Liaison***

Consultants

- **Patrick Dennehy**
  FMI Consulting

- **Jay Bowman**
  FMI Consulting

SHEET METAL & AIR CONDITIONING CONTRACTORS'
NATIONAL ASSOCIATION

SMACNA PARTNERSHIP

2022

Written By: Patrick Dennehy
Jay Bowman

FMI Consulting

4201 Lafayette Center Drive | Chantilly, VA 20151-1219
Tel: (703)-803-2980 | Fax: (703) 803-3732 | www.smacna.org

TABLE OF CONTENTS

Although strategic partnerships are nothing new, economic, and labor turbulence are prompting many companies to take a closer look at joining forces with other firms, including direct competitors.

Partnership is defined as a relationship "involving close cooperation between parties having specified and joint rights and responsibilities".[1] In essence, it is working with other companies to create a "collaborative advantage" that makes you and them more competitive. Some partnerships involve one or more local companies or collaboration with larger regional or national enterprises. Other arrangements are between direct competitors or companies offering complementary products and services.

> ***"Going forward, certain projects are creating the need for strategic partnerships. It's so easy to see why partnership is worth it."***
> ***– Paul Klaus [Executive VP, Lyon Sheet Metal, Inc.]***

This paper outlines what you need to know about partnering, including:

- Understanding short and long-term upsides
- Identifying and evaluating potential partners
- Monitoring partnership performance

EXPLORE THE BENEFITS OF TEAMING UP

Working with another firm creates multiple upsides for your business. In the short-term, partnering enables you to:

- **Increase sales volume**. Collaboration creates additional volume because "you open opportunities that you might not have," explains Tom Martin [President, T.H. Martin, Inc., Cleveland, Ohio]. By partnering with companies outside your sales area, you can expand your reach and explore new markets. Similarly, partnering can enable you to get more work in your specialty, minimizing risk, and maximizing

CHECKLIST FOR EVALUATING PARTNERSHIP PERFORMANCE

EFFECTIVE PARTNERSHIPS:

- Establish and meet clear responsibilities and obligations
- Profitable and equitable for all partners
- Secure jobs outside of your normal scope
- State goals and share values clearly
- Communicate frequently and transparently
- Optimize projects for all stakeholders

INEFFECTIVE PARTNERSHIPS:

- Don't meet their obligations
- Discuss pricing or logistics with other firms
- Act unfairly or dishonestly about pricing or markups
- Fail to define roles in the bidding process
- Develop slow or ineffective communication networks
- Limit growth potential

opportunities. "When you have more backlog and more work, you have an opportunity to be profitable and make money."

- **Compete for larger and/or more complex jobs**. Partnering enables you to compete for jobs you might normally pass on. When a colleague said he wasn't going to bid on a job because it was too big for his small shop, Martin said, "Send me the drawings". He realized his facility could take on some of the fabrication and installation. He could also offer additional trades to help secure the project. "We wound up getting a $20-million job by providing additional work – and it's expanded our customer base."
- **Share responsibility**. "With these labor shortages, it's always good to have to have some flexibility with offsetting some burden or some labor when needed," Martin notes. "We look at things like splitting up CAD/BIM services, fabrication, and installation or additional trades. For instance, we do plumbing, piping, and sheet metal, so if one of my partners can't do all that, we can."
- **Meet DEIA goals**. Strategic collaborations can also help you qualify for projects with diversity, equity, inclusion, and accessibility requirements. "Find a partner that is either an FBE female business enterprise or MBE minority business enterprise, where you have a legit partner with boots on the ground, providing value to the partnership", Martin adds. Beyond eligibility benefits, collaborations with historically under-utilized businesses deliver all the other upsides of partnering.

Pro Tip: "Sometimes you got to put your ego aside and think outside the box," Martin counsels. "If you have a customer that wants a price, and you don't think you can handle it, instead of saying no, you might want to bring a partner or a sub to that project."

THE LONG-TERM UPSIDES OF PARTNERING

Partnering also yields longer-term returns that have a bottom-line impact. "Anytime you're dealing with anyone that does what you do, you can watch, you can find out why do they do that, and you can learn from them," notes Mike Gunning, [Vice President, Gunning, Inc., Pittsburgh, Pennsylvania].

Strategic collaborations make it possible to:

- **Explore innovation**. A partner can expose you to new technologies so someone else can try them before you buy. It's a lower-risk way to investigate your options for automation, machining, and back-office management. You can also pick up techniques for project and HR management, sales, and business development.
- **Improve administrative efficiency**. It's easy to focus so much on the shop floor that you neglect the back office. Partnerships offer two possible solutions: 1) find a partner who excels in this area, 2) implement practices you learn from them. One of Klaus' partners has stronger administrative support staff and clerical practices. "We've leaned on them for a lot of the day- to-day submittals, purchase orders, and warehouse tools," he notes.
- **Increase supplier diversity**. Since the supply chain disruption caused by COVID, savvy companies are expanding their vendor and supplier lists. When you partner, you can get referrals from a trusted source. "You gain access to new materials suppliers and vendors," notes Eber Verhovsek, president of Eber HVAC, Inc., in Johnstown, PA. This is especially helpful for products you haven't sourced before.
- **Enhance your skills**. You can enhance your own expertise by partnering with a more senior professional or established company, especially if you're a smaller shop or are new to the industry.

When McKinstry partners with emerging or historically underutilized businesses, "we want to help build up and teach our partner how to do those steps that are outside their wheelhouse," notes James Slater, the Portland-based company's business unit manager.

- Reduce risk. Safety is always paramount in our industry. When you work closely with another firm, you can exchange safety and EMR practices, review safety software options, and share incident reporting materials. Additionally, close partnership allows companies to compare internal cultures and check-in on their own safety initiatives.
- **Gain insights**. The opportunity to learn or watch a partner perform a particular function – such as presenting or pitching to the customer, applying lean principles, company culture, and VDC and prefab practices – helps firms improve their internal processes and become more competitive in the market.

Pro Tip: Use the long and short-term benefits to boost partnership opportunities. You can use these as criteria for finding a partner for your shop, or as selling points when pitching your firm as a partner to another company.

IDENTIFY AND EVALUATE POTENTIAL PARTNERS

Ready to reap the benefits of partnership? You may already have some prospects in mind. But if you don't, leverage the strength of close connections and weak ties.

Close connections, or strong ties, are pre-disposed to want to put their networks to work for you. Start by asking the people you know best – colleagues, subcontractors, personal friends – if they know anyone who meets your needs. But don't stop there.

People you don't know may well be an even more fruitful channel to potential partners. Academic research has shown that these "weak ties" often produce better results than those stronger connections.[2]

Think about the people who participate in the same local, regional, and national trade associations and business groups, like SMACNA or your community's chamber of commerce. In addition to committees and events, these organizations often have easy-to-search member databases that can help you connect with industry resources.

If you serve on an industry group, you've got two opportunities:

1. Assess other members as potential partners, which not only includes contractors but may include designers or vendors.
2. Ask them for recommendations and referrals

LEARN THE TRAITS OF SUCCESSFUL PARTNERSHIPS

Effective partnerships are win-win situations in which both companies stand to gain. You and your potential partner should:

- **Communicate effectively with transparency**. You may be inclined to safeguard certain business details from your partners, especially if they're also sometimes competitors. Slater counsels doing the opposite. "I have a very open, honest dialogue about my expectations and what they thought they were getting," he explains. "I want to see what their labor rate structure looks like, their back-of-house stuff so I know how they're structuring. They know my back- office stuff, too, so there's no hidden understanding or skepticism on what one or the other is getting out of the agreement."
- **Share similar values**. Successful partnerships require the alignment of values. Find out how prospective partners approach DEI, work-life balance, or employee feedback practices.
- **Use compatible software**. "It's very difficult to keep an eye on a budget when you have two dissimilar information sources coming in two different software programs that track and for you to differentiate values," Klaus notes.

- **Employ similar pricing models and principles**. If your approaches to pricing are too different, it could be hard to come to an agreement on bids and cost estimates. If you suspect price- gouging, walk away. Taking advantage of customers says a lot about the fundamental values of the management team and its trustworthiness.

You want to deal with somebody who you can trust and who has the same standards, like the technical standards of SMACNA and your own standards of quality and workmanship.
– Eber Verhovsek, President of Eber HVAC, Inc.

Pro Tip: Don't feel pressured to enter an open-ended partnership, Verhovsek counsels. "We look at one project, one contractual relationship, at a time, see how that project goes and move on to the next one with no commitment to anything going forward." This allows you to choose the right partner for each project without hurting existing relationships.

GETTING INTERNAL BUY-IN

While the value of partnering may be clear to you, you need buy-in from your team to make it work. When Lyon Sheet Metal decided to launch a partnership, some employees were reluctant. "We didn't have a lot of backlog, so their thinking was 'why are we doing a [partnership]? We can do this job ourselves'," Klaus recalls. He confirmed that they could do the project, but that partnering with the other company would enable Lyon Sheet Metal to book revenue from that project while going after new business. Sharing the rationale and how the partnership would benefit Lyon Sheet Metal was key to getting folks on board. "There were initial shortcomings, but at the end of the day, people had a clearer vision of what we're trying to accomplish here."

CAPITALIZE ON COLLABORATION

Teaming up with one or more other firms makes it possible to grow your reputation, reach, capacity and revenues.

With more mega-projects on the horizon, and limited labor resources, partnering offers a potential solution.

"With the way the market may be headed -- we're headed into a recession -- the more I can open up that aperture to more project opportunities, the better," Martin says. "This is one way to do it. But beyond the immediate, partnering has longtail benefits that help your business even when you're not partnering."

Ready to get started? SMACNA can help you identify how partnerships can work for your business, make connections with other firms, and coach you and your team to success. Contact Mark Terzigni for more information.

ENDNOTES

[1] "Partnership," *Merriam-Webster.com* Dictionary, https://www.merriam- webster.com/dictionary/partnership. Accessed 8/8/2022.

[2] Granovetter, Mark S. "The Strength of Weak Ties." *American Journal of Sociology* 78, no. 6 (1973): 1360–80. http://www.jstor.org/stable/2776392. https://www.jstor.org/stable/2776392. Accessed 8/8/2022.

[3] FMI / SMACNA Interviews (February, 2022 – June, 2022).