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CONTRACTOR SUCCESS STORIES: ADAPTING TO THE POST-RECESSION WORLD

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The Great Recession has had a profound and long-lasting effect on the U.S. construction industry – including the HVAC and sheet metal industry – forcing many companies to take a deep look at themselves and reevaluate their services, clients and markets as well as their vision and strategic goals. “Re-definition” is the name of the game as companies explore new and innovative ways to deliver projects, interact with clients and pursue work. Select companies have been very successful at making these transitions and are emerging from the Great Recession as lean, innovative and very competitive players. This paper presents five case studies, including Western Allied Mechanical, TG Gallagher, Metropolitan Mechanical Contractors, Welch and Rushe, and Miller Electric, and distills the key factors that make these companies unique and successful.

The article also summarizes thoughts and insight from senior FMI consultants and industry stakeholders on success strategies that have become crucial in running a profitable business, as well as common mistakes that can lead to failure in today’s tough business environment.

Success Stories: Adapting to the Post-Recession World

The following case studies exemplify various innovative strategies that have allowed these companies to not only survive but also run profitably during the economic crisis. FMI interviewed company executives to explore how leadership responded to the Great Recession, what actions they took, and how they adjusted course to adapt to the changing external forces.

Western Allied Mechanical: Always Keeping an Eye on the Future

The Great Recession was no picnic for Western

Allied Mechanical, Inc., a California company that was founded as an HVAC contractor in 1960. Having survived the difficulties of numerous economic fluctuations during its 50+ years existence, the company was forced to buckle down in the late-2000s and become a “leaner and meaner” machine. “We started pricing projects and running our operations much tighter,” says Angela Simon, president. “It was either become a leaner organization or die.”

Simon credits Western Allied’s corporate structure with buoying the organization through one of the nation’s worst recessions on record. With roughly 20-25% of its volume rooted in services – which everyone wanted during the downturn – the company was able to position itself as the go-to firm for repairs during a time when new purchases were out of the question for many customers. “No one wanted to replace anything; they just wanted repairs,” says Simon. “As a result, our service side did very well even when new equipment sales weren’t moving.”

Exploring Opportunities

Concurrently, Western Allied started moving into new areas of business. Energy efficiency was one segment that it had always dabbled in, having earned both LEED certifications and energy awards for its environmentally progressive efforts. With customers and businesses both becoming more aware of and focused on sustainability, Simon says the company stepped up its efforts in this area. “We tried to sell the green angle even more by telling our customers that it would save them money in the long run,” says Simon, whose team put together detailed spreadsheets and documents proving those potential savings over a five-year period.

To fill in where traditional sales were lagging, the company also ferreted out opportunities

that competitors seemed to be overlooking – those areas where bidders weren’t as prevalent. Simon says the results were mixed and that Western Allied often prevailed on service-related bids while not faring quite as well on the equipment replacement side. Accustomed to design-build projects, the firm found itself up against low bidders on multiple plan/spec projects. “On the larger projects, the general contractors were pushed purely in the direction of low bids out of a selection of 5-7 bidders,” says Simon. “We don’t play well in that realm.”

In other instances, Western Allied has had to turn down work in order to stick to its core competencies. Eight years ago when California’s hospitals were on a 5-year timeline to get their buildings in compliance with the state’s new building codes, for example, the firm decided that the rigid, layered work process did not fit well with its core, design-build competencies. “It represented billions of dollars in work over a 5-7 year period, but it characterized everything that we don’t like about construction,” says Simon. “In a strategic planning meeting we decided to allow our competitors to go in that direction. We just didn’t want to focus on that type of work.”

Getting Involved

As part of its “tighter” business practices, Western Allied has challenged its young project managers to be more innovative, track projects better through to completion, and manage project numbers more diligently. These individuals were also prompted to get more involved with what was going on out in the field by interacting with general contractors, assessing the causes of project delays, and otherwise getting more in touch with the hands-on aspect of the firm’s projects. Simon says this step was particularly critical because general contractors are “requiring so much more on every project.”

“We’re keeping track of progress, handling scheduling, and getting involved with coordination meetings at a level that’s far beyond previous expectations,” says Simon. BIM projects, for example, were particularly challenging during the recession on the project management side, namely because general contractors are dealing with multiple layers of decision makers and looking to partners like Western Allied for help.

According to Simon, that situation is slowly normalizing and allowing companies like Western Allied to again focus on what they do best: design-build work. “That’s our core competency,” she says, noting that the number of bids received for the typical project has been whittled down to 2-3 competitors. “That’s much better than the 5-7 we were seeing during the recession.”

While Simon is the first to admit that Western Allied hasn’t instituted any formal “lean” business principles, she says the company has implemented a number of related concepts in an effort to streamline its organizational processes. Recently, for example, the organization moved its piping and sheet metal operations into a single building. “We did quite a bit of planning and layout for the building and incorporated some lean processes into the mix,” says Simon. As part of that course of action, for example, the company eliminated excess steps that were being taken on the manufacturing floor and, as a result, effectively tightened up its workflow.

Down with Paper

Around the same time that it was assessing its manufacturing processes, the Western Allied team was eliminating paper from its operations. “We don’t do a lot with paper anymore,” says Simon. All documents are scanned and then filed electronically for easy storage and

retrieval. Filing cabinets are becoming fewer and fewer – all in the name of creating a leaner, meaner operation. On the project management side, foremen detail their projects remotely in 3-D on their computers and then submit the plans directly to the firm's main office – thus bypassing the need for paper and printouts. “They just send the plans right to the shop,” says Simon, “and the documentation gets put in the queue and sent out to the appropriate parties.”

This year Simon plans to take her company's paperless commitment a step further by eliminating the human touch from its time card processing approach. The new system will replace one that requires the foreman to email a timecard to the firm's main office for re-entry by an accounting clerk. “We're very close to having our foremen directly input timecards into our accounting system,” notes Simon, who says the company has also developed a number of mobile apps that foremen can use on their tablets and smartphones.

Simon, who prides herself in being a forward thinking leader who always has an eye on the future, says she's not resting on the fact that her firm came through the recession relatively unscathed. “We're more efficient now and looking forward to keeping everyone working 40+ hours a week for at least the next 10 years,” says Simon, whose corporate succession plan will cover the firm's future leadership through the year 2025. “We do an awful lot of strategic planning for the future, always keeping in mind one major variable: the economy. You never know with that.”

Key Success Strategies

Find ways to work leaner. Even if you don't implement stringent, lean principles, your firm will likely benefit from the introduction of basic strategies that help eliminate waste from the plant floor and other divisions.

Seek out new opportunities now. The price-conscious recessionary days may be behind us, but the next downturn could be around the corner. Rather than sitting back and enjoying the uptick, take the time to ferret out new opportunities now rather than later.

Avoid work that doesn't feel right. If it's not within your firm's core competency – and if it just doesn't feel right – then even the largest opportunity may not be fruitful for your company.

Use strategic planning to your advantage. It's easy to get mired in the day-to-day tasks involved with running a business, but be sure to take the time on a quarterly (or at least annual) basis to do some strategic, long-term planning. It will pay off.

TG Gallagher: Retooling the Company for the Next Challenge

It's no secret that the country's education sector took a major hit during the recession. Budgets were slashed, projects were put on hold permanently, and decisions to “sequester” government funds all had an impact on the nation's public universities and colleges. Contractors that had spent decades serving this sector suddenly found their job pipelines dried up with no promise of relief in sight.

TG Gallagher was one of the mechanical contractors that found itself with fewer active projects and even less prospects on the horizon. “Anything higher education pretty much shut down during the recession; they all stopped their big building projects,” says Brian Potter, president for the firm, which installs HVAC, plumbing, fire protection, and refrigeration systems. “Harvard University was hit particularly hard.”

Luckily, TG Gallagher was working on a large, anchor project that proceeded as other options

shut down. Healthcare, the company's second-largest target market, didn't fare too well during the recession either. "Things got kind of quiet as everyone tried to figure out what Obamacare was going to do to the world of healthcare," says Potter. "There was renovation work, but not a lot of new construction opportunities."

Potter says the fact that TG Gallagher is on the preferred bidders list with several of the larger institutions in its area helped the company manage some of the recessionary impacts that it was feeling. Even with those helpers in its corner, the company watched as revenues dropped by 15 percent and its "margins were ground right down to zero," says Potter.

To offset the revenue drop and margin erosion, Potter says TG Gallagher ramped up its prefabrication capabilities by opening a 25,000-square-foot prefab facility, invested in technology (all project managers, foremen, and service techs are armed with digital tablets, for example), started working in a leaner fashion, and built up its BIM capabilities. It also started looking for the proverbial light at the end of the tunnel. "As the markets loosened up a bit and people started coming out of their bunkers," says Potter, "we were ready to hit the ground running with technology and prefab."

The Design-Build Advantage

TG Gallagher, which is now sitting on its highest-ever backlog of work, has also moved out of its traditional higher education and healthcare markets and explored opportunities in life sciences and biotechnology. It's also taking on larger projects, according to Potter, and working on several big design-build jobs. One recent project, for example, is a 10-story, design-build mechanical job where TG Gallagher will handle the HVAC, plumbing, and sprinkler work. "Frankly, I don't think we would have been in the position to do all of that five years ago," Potter admits.

Potter says the recession also forced TG Gallagher to wring efficiencies out in the field while working onsite at customer locations. He sees the firm's BIM and prefab efforts as two good examples of this "wringing" in action, noting that in a "bid-bid-bid world, the goal was to get as lean as possible." The benefit of that forced exercise, says Potter, has been an overall recognition by customers that GMP/Open Book design-assist and design-build are the best ways to build. "We invite clients up to our fab shop and they see the BIM models and the drawings," says Potter. "They like what they see, and they like the transparency and the value we bring to their projects."

Potter says TG Gallagher's commitment to prefab and design-build stood tall even through the darkest days of the recession, despite when he himself doubted the viability of that decision. "Having the stomach to keep going with our prefabrication and technology investments wasn't an easy thing," Potter admits. "That was probably the toughest thing to do, knowing that you're not turning huge profits at the end of the year and still investing everything you can back into the company. That caused some sleepless nights."

Keeping Them Engaged

Currently positioned as one of Boston's largest, most innovative mechanical contractors, TG Gallagher now faces a new set of challenges: finding and developing talent in a shrinking labor pool. One way the company is tackling the problem is by integrating its field force with its coordinators – a strategy that ensures all of the latter obtain some level of field experience. A draftsman who operates CAD, for example, may be paired with a project manager who comes up with CAD-based customer solutions. "It's kind of like an internal training process that gets those guys working together," says Potter.

TG Gallagher's corporate culture also serves as an effective recruiting and retention tool. Raffling off tickets to sporting events, hosting company clambakes, and offering incentives and amenities to employees all go a long way in helping the firm cultivate an engaged and loyal workforce. "Financial incentives only go so far," Potter explains. "You have to make your company a place where people want to come every day, and can be proud of their work."

Key Success Strategies

Invest in the future today. It may sound contradictory, but one of the best times to funnel money into new opportunities is when business is slow. That way, when the markets loosen up, you'll be able to hit the ground running.

Cross-train employees. Exposing employees to different disciplines can help create a corporate culture where everyone works toward the common good. It also serves as an internal training program, whether formal or informal.

Get on the preferred bidders list with multiple customers. To get clients calling on you during both good times and bad, it pays to be on the preferred bidder's list. You accomplish this by putting your clients first. Doing so helps firms fend off the impact of operating in a cyclical industry.

Make your company a place where people want to work. If your employees don't want to come to work every day, then you're doing something wrong. Create incentives, define career paths and milestones and organize company gatherings on a regular basis to help employees work hard and play hard together.

Metropolitan Mechanical Contractors: Growing the Next Generation of Leaders

When the Great Recession began to take its toll on Metropolitan Mechanical Contractors' sales volume, one of the first things president Mark Anderson did was cut overhead by 30-35 percent. Concurrently, the company began revamping a strategic plan that Anderson says had languished for years. "We hired a consultant and started working through the plan and deciding what we wanted to do," says Anderson, who spent about nine months working side-by-side with top management personnel and the consultant to assemble a strategic plan.

As part of that plan, Metropolitan Mechanical would become an operationally-excellent firm in today's tough business environment – where margins are tight and work is more scarce. "It never hurts to be the most cost-competitive business out there," says Anderson. Lean business practices also played a role in the firm's transformation. An outside consultant mapped out every facet of the company – from project management to fabrication to purchasing to estimating – and eliminated all waste in the associated processes. Key performance indicators (KPIs) were established for every department and used to assess historical performance and develop future goals.

Establishing those KPIs wasn't easy, according to Anderson, who admits that figuring out what to measure, when to measure it, and why, was a challenge. Getting all team members to use the KPIs in their respective departments wasn't a piece of cake either. "Everyone wants to snap back as soon as things start to get better," says Anderson, "but we wanted to become more efficient overall, and we saw lean practices and KPIs as the tools that would help us get there."

Standing Out from the Crowd

Competing on price is one thing, but competing on value requires an entirely different set of capabilities. To help its customers look beyond cost during an era where every penny counts, Metropolitan Mechanical educates its project managers on the company's differentiating points in the marketplace. An early adopter of BIM, for example, the company has grown that department from just four individuals to a current 20 employees. It also built a prefab facility to handle modular construction projects, works hard to establish close and personal relationships with clients, and hires only mechanical engineers to fill project management positions.

"We want the smartest and the brightest because they not only know how to communicate," says Anderson, "but they also understand our customers' pain points. From there, it's fairly easy to figure out a solution to those pain points at an economic price." Anderson says most of his firm's competitors don't share that philosophy. Many of them don't have design capabilities, he says, noting that Metropolitan Mechanical's design group is run by 10 engineers, all of whom can handle even the most complicated design-build projects.

All of Metropolitan Mechanical's project managers are homegrown and start out as assistant project managers. The firm's in-house APM Academy formally trains between 3-5 new mechanical engineers annually. "Because they're homegrown, these recruits really understand our company philosophy and how we approach the business," says Anderson. The firm currently has 19 assistant project managers who go off on their own after three years of formal training. Not all of them will survive.

"We don't have a 100% hit ratio," Anderson admits. "My feeling is, unless they're going to take my job, we don't want them."

Succession Planning

When he looks back on the changes Metropolitan Mechanical has been through over the last five years, Anderson says getting the firm's overhead in line with realistic revenue numbers was no easy task. "It was hard making those decisions," he says. Admitting that it was time to dust off and revamp the firm's strategic plan wasn't easy either, and neither was the decision to create a lean operation. Cumulatively, however, those three decisions helped the mechanical contractor successfully emerge from a very difficult business environment and persevere beyond it.

These days, Metropolitan Mechanical's managers get together once a month and review all of the company's KPIs and its overall strategic plan. The team also meets quarterly to decide which of those KPIs are relevant and which ones can be eliminated or replaced. Anderson says the company has also narrowed its focus to the Minneapolis-St. Paul region, shut down non-performing offices in cities like Phoenix, and joined the APi Group, Inc., a firm that owns 16 companies within Minnesota and 36 companies throughout the U.S., Canada, and the U.K.

"When APi approached me to join their group they basically provided me with a succession plan for the business," says Anderson, whose firm is now working with Doody Mechanical to expand its market share in data centers and other large construction projects. "I can still run my own show and do my own thing, which makes me happy."

Key Success Strategies

Accept and adapt to the “new normal.” Just because the boom times are behind us doesn’t mean business is bad. It’s just different. The company that figures out how to operate in the more challenging – yet still rewarding – environment will be the one that perseveres.

Use KPIs to establish goals and measure progress. By establishing key performance indicators (KPIs) for every department, and then using the data to assess historical performance and develop future goals, you can more accurately see where you’ve been and where you want to go.

Hire people who truly get your customers. Everyone from the project manager to the sales team to the designers should understand customer pain points and have at least some grasp on how to solve these issues. Without this in their corner, employees will be hard-pressed to find workable solutions for clients.

Don’t be afraid to partner for success. If the opportunity arises to merge with, acquire, or be acquired by another entity, consider it carefully before saying “no.” Many times such strategic alliances can be beneficial for all involved.

Welch and Rushe, Inc: Innovating and Changing for a Purpose

Sometimes to get through the tough times you just have to roll with the punches. That’s exactly what Welch and Rushe, Inc., did when it noticed its business starting to slide in 2007-08. When the faucet completely shut off in 2008 and the company’s backlog of projects stopped accruing, David Welch, CEO, says he quickly realized that the plumbing and mechanical contractor was operating in what has since come to be known simply as “the new normal.”

“By 2009 we had a pretty good idea that we were going to be dealing with a recession for a while,” says Welch, whose team began preparing for that reality as early as 2008. To offset the challenge, the company paid off all of its long-term debt in advance, downsized its workforce by 40 percent and reorganized in a manner that would allow it to complete high-quality work at a consistently competitive price. “Then,” says Welch, “we went back to the market hard.”

Labor tracking and strategic planning became core business missions versus afterthoughts, and resources were funneled into the company’s coordination and prefabrication departments. The latter has allowed Welch and Rushe to meet or even beat general contractors’ schedules on a consistent basis. “Prefabrication is critical. It’s not just a methodology; it’s a culture. Your whole company has to buy into it,” Welch explains, adding that some of the company’s old-school employees had a difficult time adjusting to the concept and related the prefab to a loss of work. “They were doing it faster and not getting as many hours. But we’re a union contractor, so if we aren’t doing prefab we can’t be competitive with our non-union competition.”

Once employees grasped the fact that prefab was going to create *more* work, jobs, and hours for everyone involved, the transition went more smoothly. “It was a complete cultural change for us,” Welch adds, noting that in many cases the firm’s general superintendent had to talk one-on-one with job foremen about the value of prefab and the role it was going to play in Welch and Rushe’s future. “We just started pounding it into their heads,” recalls Welch. “It took about 2-3 years, but eventually everyone got pretty comfortable with the idea.”

Changing for a Purpose

Tough times drive change and innovation and this is no different for Welch and Rushe. “The smarter companies are constantly researching piping products and new methodologies, finding the best way to do things,” Welch explains. “That goes to all aspects of business: from accounting, coordination, prefab, project management all the way through to business development. You have to constantly look at every facet of your company. The companies that are not doing this are either out of business or on their way out of business.”

Welch says the company has also honed its own marketing strategy and taken the time to discern that strategy from its business development approach. “Marketing and business development are now two distinct departments,” he says. “We’ve polished our business development like never before while also working on the marketing side of things – the website, the advertising, and so forth.” Prior to the recession, Welch says the company lacked a dedicated business development manager or plan. These days, the company has a full-time manager for that aspect of its business and Welch himself spends at least three days a week visiting customers onsite.

“I take as many owners and general contractors as I can to lunch, dinner, fishing... whatever it takes,” says Welch. “I’m out there at least 12 days a month trying to better understand their unique needs on a more personal level.”

A Buyer’s Market

Acknowledging that construction is an unstable industry that suffers its fair share of cyclical ups and downs, Welch says his company will continue to embrace the “new normal” while keeping its eye on the latest opportunities and strategic moves that help further entrench it in the market. “You can’t create the stability

that we had pre-recession; you just can’t,” says Welch, who sees the company’s dedication to customer relationship management as key to its ongoing success in good or bad markets.

“You have to understand your customers and know that they’re not just numbers,” says Welch. “When there’s a problem, we send someone out to address it even if someone else may have caused it.” With customers being more selective and picky than ever right now, taking the blame for an issue or eating a \$500 mistake often means the difference between repeat, long-term business and one-time sales. “It’s a buyer’s market right now,” says Welch, “so the customer has to come first.”

Key Success Strategies

Keep a constant eye on the horizon. Today’s economic environment is as uncertain and volatile as ever. Unexpected political events in other parts of the world might have an immediate impact on your local market. Try to anticipate and recognize patterns or shifts in market dynamics and adapt your strategic course swiftly.

Understand and know your customers. In today’s cutthroat market, understanding your customers’ businesses and their pain points is critical. Create a formal strategy for business development, get to know your customers and understand who is doing what at any given time.

Don’t shy away from tough decisions. Letting emotions get in the way of good decision-making is a problem that we all deal with at some point. For example, that long-time employee who doesn’t agree with the company’s “new” vision may need to be replaced with someone who brings a fresh perspective to the table. The move may not be easy, but in some cases, it could be in the best interest of the company.

Innovate, innovate, innovate. Never get complacent – always look for new ways to do things better and more efficiently. Use strategic partnerships to leverage new technologies, build capabilities and benchmarking and offer new solutions to clients.

Miller Electric Company: Riding Out the Peaks and Valleys

Miller Electric Company was flying high in 2008. Celebrating its 80th year in business, the Florida-based company had grown from a small, local electrical company into one of the largest electrical contractors in the nation over the previous eight decades – employing over 1,800 people at its peak.

Then the bottom fell out of the housing market, the financial crises ensued, and a full-fledged recession took hold of the nation – bringing Miller Electric back down to earth with it. “We were down to almost 60 percent of our revenue and just under 1,000 employees by 2011,” recalls Henry Brown, CEO. “That was a pretty significant shift over a 3-year period.”

Bracing for the Impact

As many contractors learned during the recession, an absence of large projects – plentiful during the “boom” years – hit hard. In the mid-2000s, for example, Miller Electric found itself working on multiple \$20 million+ projects. “As an electrical contractor, those are significant projects,” says Brown. To accommodate customer needs and branch out geographically, the company started to expand further outside of its Northeastern Florida hub.

“We had always performed work outside of our local area, but we made a more concerted effort to develop a presence in new geographic regions to expand our market potential,”

Brown says. That move turned out to be a blessing in disguise that no one could have predicted. “That actually saved us during the recession,” he explains. “When our work in Florida dropped by over 50 percent our geographic diversification really helped. What started out as a growth move, turned out to be a defense against the downturn in the economy. Had we just been a Florida contractor at that point, I’m not sure how things would have turned out.”

Over the last few years, Brown says Miller Electric has continued to branch out into new markets – to the point where just 40 percent of its current projects are in the company’s home state. The remaining 60 percent is spread over 20-30 other states, according to Brown.

Miller Electric took other steps to insulate itself from the effects of an economic downturn that left it grappling with a 40 percent drop in corporate revenues over a 3-year period. Brown says the company focuses on prime accounts, and on selected CM and Design-Build general contractors. “One of the ways we add value to our clients is by serving them on a wider geographic footprint,” Brown says. “When we move into a new city, our initial focus is not to call on every general contractor in town. We focus on serving our existing clients and working with known contractors, and eventually we will begin developing new client relationships in the new city after we have developed a foothold.”

Geographic Expansion Strategies

When opening locations in new geographies, Brown says Miller Electric has historically “followed the customer” into those new areas. One end-user customer in Little Rock, Ark., for example, asked the electrical contractor to come and do work for them onsite. Initially, Miller Electric managed the work from an

office at the customer's Little Rock location. "Over time, as we developed a workforce and built relationships in the area, we started pursuing work outside of that one customer," Brown explains. "Then we moved our office from within that customer's facility to just a small rented space; and then added more administrative and management staff to do more work. That is our traditional, low-risk way to expand geographically."

In other cases, Miller Electric has placed project managers in a new city without significant existing relationships to handle both current projects and future business development. "We've tried that a couple of times with mixed success," says Brown, who points to Miller Electric's Washington, D.C., office as one area where that ground-up strategy didn't work out as planned. "We decided to reduce our focus on that market. From a cultural standpoint, it just wasn't a good fit. In Dallas, however, the strategy has worked out very well."

Developing Client Solutions

In the post-recessionary environment, Brown says the electrical contractor is putting more emphasis on work in existing facilities. Calling this work "more reliable," Brown says such projects tend to produce fewer revenue fluctuations and are fairly easy to expand and scale up for (to add new customers, for example). "It's repeat business that keeps us growing," says Brown, "versus construction projects – which you have to re-sell every year."

Miller Electric project managers handle client projects from conception to completion. "I'm really trying to help our project managers to think about not only the customer's facility needs, but also their business needs and how we can help them achieve their business goals," says Brown.

Racing to the Bottom

As it emerges from the national recession and sets its sights on new opportunities, Miller Electric is also focusing on more industrialized construction methods like 4-D and 5-D BIM, prefab, and modular construction. "This cuts both ways from a strategy standpoint," says Brown. "In the short run, you have to embrace these innovations in order to continue to be competitive. In the long run, it also presents a lot of opportunity for outsourcing, and a 'dumbing down' of the industry. The more things are industrialized, the less skilled labor is potentially needed."

If the construction industry isn't careful, says Brown, there could be "an engaging race to the bottom" in the cards for the industry. To avoid this trap, he says Miller Electric will continue to work closely with its customers to prove its value. "Even if construction goes completely modular, customers will continue to need help managing the process," says Brown. "There are also buildings and plants that are already constructed and that require ongoing maintenance, renovations and upkeep. Those are the areas where we see the most potential going forward."

Key Success Strategies

Follow key customers into new markets.

If geographic expansion is on the agenda, consider going where your key customers are. This will often lead not only to new projects with that specific customer, but also the potential for additional business development opportunities.

Become a solutions provider. Finding a way to win repeat business is every contractor's mantra these days. Electrical and mechanical contractors across the nation are expanding their service capabilities and coming up with innovative solutions that help customers reduce

their operating costs. Companies with creative and cost-conscious approaches will likely be awarded with ongoing work.

Don't get into a race to the bottom. Even if the industry appears to be moving in a modular and prefab direction, customers will always need project support and other value-added services. Look at where your company's value lies and exploit that niche.

2013 and Beyond: Business Imperatives after the Great Recession

The construction industry has endured seismic shifts during the past couple of years as sheer stress from external drivers warped a once prosperous and stable market into a volatile and competitive environment. The keys to success that applied in the pre-recession business world are no longer valid. Following are thoughts and insight collected from FMI's senior consultants and industry executives on vital strategies contractors need to grow and thrive in the tough new world.

Develop deep strategic thinking skills. The prolonged recession has forced many CEOs to think differently about strategy. Senior FMI consultant Brian Moore adds, "Pre-recession, many CEOs focused mainly on 'How do we get better at what we're doing and make more money – because there is so much opportunity out there.' Today, many leaders have realized that the world has changed fundamentally and that companies can't just make changes around the edges. They need to rethink everything and do things differently." To avoid impulsive, uncoordinated and ultimately ineffective responses to the increasingly challenging market, today's leaders must develop strategic mindsets. FMI's experience working with hundreds of senior design and construction leaders underscores a strong belief that strategic

thinking is like many other abilities, such as managing projects or learning a new language. That is, it can be taught and developed over time through intentional practice, discipline and reflection. However, just like in athletics, some are blessed with exceptional natural ability, while others are not.

Figure 1: Elements of Strategic Thinking



Integrate systems and core business functions.

This is a time to look at your organizational structure and reevaluate how all the different departments and business units are performing – both together and separately. Over the last few years, CEOs have started to look for synergies among functional areas, finding ways to leverage support functions such as HR, IT and finance to be “fit for a purpose” and ensure that they are more closely aligned with the overall enterprise strategy. Jason Baumgarten, FMI's Western consulting group manager, explains, “I see a lot of standalone systems work counter to each other. It can be very inefficient. For example, if you have a strong HR department and are hiring great people but have no systems in place – such as a strong career path or effective incentive based compensation program – then you'll end up being a prime

target for your competitors to recruit from.” Aligning different business functions in more integrated ways will help increase communication across the organization and push employees to work collaboratively and more effectively toward common strategic goals.

Reinvent yourself and innovate. Find what makes you unique. Differentiating your company in a commoditized world is critical. Successful organizations have reevaluated themselves and peeled back the layers to see what fundamental values, competencies, and relationships underpin the organization as a whole. They have also reassessed their books, staff, markets and clients, and looked carefully at their strengths and weaknesses, competitive advantages, and key client accounts. Armed with that information, these companies effectively redefined and updated their business models. Savvy contractors are making the best of these slower times by investing in technology and lean concepts to improve processes, increase efficiencies, and drive competitive pricing. Kevin Kilgore, managing director with FMI, states, “Virtually all the successful companies that I see are very innovative with respect to BIM and other related technologies. They are really using it for their competitive advantage. The winners are innovating into new markets, new geographies and new service types and truly embracing new technologies.”

Up until recent times, many contractors have resisted innovation simply due to the many opportunities and strong market conditions that existed prior to 2008. The Great Recession, however, has forced many contractors to transform and innovate in a broad range of areas, including prefabrication, technology, risk management, and client relationships, among other things. David

Welch, CEO at Welch and Rushe, adds, “We let the recession force us to innovate, which was probably one of our biggest strategic mistakes. Had we made some of these innovations earlier, we could have hit the market sooner with them and gained more market share prior to the recession.”

Dr. Clayton M. Christensen, a Harvard Business School professor who focuses on innovation, views the recession as a prime time to rethink business strategies and test out new approaches. “The breakthrough innovations come when the tension is greatest and the resources are most limited,” Dr. Christensen explains. “That’s when people are actually a lot more open to rethinking the fundamental way they do business.”¹

New Horizons’ publication “*Creating a Learning Environment: A Template for Creating and Cultivating a Learning Culture in the HVAC and Sheet Metal Industry*” is a great resource for getting an innovative and forward-looking culture started.

Understand “incremental economics” – revenue, margin, overhead – more than ever. A hard-bid landscape has transformed standard estimating procedures into a game of marksmanship. Understanding the total costs for each project and getting a picture of how the costs break down is the first step in knowing where and how you can improve profit margins. “We have always been very diligent about watching our costs on our projects,” says Daniel Pesavento, chief operating officer of Huen Inc., a Chicago-based electrical and engineering contractor. “We have developed systems over the years that make that possible. It’s just a very pragmatic approach to how we run our work and what we expect from our project managers. We do monthly

¹ How Hard Times Can Drive Innovation. The Wall Street Journal. December 15, 2008.

cost reporting on our jobs, we have several mechanisms in place for tracking labor on a project, and so forth. We call this ‘disciplined management of electrical construction.’”

In the case of a more competitive market, productivity improvement also enables bid reduction to win jobs *without* sacrificing profit margin. Having a firm hold on construction costs, labor-wage regulations, and supplier rates is also important, both from a qualified bidder standpoint – public clients require or prefer contractors experienced with fixed-wage labor – and from a strategic standpoint.

While companywide attention to cost details is important, FMI also stresses the importance of having star talent on your team. A proficient estimator, for example, can mean the difference between mere solvency and profitability on a project.

Develop and grow your people. One of the top concerns among construction industry CEOs these days is whether they have the right people in place, and if they do – how to keep them. “Finding good talent and coming up with the right way to develop that talent is a big challenge for us,” says Brian Potter, president of TG Gallagher. Welch adds, “We’ve never had to make this many difficult decisions around personnel in the 25 years that I’ve been doing this.”

Many contractors are running extremely lean these days, relying on a handful of key people who have remained loyal to the company over the years. Looking ahead, and with business picking up, CEOs now face the big challenge of developing the next generation of leaders and senior managers, ensuring that company knowledge and industry experience is transferred to younger, less experienced employees. Mark Anderson, president at Metropolitan Mechanical Contractors, states “We ‘home grow’ our people. We have an

in-house Assistant Project Managers (APM) academy. We try to hire three to five new mechanical engineers each year and then we put them through a formal training program. At the same time, they are assigned to work in tandem with a senior project manager right from the beginning. The whole training phase takes about three years until they can go off on their own.”

Most organizations haphazardly prepare their next generations of leadership. When the project mix enables it and when they have the time to do it, companies send those prospects to training events, seminars or some other one-off type of development. In contrast, intentional and individual development of a candidate pool ensures that the necessary talent is available and at the highest level of preparedness when called upon. Just as the organization must develop a long-term vision, those individuals need to work toward a long-term development goal that yields a return on investment for leadership and responsibility preparation.

“You have to have a really strong differentiating value to lessen that ‘but price’ part of the conversation. You also have to be willing to walk away. You just can’t continually chase price. Because what you’re offering is worth more but you have to be able to communicate that.”

*– Mark Anderson, President,
Metropolitan Mechanical Contractors*

Get close to your clients – bring solutions to their business challenges. Today’s tight, tight bid market is filled with cost conscious clients that make it difficult for contractors to stand out from the crowd. However, perceptive contractors are figuring out how to create a compelling *differentiating value*, and effectively circumvent the whole low price debate. Potter

adds, “I think we stand out through our service and the effort we put into preconstruction. It’s not so much value engineering but rather providing different ‘what if’ scenarios: if you do this or do that, what is the effect from a lifecycle cost analysis, maintenance or first cost stand point? When we’re at the table with the owner, we show that we’re his/her advocate and that we’re going to be a big contributor to the team. That goes a long way.”

Henry Brown, CEO of Miller Electric, adds, “My strategy in combating the race to the bottom is to become closer and closer with the customer. We’re not necessarily in the electrical construction business; we’re in the business of providing services and solutions to our customers around our competency in electrical and other systems.”

As one study participant pointed out, “There is no end to the amount of research and advanced preparation you can do in regards to understanding a client’s organization.” Several interviewees talked about how they attended their clients’ trade conferences and industry meetings to get a better understanding of what is happening in their client’s “ecosystem.” Knowing what is on your customers’ minds and what keeps them awake at night helps you tailor your proposals, services and products more specifically to their needs. This makes a client feel understood, which in turn helps build confidence, trust and loyalty. Brown adds, “I’m really trying to help our project managers to think about not only the customer’s facility needs, but also their business needs and how we can help them achieve their business goals.”

Use future contingencies to plan strategically. To respond to a world in flux, today’s leaders must build greater flexibility into their planning efforts and possess a greater sensitivity to change. Indeed, they need to anticipate and prepare for different contingencies. This is where scenario planning provides a powerful

input for strategic planning. By drafting and visualizing several different outcomes based on the trajectory of key variables, leaders and employees can rehearse for tomorrow and create action-driven strategic plans for each. When one scenario emerges, the firm is poised to mobilize the corresponding plan, and to adapt its business units, operations and geographical focus to a new game.

Effective response strategies to the scenarios depend on solid business intelligence; on being able to anticipate what changes in certain metrics mean for their firm, resulting in fast, effective decision-making. Great resources for this kind of exercise include New Horizons’ future study (“*The HVAC and Sheet Metal Industry Futures Study*” – available at: <http://www.newhorizonsfoundation.org>) or FMI’s “Future of the AEC Industry” – a collection of four future scenarios, including a description of universal drivers and associated industry implications (available upon request).

Periodic meetings with built-in report mechanisms can get companies in the habit of evaluating the external environment and help leaders make timely operational decisions. What constitutes business intelligence will vary from firm to firm, and will involve not only numbers and projections, but also insight into the markets and geographies relevant to that firm. Lastly, scenario planning is a valued tool for cultural growth in companies whose strategic plan may have stagnated, or whose staff is disengaged. Scenarios offer CEOs a multidimensional view on the future, and provide a stimulating background for discussions with current and future leaders about where the company is headed, and how the firm can better position itself for future success.

Build your client knowledge base and business development culture. Understanding client behavior – what makes them tick, how

they make decisions, how they buy work and so forth – has become a critical element in today's business dealings, particularly in the AEC industry, where people and relationships play a key role. Welch adds, "Our biggest change has been our client relationship management, which has been the absolute key to our success: understanding our customers, knowing our customers, our customers knowing our people, and them not just being a number. It's an old cliché, but the customer has got to come first."

Building a long-term relationship starts with identifying the right match. If a client's culture and values match with your company's culture and values, the chances for establishing a mutually beneficial and long-lasting relationship increase immediately. As part of this reconnaissance phase, it is also important to consider whether a client's work matches with your company's core competencies and whether they complement your working style (e.g., Are they collaborative? Do they place value on what you bring to the table?). Evaluating opportunities through this kind of filter can set the stage for a successful relationship in the long term.

Once you are conducting work for a client, it is immensely important to gather feedback from them on a continuous basis. Some companies use client feedback not just to fine-tune operations, but also to build their internal best practices knowledge base, which serves as a foundation for in-house universities and other client-related training programs. The information collected also informs management about regional client behavior patterns and helps employees tailor their responses to client specific needs and characteristics. Over time, this kind of deep understanding and knowledge of clients and their business needs becomes part of the corporate culture.

"Companies that are good at developing a story around how they're different and how these differences address owners' specific needs, are the ones that are able to compete on something other than price. In the HVAC industry, we see many companies that cannot define or sell a value proposition that looks or sounds any different than their competition. As a result, their services are commoditized and the only differentiator becomes their price."

– Scott Kimpland, Managing Director, FMI

The Most Common Mistakes We See

- Leadership that is slow to react and respond.
- An inadequate knowledge of progress with regard to cash flow, profitability, losses, etc.
- Battling it out in a hard-bid environment with no competitive edge.
- Not adapting to external market changes quickly enough. Continuing to do things the way you've always done them.
- Complacency around understanding your markets. Not conducting thorough research on external market forces (competition, climate, clients).
- Being a market follower, especially if you are following everyone into markets where your company has no or little expertise – if you're following the crowd, you're going to be a year behind the latest movements.

- Thinking the “grass is greener” when looking to potential new markets, without reevaluating your company first.
- Lack of willingness to confront the tough issues. Not making the distinction between market symptoms and bad (company) behavior.
- Managing down – being in constant firefighter mode and not focusing on the big picture. Living in a reactive mode constantly, not being proactive and taking charge of shaping your own destiny and future.

Strategic Planning in Today's World

The recession has put strategic plans to the test: Those that no longer worked were swept away; the good ones helped firms survive and became the seeds for the next round of successful planning. Four basic principles emerged as FMI recently talked with CEOs of design and construction firms about how their strategic planning efforts have functioned in the real world:

- Develop clarity about marketplace strengths and weaknesses.
- Examine the firm's organizational models with a critical eye, drawing upon outside assistance when needed.
- Gain awareness of how the current and future outside world will affect the firm.
- Set an aspirational direction for the firm that is appropriate to the context of the first three principles.

Develop Clarity about Marketplace Strengths and Weaknesses

One purpose of strategic planning is to anticipate and be responsive to ever-changing conditions in the firm's business ecosystem, taking into account the firm's strengths and weaknesses. This process – also known as the SWOT analysis – helps firms take advantage of strengths, bolster weaknesses and discover where they can gain competitive advantage. As the company evaluates where it is and what opportunities lie ahead, future directions become evident. Ron Rodgers, former president at J.B. Rodgers Mechanical Contractors, Inc. states, “I highly believe in strategic planning. It's not necessarily just about the plan but the process, which gets people involved and makes them understand where you're trying to take the company. Everyone is aligned through that effort.”

Examine the Firm's Organizational Models

So often in design and construction firms across North America, one encounters the “heads-down” condition, where everyone is so busy with the challenges of the day that the big-picture view of the firm slips out of awareness. Strategic planning is a key opportunity to step back and make objective observations about the firm's organizational structure, capabilities, markets and internal processes.

Pamela Anderson-Brulé, principal of Anderson Brulé Architects in San Jose, Calif., says, “With the recession, clients were forced to shift their criteria from quality-based to fee-based, and we had to look deeply within the firm and find ways to become more efficient and productive to serve them. We have looked at whole market types and rethought how we can produce work for less, how to provide the greatest value, and how to discover the key elements of the client's

business that allow us to be dedicated to their work and produce results that mean the most to them.”

“We had a highly effective, strong firm, but as the economy changed, we had to get even more efficient; we had too many layers, too many decision points, too many people on each project,” says Anderson-Brulé. This deep internal examination at Anderson Brulé brought the realization that the firm needed to simplify and streamline in order to survive. Even firms that are by nature innovative still need to be effective and productive, and by initiating decisive actions to enhance productivity and effectiveness, the firm has survived.

Gain Awareness of How the Current and Future Outside World Will Affect the Firm

Strategic planning often focuses on interpreting conditions in the outside world, relating them to the firm’s future goals and identifying strategies to reach those goals. The world, being a moving target, does not cooperate in these efforts, so firms must find ways to constantly adapt and respond to ever-changing conditions.

Mike Re, CEO of the San Francisco-based construction firm Swinerton Incorporated, recently used scenario planning to help the organization gain momentum and react more quickly to change. “Our work has gone relatively well, but we knew that the firm tended to lose momentum when a significant shift occurred either within the company or in the economy. Historically, we would tweak the existing plan, but we have found over time that we moved too slowly — our reaction time wasn’t fast enough. In our latest strategic planning effort, we went through a new process using scenario planning. This has allowed us

to test various options in advance, so we have some idea of how they will play out under differing conditions. We think this new plan will help us be more flexible and prepared to adjust to changes as they occur.”

Swinerton also expanded the range of people involved in strategic planning to gain a wider perspective. “One thing we did in this plan was to go deeper in the organization to get a spread of younger people and cross-disciplinary participants in order to get input from a well-balanced group and research from people who had different points of view about what is going on in the world. In this new plan, we feel we have a strong approach with the right mix of input from across the organization,” Re says.

Using strategic planning efforts to take a hard look at the outside world is often the only time the firm can set aside to make these observations, but this cannot be set aside for “more pressing concerns.” As Peter Drucker said, “There is only one valid definition of a business purpose: to create a customer.” Customers only exist in the outside world, so a firm’s observations and research into market conditions and worldwide trends are key principles of strategic planning.

Set an Aspirational Direction for the Firm

A strategic planning effort can be designed to set an aspirational future destination for the firm. Such plans work backwards from that “flag on the mountaintop” to develop the necessary steps to get there. Often called backcasting, this practice is differentiated from the more typical method of forecasting, which measures where the firm has been historically and projects incremental improvements of the current state.²

² For a case study of FMI’s backcasting process applied to a firm’s leadership transition, see FMI Quarterly #4, 2009, pp. 85-96.

SERA Architects used backcasting several years ago to set a new goal for the firm — to become the most sustainable firm in the Pacific Northwest. Firm principal Tim Smith says, “Planning for us is an opportunity to constantly change and adjust. Forecasting looks at past and current conditions and extends them outwards. By using backcasting we can get more clarity on our goal of being a thought leadership firm.”

Principal Clark Brockman adds, “We use backcasting to identify how we’ll connect our present to the future. You start with a clear, unwavering vision of a desirable, aspirational outcome. To get there you have to map a course toward the vision — you steer toward the goal, adjust course and steer forward again. When we got clear about what our aspirations were, we had some people self-select out and others self-select in, so that was also good for us. Right now, we are working to get a better concept of ‘fail often and fail forward,’ which we interpret as ‘learn forward.’ The goal has to be better than the default condition.”

Four Key Results Achieved from Strategic Planning

To work well, all of these principles need supporting structures within the firm. In some cases, strategic planning yields no results due to a lack of information about the plan and its goals or an absence of accountability for executing the plan. Companies must be rigorous in communicating the goals and responsibilities outlined in the plan across the entire firm and setting up the accountability systems that measure actions, accomplishments and results. The best outcome for a great strategic plan is when it produces results that go beyond its original goals.

Strategic planning efforts can help a firm develop clarity about marketplace strengths and weaknesses. Analyzing what the marketplace is looking for, both now and in the future, and assessing what the firm has in place as well as what it can strengthen in order to respond to those needs, are key strategic planning achievements.

A second outcome of strategic planning is making positive use of the learning that comes from a critical examination of the firm’s organizational model. Do the firm’s organizational, cultural and financial models match up with its current needs? Is the firm productive enough? Is it the right size? Are the metrics in alignment with its purpose? This analysis can sometimes result in eye-opening realizations, bringing necessary changes to the forefront of actions.

Although we cannot predict the future, strategic planning efforts allow the firm to gain awareness of conditions in the outside world. The hints of changes to come are always before us, hidden within current trends and events. While firm leaders do not need to become professional futurists, looking at the world outside the design and construction industry on a regular basis can help the business prepare for future conditions or even avert disaster. Scenario planning is a good tool for testing various models and services that can be leveraged against a variety of potential conditions and help companies better prepare for the future.

Perhaps the greatest purpose of strategic planning is to set an aspirational direction for the company, to identify the preferred future for the organization, and define the steps for achieving that goal. Such visions can inspire and unite the firm and lead to superior results.

Looking Ahead and Thinking Strategically

Almost five years have passed since the market crashed and the U.S. economy is still bumping along. Depending on what market sector or geography your business is focused on, you may have experienced some of the worst or maybe some of the best years in your company's history.

Many of the successful study participants have lived through numerous business cycles and have done more than just survive. They have created resilient and sustainable cultures and practices. They have rebuilt, retooled and refitted their companies for a new game and taken aim at the opportunities that have arisen as immense change took place.

Today's success stories are professional services firms – *solutions providers* – that offer top-notch human resources and best-in-class capabilities around technology, risk management, market knowledge, understanding of client behavior, job-specific challenges and long-term strategy. The latter has become a critical component of conducting business in today's volatile environment. Scott Winstead, managing director at FMI, says, "The optics for today's CEOs have changed. They are much more focused on what's happening in the market and what their response needs to be. The disruption over the last few years has completely changed the way executives view strategy."

Today's firms need a strategy that breaks free of static plans to be adaptive and directive, that emphasizes learning and control, and that reclaims the value of strategic thinking for the world that now surrounds us. The "strategic thinker" mindset is in fact one of the underlying themes to all the different

success strategies we witness across the AEC industry. Strategic thinkers are leaders who constantly question their beliefs and mindsets and ask themselves what they should be doing differently. Such leaders are, by nature, skeptical – always asking questions and analyzing – and consciously applying tactics and strategies to reinforce meaning or confirm direction.

This capability is essential in a complex world characterized by volatility, uncertainty, complexity and ambiguity (VUCA).³ It allows leaders to self-correct and monitor their rationality of thinking. When using critical thinking, individuals step back and reflect on the quality of that thinking. Mary Shippy, PhD, PCC, senior executive coach, explains, "My successful, nimble leaders are saying 'Wow, things have really changed. What do we need to do differently?' They are open to new ideas and perspectives, and are willing to challenge their beliefs and investigate contrasting opinions. Such leaders are truly critical thinkers."

This generation of adaptive, nimble and strategic thinking contractors will lead the industry into the next recovery period. That so many businesses have survived is good for the industry, but we believe that no firm operating just as it did five years ago will thrive in the new economy. The next boom won't look like the last one; now is the time to think strategically and build a company fit for the next challenge.

³ See FMI's article: Redefining Leadership: Strategic Thinking in Today's VUCA World. 2012.