SMACNA Association Leadership Meeting – Critical Industry Challenges Workshop Notes

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Continuum Advisory Group was asked to lead an interactive workshop of the SMACNA Association Leadership to brainstorm, analyze and propose potential solutions to some critical industry issues.

The following presentation provides documentation of the output from the workshop along with some interpretation from Clark Ellis, Principal, Continuum Advisory Group.
Brainstorming and Prioritizing Critical Industry Challenges

- Participants worked in 6 table groups to identify issues that they believed to be “Critical Industry Challenges”.
- After each group presented its findings, the list was consolidated into a master list of 40 “Critical Industry Challenges”.
- The entire group was asked to each cast three votes in order to assign priority to the list of challenges. The following list shows the number of votes that each challenge received as a bolded number in blue next to the corresponding challenge.
- The group discussed the prioritization and felt that it would be helpful to examine which challenges were more closely related to the union or were difficult for the association to address. These issues are denoted with a red bolded U next to the corresponding challenge.
Challenges (1 of 2)

1. Non-union competition 10
2. Unfunded liability (pension) 1
3. Diversification of skillsets 1 U
4. Recruiting labor better and sooner 4 U
5. Retiring our knowledge U
6. Poor design docs 3
7. Unions - work restrictions + not developing with times 3 U
8. Shifts to new contract types (IPD, GMP….) 4
9. Working relationships between SMACNA and SMART; locally (locals vs. locals) 3 U
10. Keeping up with developing technologies
11. Continuing education for journeymen U
12. Rising labor costs 13 U
13. Down market → non-union expansion U
14. SMART initiatives related to insulators 5 U
15. Find a better avenue to get kids into the industry 2
16. Portability between locals 2 U
17. Lack of classified workers – to get better blended rates
18. Union interference
19. Cooperation – job conditions
20. Skilled manpower → PMs / non union leadership roles 9
21. Revamping JATC programs, (online, fewer years, funding) 7 U
22. Prevailing wage vs RTW issues 1 U
23. Need to collaborate on marketing (locals with chapter)
24. Lack/poor leadership of locals 4 U
25. Onerous contracts
26. Government regulations (cost & time)
27. Benefits package of union 4 U
28. Safety & OSHA, administration
29. Lack of soft skills by union members U
30. Construction management industry 1
31. Attitude of public towards unions U
32. Contractor profitability 1
33. Getting contractors, more involved in the association 1
34. Ownership Transfer and Management Succession (OTMS) → no pipeline?
35. Payment terms
36. Consolidation
37. Full MEP
38. Design/Build capabilities
39. Selling solutions 1
40. Selling to different cultures
Analyzing issues and developing solutions

After discussing the nature of the list of 40 Critical Industry Challenges, the group agreed to tackle the following 6 issues for further analysis and solutions development. They selected these issues because they met the following criteria.

- If addressed, they would have a significant positive impact on the industry.
- The SMACNA organization and its members, working with the right industry partners in the right way, have the ability to impact these challenges.

List of Challenges:

- #6 Poor Design Documents
- #8 Shifts to New Contract Types (IPD…)
- #20 Skilled Manpower Shortage – PMs and Other Non-Union Leadership Roles
- #21 Revamp the JATC
- #23 Need for SMACNA-SMART (Chapter-Local) Collaboration on Marketing (for the analysis and discussion, this was broadened to include other areas of collaboration)
- #27 Benefits Package of the Union
Challenge #6: Poor Design Docs

► The quality of drawings continues to deteriorate:
- Single line vs double line
- 3D/BIM Models – not coordinated with other disciplines
- Poor equipment representation
- Lack of service clearance
- Architectural and MEP drawings not in sync
- Engineering houses are being squeezed by their clients for lower prices
- Sheet metal contractors are stuck doing the lion’s share of coordination
- Specs:
  • Antiquated information
  • Conflicts with drawings

Solutions:
► Take on the liability of design
► Deal directly with owner
► Design/build and/or design assist
► Have associations help market capabilities to end users/owners/engineers
## Challenge #6: Poor Design Docs

### Gaps

- Many contractors may lack the resources, capabilities or financial capacity to take responsibility for design coordination.
- Many contractors may lack the capabilities to know how to sell their unique value proposition to the owner. This type of selling is very different from the selling that is typically done to a GC/CM firm.
- This type of strategy demands competency in collaboration, communication and project administration that many sheet metal contractors may lack.

### Opportunities

- While the prevailing feeling about the poor quality of design documents was one of risk and cost being forced on the sheet metal contractor, several contractors made the point that this also presents an opportunity for the contractors.
- Contractors who are willing and able to take over the responsibility of design coordination can put themselves in a more powerful position on the project.
- This also provides incentive and reward for contractors to work harder to build direct relationships with building owners so that they can guide the design process and possibly be paid as a member of the pre-construction services team.

### Solutions

- Deal directly with owner
- Design/build and/or design assist
- Have associations help market capabilities to end users/owners/engineers
Challenge #8:
Shifts to New Contracting Types (IPD…)

► Implications
  – How can you prepare to operate on Integrated Project Delivery (IPD) types of projects?
  – Becoming proficient in IPD can become a competitive advantage for contractors as it presents a barrier to entry for competitors who lack the track record and/or capabilities to execute in this environment.
  – This is a new style of work that is very collaborative; the interests of all parties on the project are aligned and tied together. This creates a need for training and for looking at your work processes differently.
  – The cost savings potential is huge for many projects.

► Risk
  – Lower margin – no home runs; although the downside risk (loss) is virtually eliminated.
  – Bad contractor partners can cause problems for the entire team, most often by impacting the schedule.
  – The owner must understand the process and methodology of IPD and absolutely must be committed to the outcome.

► Opportunities
  – Could SMACNA help to collect and distribute case studies of successful projects and unsuccessful projects to help guide members as they begin to see more projects of this nature in their areas?
  – Could SMANCA begin to assemble a list of “Best Practices” associated with IPD and make this list available to its members?
Challenge #8: Shifts to New Contracting Types (IPD…)

**Opportunities**

- During the discussion it was apparent that the majority of contractors in the room had not yet experienced working on a project under an IPD contract.
- There seemed to be some trepidation at the prospect of being financially tied together with all of the other contractors on the project.
- The two contractors who voiced their experiences noted, it is important to ensure that there are schedule as well as budget elements included in the IPD contract.
- Developing proficiency in IPD contracted projects could provide a source of competitive advantage for SMACNA contractors in the near future.

**Gaps**

- Many contractors may lack the resources, capabilities or financial capacity to take responsibility for design coordination.
- Many contractors may lack the capabilities to know how to sell their unique value proposition to the owner. This type of selling is very different from the selling that is typically done to a GC/CM firm.
- This type of strategy demands competency in collaboration, communication and project administration that many sheet metal contractors may lack.
Challenge #20: Skilled Manpower – PMs, ENGs, ESTs

Implications
- Impedes growth
- People wear more hats
- High cost of OJT
- Long term commitment

Sources
- University Programs – HVAC, PM, CM
- SMACNA – B.M. Univ
- Vocational – Career Tech Edu
- Pirating
- High Schools, J.R.
- Intern Program
- CAD Operators– entry outside of the apprentice program
### Challenge #20: Skilled Manpower – PMs, ENGs, ESTs

**Opportunities**

- During the discussion it seemed as if the majority of contractors felt that this was more of a risk than an opportunity.
- A number tied this into the challenge of ownership transfer and management succession that is one of the top issues in contractors’ minds.
- Given what we know about participation in the construction industry, these types of resources are likely to remain relatively constrained for the foreseeable future, creating an opportunity for SMACNA members who are able to successfully identify, target, recruit, develop and retain “more than their share” of these critical resources.

**Gaps**

- There still appears to be a problem in working collaboratively with the union to provide upward mobility from the labor side. Potential managers could be developed from the union ranks but this seems to be something that has not been exploited.
- Many contractors lack the resources needed for a long-term, comprehensive strategic HR sourcing initiative and require some support, whether it be in the form of best practices sharing, administrative support, database support, etc.
- Contractors will be able to bring top talent into their companies more easily if they are in growth mode. This does not necessarily mean top line growth. It could be new tech, new segment, new service, etc.

**CAD Operators** – entry outside of the apprentice program
Challenge #21: Revamp JATC

► Lower cost higher quality
► Apprentice funded first year / vocation school sponsorship
► Online training
  – Specialized training
  – Best teachers in country
► Teach what we do most in the first year so that apprentices are able to quickly become productive in the field.
► Everything else is add on as the apprentices gain experience working and producing revenue for the contractors.
► Less direct cost
  – It takes cost +
► School to work program
Challenge #21: Revamp JATC

**Opportunities**

- It appears as if there is quite a bit of opportunity for increasing the flexibility of the training and apprenticeship programs across the country.
- While comprehensive reform requires movement at the International level, there seems to be quite a bit of potential for collaboration and improvement at the local level if contractors and local unions are willing to be creative in working together.
- The “Kahn Academy” idea expressed by the table group on this challenge is a fantastic one that should be taken seriously. Increasing the reach of the industries best instructors is a significant potential competitive advantage for SMACNA members and the union.

**Gaps**

- As was discussed in the collaboration challenge, it seems as if the union and contractors are not as close as they need to be in approaching the problems outside of the union sheet metal industry. This is a prerequisite for a good number of innovative initiatives to be successful.
- Any shift in the apprenticeship program that leads to a shorter apprenticeship time or can be construed as less intensive in training could erode one of the key competitive advantages that SMACNA contractors have versus non-union competitors in marketing communications.
- As the market continues to be more competitive, basic business education for labor becomes more important.
Challenge #23:
Marketing Collaboration Between SMACNA & SMART

Define it:
- Common Voice
- Pulling in same direction
- Collaborations

Implications:
- Retaining or gaining market share
- Jointly attracting better candidates
- Many ancillary implications – limitless
- Better dialogue in bargaining
Solutions

 ► LMCC – look for grant opportunities from the Department of Labor to fund LMCC activities
 ► Joint marketing
 ► Joint recruiting
 ► Spring break MBG training program
 ► Joint lobbying
 ► Website and brochure
 ► Joint marketing – group events
 ► Fundraisers
 ► Joint education seminars
 ► LMCC meetings – by sector
Solutions

Opportunities

• There seems to be significant opportunity for increased collaboration between the union and contractors at an overall organizational level, local-chapter level and a single company level.
• The grass roots levels of local-chapter and single company are the places where progress can be made most quickly and where it will be felt the most. There is significant institutional knowledge of how to collaborate and work together. This needs to be tapped.
• One way to think about this opportunity is that if any given local-chapter pair spends more than 30% of its time on internal issues versus how to compete against non-union competition, it is probably losing the war.

Gaps

• While one partner almost always has to begin the process of reaching out towards collaboration, it ultimately requires commitment and participation from both sides to be successful.
• There may be a lack of understanding of what collaboration means, how it is achieved and what rewards can be attained via collaboration. This is probably true for the union and the contractors and will have to be addressed if collaboration is likely to take hold in any meaningful way.
Challenge #27: Benefits Package of the Union

► How are increases allocated?
► There needs to be more collaboration with the union and management trustees to present increases to the workers.
► Information should be shared more effectively with Chapter Executives and National SMACNA on how dollar amounts are agreed upon in negotiations.
## Challenge #27: Benefits Package of the Union

### Opportunities
- Based on the discussion in the general session and the dialogue in this table group, it appears as if the benefits package could be put into a broader category of union compensation and negotiations.
- It seems to make sense for the various SMACNA chapters to share their experiences and solutions to this issue as they continually negotiate renewals.
- Any solutions that can be shown to provide the combination of more flexibility to the contractors, allowing them to win more projects, while giving union members access to good/better benefits should be studied, validated and used as examples to educate the union and association.

### Gaps
- There was a definite sense in the room from quite a few – if not the majority – of contractors, that the benefits package, along with total compensation for the union, has already passed the point of being too expensive. In addition, since the union never accepts pay reductions, this seems to feel like a built in competitive disadvantage to many of the contractors.
- In our practice, we tend to find four basic types of contractors in most sub trades. 1: large contractor who does 75%+ Plan & Spec work, 2: the large diversified contractor, 3: small to mid-sized contractor doing 75%+ Plan & Spec work and 4: small to mid-sized contractor focused on one or two niches, who negotiates most of their work.
- 2 and 4 are well positioned for today’s market while 1 and 3 are threatened. The ultimate strategy to deal with high input costs is diversification into business lines that offer higher profits or a total focus on these niches.
Thank You

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About Continuum

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Our executive team has over fifty years of combined experience advising the senior leaders of firms in North and South America, and around the world. We consult to homebuilders, utilities, owner/developers, contractors, engineering firms, EPC firms and building product manufacturers.

At Continuum Advisory Group, we treat our clients as partners and their businesses as our own, driving strategies that will transform their organizations and the overall industry.