



مدیریت کسب و کار در صنعت ساخت (Construction Business Management)

ماژول ۴: توسعه کسب و کار

بخش دوم: توسعه محدوده‌های جغرافیایی

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What we will learn?

- ☐ Change in Geographic Location
- ☐ Defining Normal Area
- ☐ Reasons For Changing Geographic Area
- ☐ Case Study: Long Distance Project
- ☐ Review of The Long Distance Project Case Study
- ☐ Manage The Risk With Long Distance Projects
- ☐ Case Study: Regional Office
- ☐ Review of The Regional Office Case Study
- ☐ The Need For Personal Attention
- ☐ Opening a Regional Office
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- ☐ Exercises

Change in Geographic Location

Change in geographic location

- ☐ The **business risk** in moving from working in a **known geographic** area to an **unknown one** is very real and can be evaluated and measured.
- ☐ A change in geographic area is a **significant change in business**, far from business as usual.
- ☐ If a contractor has **no other alternative**,
a prudent amount of **caution and planning** is necessary to minimize the risks involved with the change in location.

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Defining Normal Area

Defining normal area

- ☐ Business as usual for a construction company is bidding, winning, and completing work in an **area that has been profitable**.
- ☐ **Even though** doing work in a normal area will **never guarantee a profit** on a project, there is **greater likelihood** that profit can be produced within a **familiar area**.
- ☐ If the organization has **made a profit**, perhaps even built a **business on doing work** in a certain area, then **continuing work** in the same area involves **only modest risk**.

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Defining normal area

❑ A “**normal area**” doesn’t necessarily mean a radius of **ten miles or a thousand miles**

it is better defined by an **area of success**.

❖ For those who do **residential remodeling** in the **suburbs**,

taking a job **five miles across the river** in the inner city may be **out of their area**.

Contractors should know what their area is and what it isn't.

Defining normal area

- ❑ The distance **varies from one company to another**, but the **premise** remains the same:

Leaving a typical work area to contract elsewhere means, by definition, **working in a place** where the organization has **no experience contracting** for a **profit**.

- ❖ There is no suggestion here that the job **won't get done**, but there is a **question about profit**.

- ✓ Even if a profit is made on an **out-of-area job**, there are greater risks involved **than working at home**.

Contractors should know what their area is and what it isn't.

Reasons For Changing Geographic Area

Reasons for changing geographic area

❑ There are many **good reasons for expanding** a construction business geographically:

- ❖ A desire for growth,
- ❖ The shrinking or drying up of local markets, or
- ❖ The opportunity to follow customers or designers.

But, the question of whether to spread out geographically should be considered very carefully and the associated risks should be measured and addressed.

❑ **Numerous contractors jump vast distances**, sometimes two or three states, to get work **without giving it a second thought**.

Case Study: Long Distance Project

Case study: Long distance project

- ❑ Let's look at a utility contractor who was asked to **bid a project 250 miles away** from their **previous normal area**, which included work within a **100-mile radius** from their **office**.
- ❑ The area was remote, and **only two other contractors** agreed to **bid**.
- ❑ The contractor knew the design engineers well and was **asked by** them to participate.
- ❑ The **job wasn't needed**, and it was at the high **end of the size work** the contractor did, but the fact that there were **only three bidders made it very tempting**.
- ❑ Although they had **never run a job so far** from their shop, supplies, and service lines, they **felt they could keep** it fairly self-contained and perhaps try some special expediting techniques to shorten the overall time and save on expenses.
 - ❖ This would make a **neat lump of unexpected profit** if they got the job; and if **they didn't, fine**.

Case study: Long distance project

- ❑ They took the job off in their usual way and, in **July, visited the site** with one of their **project managers**.

They **didn't see anything unusual** about the site conditions.

- ❑ In fact, they felt that the **remoteness of this farming town** would simplify **traffic problems** and **street closings**.
- ❑ They asked in the local coffee shop about **labor** and were **told that they could get 30 or 40 people** the **next day if they wanted** them.
- ❑ They could also **get quite favorable rates** at a **local motel** if they took several rooms for an **extended period**.
- ❑ They **priced** out the job as if it were in **their own backyard**, adding the equipment transportation costs, mobilization, and all of the costs of **keeping their key people on-site**.
 - ❖ They added a **little extra markup** for nuisance value and got the job.

Case study: Long distance project

- ❑ The job was to start **14 days after bid opening**.
- ❑ This was a little **tight** on their **available equipment**, but they could **lease a couple of pieces at home** to replace what they **sent to the job**.
 - ❖ At bid time, things looked fine.
- ❑ There also appeared to be some **available farm equipment** in the **area** that might fill in on **grading and seeding**, and there seemed to be **trucks available locally**.
- ❑ There was a snag in the county **permits**, and **one of their people** had to travel to the location **three times in August** to get it **straightened out for the friendly design engineers** who had invited them to **bid**.

Case study: Long distance project

- ❑ The problem was that the **county engineer** had **no experience** with projects this **size**.
 - ❖ The delay meant that the **job didn't get started** until **mid-September**.
- ❑ The contractor had **figured** four months start to finish,
but later **decided to cut the time** in half by working their people and equipment **12 hours a day, 7 days a week**, and giving them every other weekend home.
- ❑ The workers would make a **lot of overtime**, and they would save **on subsistence costs** by housing their employees for a **shorter duration**.
- ❑ Since they wanted to do the job in **two months**, the **late start didn't seem like a problem**.

Case study: Long distance project

- ☐ Everything started out as planned except a couple of low-boys and tag-along trailers were dearly missed on some existing jobs when equipment needed to be moved.
- ☐ The low-boys and trailers were tied up moving the equipment to the remote site.
- ☐ Then the distance began to take its toll.
- ☐ Everything took a day or two to get out to the site.
- ☐ Downtime for equipment repair parts and needed supplies became a nightmare.
- ☐ There was another big surprise when it became apparent that the crew and equipment were very unwelcome in the town.
- ☐ The project had been planned by a town administration that had been replaced in the last election by a group that ran on a promise to stop the project.

Case study: Long distance project

- ☐ The conservative townspeople had no desire for the sewage collection system with its attendant costs and mess, as they put it.
- ☐ They had used septic systems for years.
- ☐ They didn't want the project.
- ☐ The part-time mayor read the specifications from cover to cover and held the contractor's feet to the fire.
- ☐ Street openings had to be protected with flashing lights and flagmen, even on dirt roads.
- ☐ The mayor further insisted that the lights and flagmen be provided until all paving repair had been completed and accepted.
- ☐ The flagmen were needed four times longer than anticipated to comply with the letter of the contract and to protect streets with a total traffic pattern of 20 vehicles a day.

Case study: Long distance project

- ❑ Many of the details are too painful to elaborate on, but after the design engineers went to bat for the contractors, the town administration threatened to throw the engineers off the project.
- ❑ From this point on there was no salvaging the job.
- ❑ The design engineers also wanted overtime pay for all the inspection time caused by the contractor's schedule.
- ❑ Because of the difficulty of getting supplies, there was a lot of over-ordering. Material quantities ran over by 20 percent.
- ❑ In October, harvest season started and all local labor was lost. Some of it was replaced by borrowing men off existing jobs at home, but there weren't enough to hold the schedule.

Case study: Long distance project

- ☐ The specifications said no paving could be done after November 30 and no seeding after October 15.
- ☐ The job was stopped.
- ☐ The contractor left and came back in the spring. Labor costs ran over by almost 200 percent.
- ☐ The total loss on the project exceeded 70 percent of the total contract price.
- ☐ Final payment took two-and-a-half years to collect.

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Review of The Long Distance Project Case Study

Review of the long distance project case study

- ☐ If this project had been the only loss during the year, the contractor might have survived the experience.
- ☐ But this remote job impacted the home area work in other unexpected ways.
- ☐ The contractor's plan was to use their best men on the remote job.
- ☐ The project manager was handling three separate contracts close to home when he was sent out of town.
- ☐ Two of them lost money as a result of the changes in field management.
- ☐ Other projects had changes in superintendents in the middle of the work because two good superintendents were transferred to the remote job.

Review of the long distance project case study

- ☐ And there is no measuring the additional impact of taking the company's four best equipment operators out of the system for three months.
- ☐ Key mechanics, almost all of the service trucks, and even the delivery people were missing at various times during the period.
- ☐ Productivity and morale throughout the organization were worse during this period than anyone in the company could remember.
- ☐ The overall impact resulted in six or seven jobs losing money.
- ☐ Before bidding the remote job, the company was six months into the fiscal year and enjoying their usual profit margin.
- ☐ If the loss from the remote job was excluded from the year-end figures, they were still in a hole. Including the remote job made the year a complete disaster.

Review of the long distance project case study

- ☐ There is no implication that a disaster such as this will happen every time a contractor changes their geographic area of operations.
- ☐ But there is risk in moving into unfamiliar territory.
- ☐ Was the farming town story a preventable problem?
- ☐ Should contractors check the political climate everywhere they go?
- ☐ Probably, because when they are in their own backyard, no matter how big that backyard is, they usually know the political climate, and the odds are better that they won't get as many surprises.
- ☐ Distance creates costs. Transportation is expensive, but at least it can be calculated.

Review of the long distance project case study

- ☐ Even costs that are normally considered to be predictable for a particular contractor may become unpredictable while working in unfamiliar territory.
- ☐ When bidding or evaluating a project in a different geographic area it is critical that estimators use the best information available to predict costs, and many contractors use resources like RSMeans to provide that information.

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Review of the long distance project case study

- ☐ The important point is this remote job was handled differently than the contractor's other work.
- ☐ Distant jobs are “different” by definition.
- ☐ If an organization has not worked in an area, they should assume they will encounter different conditions.
- ☐ From the case study the contractor's ability to make profit included moving equipment and workers efficiently from job to job and to have quick maintenance of equipment.

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Review of the long distance project case study

- ☐ But even they did not know how important that was to their success and profitability until the long distance project.
- ☐ The synergy of moving people, equipment, and supplies in their confined normal working area was the backbone of their efficiency and profitability.
- ☐ The distant job, although it was bid like any other, actually wasn't like the previous ones; it was a totally new experience.

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Review of the long distance project case study

- ☐ There are some things that can be done to minimize and control the risks of doing work outside a normal work area, but all of them put together are not as important as stopping and thinking hard before taking the step.
- ☐ Plenty of contractors have done work out of their area, opened regional offices, and made money.
- ☐ It can be done and has been done.
- ☐ But even the few contractors who succeeded were at enormous risk whether or not they recognized it at the time.

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Manage The Risk With Long Distance Projects

Manage the risk with long distance projects

- ❑ The **safest way** to expand from a normal work area is to **begin at the edges** of the **organization's existing work area**.
 - ❖ Perhaps the company can move along an interstate corridor, on one side of a river, or up to a state line before profits begin to drop off.
- ❑ Expanding this way **limits the drastic changes** that **may await a contractor** in the **totally unfamiliar environment** of a more distant location.
- ❑ It is also **easier** to **pull back from the perimeter** than from a remote location.
 - ❖ Dealing with recalls, guarantees, and maintenance periods required by contract is a **lot less expensive** at a **company's perimeter** than at greater distances.
- ❑ **Reentry to the area** may also be possible **after a pullback** and some thorough planning.
 - ❖ That way, at **least the experience is not a total loss**.

Manage the risk with long distance projects

❑ **Hiring locally** always **makes sense** but expect some **training and familiarization time**

if the job is to be **performed the same way** the company has always **managed its work and profited**.

❖ If a company finds out that **they don't do things their way** in the new area, then they probably **don't belong there**.

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Manage the risk with long distance projects

❑ **Relocating a top man** for the job from the **organization's trusted pool** of steady people is probably the **safest approach**.

❖ The organization gets **consistency** in methods and **honesty** in reporting.

✓ This, of course, will strain the **home-territory resources**,

but a contractor expanding in any manner should realize that this is **going to happen**.

It is one of the risks.

Manage the risk with long distance projects

- ❑ Taking **one and only one job at a time** in the middle or lower range of the company's normal job size is also a **good safety valve**,
either at the **perimeter** or at a **more distant** location.
- ❑ **Too many contractors** take a large job way from home, and **before the results** of that move are in, they take **one or two more**.
 - ❖ This puts **too many resources in** an untested environment and raises the stakes on an **already high risk**.
 - ✓ It's just **not good business** to expand further **before the results are in**.
Don't go too far a field if a senior person can't afford to devote the time that the experiment or the job deserves.

Case Study: Regional Office

Case study: Regional office

- ❑ Consider a small contractor in business for over **twenty years** getting into his **first sizable commercial job**, a \$3.5 million strip shopping center in the contractor's **hometown**.
- ❑ He puts a lot of his **time and energy** into the bid and then into the job and comes out with a **fair profit**.
- ❑ During the **next two years**
the **same customer awards** three more shopping centers, and
this **contractor gets two of them**.
 - ❖ His normal work area is **half of his state**.
 - ✓ One of the projects is at the **edge of his area** and the other is in the **next state; each one is over \$8 million**.

Case study: Regional office

- ❑ A **year later** the out-of-state **shopping center is completed**, and the **contractor lands** many of the **tenant improvements** within the center.
- ❑ He decides to **lease a small part** of the tenant space to **open a regional office**.
- ❑ He hires a **well-recommended local project manager** and takes on a few small jobs in the area from the **temporary project office**.
- ❑ Originally this out-of-state shopping center job was a **profit disappointment**, but the job had some rock problems early on and weather problems later.
 - ❖ But, the contractor thought that the **tenant improvements** would **make up for the loss cost**.

Case study: Regional office

- ☐ One of the **home-office estimators**, who loved to fish in the area, was **willing to relocate with his family**.
- ☐ After one year the **temporary regional office** had **gotten only \$400,000** in work.
- ☐ The company was an **unknown commodity** in the area, and **local competitors** took every opportunity to advise their own clients of various **rumors they made up** about the newcomer.
- ☐ They were given one more year to turn it around.
- ☐ The second year they **did \$3 million in volume**, and everyone **felt relieved**.
- ☐ Unfortunately, the company was in trouble by the **third year and didn't survive** the fourth year.

Review of The Regional Office Case Study

Review of the regional office case study

- ❑ The \$3.5 million shopping center was a **big job for this contractor**, and he gave it his personal attention.
 - ❖ It was at home, and it made money.
- ❑ The **next two were much larger** and farther away with one in another state where he had never worked.
- ❑ The only thing the jobs had in common was the **developer/owner**.
- ❑ The contractor had **experienced one good project** with this developer; however, the **experience is usually good for everyone** when a job **goes well and makes a profit**.
- ❑ At any rate, it was clear from the beginning that these projects weren't going to get as much personal attention as the previous one.
- ❑ Yet no one in the company, not even the contractor, ever correlated his concentrated personal attention with the profitability and success of the first shopping center.

Review of the regional office case study

- ☐ Getting these two big jobs at nearly the same time, however, was cause for celebration, not pessimism within the organization.
- ☐ The decision to hire locally for the out-of-state job was designed to keep expenses down, to deal with the local (new) conditions, and nearly all new subcontractors.
- ☐ The project manager came highly recommended by some good people in the area; however, the company didn't know the project manager who was untested.
- ☐ The rock and weather problems could have happened to anyone.
- ☐ No one even wondered later whether or not the local bidders had anything in their bids for these items.

Review of the regional office case study

- ☐ The new project manager had done some contracting on his own.
- ☐ He said he could get some smaller jobs while they were there for the larger one.
- ☐ No one considered the fact that the field office didn't have any key company or support personnel to do these smaller jobs.
- ☐ Nor did they think it imprudent to allow distractions from a project that was the biggest the company had ever done.
- ☐ The truth of the matter was that the idea of a regional office was on everyone's mind from the moment they got the out-of-state job.
- ☐ Even when it was clear that the job had lost money, they actualized a quick scenario where tenant work would create a breakeven position for the entire adventure.

Review of the regional office case study

- ☐ No one questioned that home-office overhead costs associated with the project weren't even charged to it.
- ☐ Not only did they fail to consider the cost of bidding, but the costs of the new communication system, phone bills, payroll service, overnight delivery costs, and so on.

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Review of the regional office case study

- ❑ Putting a trusted estimator at the new office was a great idea, and he used the same successful and tested approach he had learned at the home office.
- ❑ But with no market analysis or forecast, the problem of capturing more work was a surprise;
 - the contractor simply planned for the same rate of growth the home office was experiencing with a base of the \$8 million from the shopping center project.
- ❑ Consequently, \$400,000 in sales the first year didn't even cover regional overhead.
- ❑ The threat of closing the office in an area where the estimator had just settled his family provided sufficient motivation for him to capture more work the second year.

The Need For Personal Attention

The need for personal attention

- ❑ Similar situations occur so often that it's an **embarrassment to the industry**.
- ❑ Contractors **lose sight of how much effort** they put into nurturing and sustaining their companies.
- ❑ They forget **how much** energy, night work, and worry went into developing a successful operation.
- ❑ And then they **put untested people** with very **little backup in a regional office** and **expect profitable construction**.
- ❑ A **regional office** is like **another construction company**.
- ❑ The contractor provides them **material resources like money and manpower**, and they build.

A regional office is like another construction company.

Opening a Regional Office

Opening a regional office

- ❑ Opening a regional office can be a **good way to get into planned geographic expansion**, but it's **very risky**.
- ❑ It's **even riskier** when a regional office is **opened because of an opportunistic expansion**.
 - ❖ Examples of **opportunistic expansions** would be because of **one big job** or because there is a **cyclical opportunity**.
- ❑ Opening a regional office **because of an opportunistic expansion** can be risky simply **because it involves**
 - ❖ Less time for planning,
 - ❖ Testing the market, or
 - ❖ Testing the decision and
 - ❖ It also eliminates the opportunity to evaluate alternative locations.

Opening a regional office

- ❑ The **absolute key** to regional office success is the **person assigned** to run it.
 - ❖ The ideal situation would be for the contractor personally to **leave the home office** and **relocate** to the regional office.
 - ❖ The **home office** should be **running smoothly** and **profiting** before planning to open a regional office.
 - ❖ The **talent required** at the regional level is the **same as that** which built the business to begin with.

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Opening a regional office

- ❑ Yet a contractor **moving to a regional office** is impractical for a lot of reasons, the most important of which is that the “**mother lode**” **requires** his or her **attention**.
- ❖ Basically, setting up a regional office with just a **good construction person or administrator** to head it up, based on the **assumption** that it will just be an **extension of the home office** and it will **operate effortlessly**, doesn't work.

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Opening a regional office

- ❑ A **key person** in the right location with **appropriate home-office support** is the **basic ingredient** for a **prudent start-up**.
- ❑ As the offshoot of a successful company, it may not need to go through as long a growth and development period, but it should be treated as a **start-up operation**.
- ❑ If **enough effort** is donated to it, the new regional office **may grow without the missteps and mistakes** of the parent office.
 - ❖ Remember, however, that regional offices should **start small** and **grow prudently** to manage risk.

Starting out **too big** is a problem **even with the right ingredients**

Opening a regional office

- ☐ In starting regional offices there is the **local knowledge factor** to contend with even with **good research or hiring someone** locally to manage the organization.
- ☐ A **modest start** for at **least the first year** reduces risk.
- ☐ A company should get some **firsthand knowledge of a new area** by bidding and doing **some work**
but **not so much** that the lesson **becomes too expensive**.

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Opening a regional office

- ❑ The best planning efforts for opening a regional office **usually underestimate the costs** involved, some by a great margin.
 - ❖ **Invariably the costs** will be **greater than expected** and the **income slower** to develop than anticipated.
 - ❖ Unless an **organization has past experiences** with opening offices to rely upon, **financial contingencies** need to be applied liberally in budgeting regional expansion.
- ❑ An **expanding company** might run out of cash **not because the situation** calls for it, but **because management overcommits** the organization.

Regional Office Contingency Plan

Regional office contingency plan

- ❑ Sometimes, **even after the best planning** in the world, some business decisions **simply don't work** out; this is why a **withdrawal plan** is necessary.
- ❑ Withdrawal is a strategy seldom even considered in construction.
- ❑ A withdrawal, or escape, plan **starts by determining** in advance **how long to continue supporting** a regional office **if it is not succeeding**.
- ❑ Management must determine, in advance, the **accomplishments and milestone dates** they will use to measure the success of the regional office.
- ❑ They shouldn't be **too optimistic** with their expectations.

Withdrawal is a strategy seldom even considered in construction.

Regional office contingency plan

- ❑ Financial measurements are the most commonly used when developing measurements of success for regional offices.
- ❑ However, making a profit during the first and even second year may be difficult; in fact, a company may expect to lose money in the first year or two.
- ❑ But the company should determine, in advance, how much of a loss they can afford.
- ❑ A definite amount should be predicted in advance, and if losses exceed the amount, the plan should come under close review.
- ❑ A company may be able to afford the additional losses and continue. If not, they should withdraw immediately.
- ❑ More than two modifications in acceptable losses should signal a complete review of the entry strategy and, possibly, the initiation of the withdrawal plan.
- ❑ If the plan for a regional office doesn't work out, withdrawal before the impact threatens the home office is imperative as a risk control measure.

Regional office contingency plan

- ☐ The company needs to be certain they can afford the **cash outflow** from the home office that a regional office will require.
- ☐ They will also want to look at the **impact of a loss** on the organization's financial statement and credit.
- ☐ **Most companies do not** want to **capitalize the loss as an investment**, so the profit for the **entire business will be affected**.
- ☐ The **bank and bonding company** should know in advance of **expansion plans**, particularly if there is **potential or planned losses** in the first year or two.

Regional office contingency plan

- ☐ Retreat from the market in an orderly, businesslike manner, making sure to tie up the loose ends and leave the area with **good public relations** in case the company **wants to attempt reentry**.
- ☐ For example, consider a press release like the following:

“We find that the fine contractors in this area are well equipped to serve the construction needs of their clients, and our participation in this marketplace, while welcomed, was not needed to an extent that would justify our continued presence.”

Regional office contingency plan

❑ Whatever the **reason for withdrawal**, it can usually be stated in a way that neutralizes the **rumor mill**.

❖ At the same time, **frankness** may gain the organization the respect a smart **business decision deserves**.

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Regional office contingency plan

- ❑ Yet withdrawal from any strategic business move is a valid, businesslike, and **often necessary alternative**.
 - ❖ The reason it is seldom considered is because **so many construction businesses** are an extension of the contractor themselves, and there appears to be **some stigma or ego impact** associated with retreat.
 - ❖ There's **no room** in the **business world** for this kind of thinking, particularly in a **high-risk industry like construction**.

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Regional office contingency plan

❑ To **control risks**, an organization plans and in planning there needs to be **alternatives** available.

❖ Does it make sense to alter a plan to read:

“We will stay here at any cost in order to look good to our peers”?

Can any business afford that attitude?

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Exercises

- ☐ How would you plan and accomplish a retreat from a market you entered and found unprofitable?

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ماژول ۴: توسعه کسب و کار

بخش سوم: توسعه خدمات

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What we will learn?

- ☐ Changing or Adding to Type of Construction Performed
- ☐ Reasons for Changes in Type of Work
- ☐ Challenge: Lack of Experience
- ☐ Resolution: Know Your Specialty
- ☐ Case Study 1
- ☐ Case Study 2
- ☐ Know the Risks
- ☐ Volume Versus Profit Alternative
- ☐ Withdrawal Plan
- ☐ Exercises

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Changing or Adding to Type of Construction Performed

Changing or adding to type of construction performed

- ❑ A contractor **seldom changes** their business focus entirely from **one type** of construction work to another.
- ❖ That is, contractors **don't switch** from **building roads** and start **building only houses**.
- ✓ However, **expanding** into other types of construction work is **quite common**.

It is critical to understand that changing the type of work a construction enterprise performs is an important business event, with **serious associated risks**.

Changing or adding to type of construction performed

❑ The reader will notice that this **course repeats** the following premise:

❖ **Successful contractors** typically become successful by doing
a **certain type of construction**
of a **certain size**, and
in a **certain area**.

✓ However, it is **not suggested** that a contractor should **eliminate** the idea of expanding into other types of construction.

Contractors need to understand that expansion carries certain business risks,

great enough to have caused major problems to a large number of successful companies.

Reasons for Changes in Type of Work

Reasons for changes in type of work

- ❑ A number of theories have been developed to explain the reasons for diversification.
- ❑ The reasons for diversification may be linked back to the objectives of the firm, for example, to
 - ❖ increase profit,
 - ❖ rate of profit, and
 - ❖ value of assets, and
 - ❖ decrease turnover.
- ❑ **Growth** is usually the driving force behind **diversification**.
 - ❖ **Growth** may be the result of either positive strategic decisions or defensive decisions;

however, **all diversification** moves involve **risk** and **uncertainty**

Reasons for changes in type of work

- ❑ If the **reasons** for getting into other types of work are **uncovered**,
the **most common reason** seen is a lack of work in a **contractor's marketplace**.
- ❑ A **close second reason** for change in type of work pursued is **planned growth**, that is,
a **decision to expand** into another type of construction to **hasten the growth** of the
company.
- ❑ **Another common** reason involves opportunities such as a **good client or friend**
having a job to give out that **isn't exactly in the contractor's line of work**, but it is
perceived as **close enough**.
 - ❖ The risks of pursuing a **new kind of work** are the same as those in **starting a new business**.

However, if the risks **aren't recognized and addressed**, there is an even
greater danger of exposing an existing, successful company.

Challenge: Lack of Experience

Challenge: Lack of experience

- ❑ A large number of **road builders** turned to the construction of **sewage treatment plants** in the past
when **highway work slowed down or stopped** in their areas, some with **disastrous results**.
- ❑ The **problem** is that there is **no way to estimate** the time or cost required to gain the **necessary experience**.
- ❑ **What's worse** is that there are **limited ways** to get the experience needed to do the work **without first pricing or bidding** while having no previous experience in the field.

Challenge: Lack of experience

- ❑ The **road builder** looking to build a **sewage treatment plan**, for example, can likely **estimate and do** the excavation, site work, and maybe even the concrete work on such a project.
- ❖ Nevertheless, a **road building organization** has most likely **never built round concrete tanks** to close tolerances.

Furthermore, they would likely **not have the necessary experience** in the type of pipe work, mechanical systems involved, and the sophisticated control systems required for a **sewage treatment plant**.

Challenge: Lack of experience

❑ If a company gets over this lack of experience at the bid stage, they are still **left with challenges they may face** during the construction stage.

❖ **Simply coordinating** the shop drawings and managing the interfaces and physical space problems for all of the systems in a treatment plant **creates nightmares** for experienced people.

A contractor's success in pursuing work that they are inexperienced with requires a large amount of preparation, planning, and, at times, luck.

Resolution: Know Your Specialty

Resolution: Know your specialty

❑ There is **no attempt** here to suggest that **one type of construction is more difficult** than another or

to suggest that a **contractor needs to be smarter or more skilled** to do one than the other.

❖ The reality is, simply, that every successful contractor is a specialist.

✓ In some cases, an organization **may even have more than one** specialty and should **recognize the distinction**.

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Resolution: Know your specialty

❑ Too many organizations, especially **those growing rapidly**,

don't know

- ❖ Where *their real expertise* lies,
- ❖ Where their experience is **strong or marginal**, or
- ❖ The **type of work** that contributes the **most to their success**.

A construction organization grows and becomes successful by perfecting the skills and abilities needed for their specialty.

Case Study 1

Case study 1

- ☐ Consider a **sewage contractor** in business for **ten years** and doing about **\$15 million** a year **profitably** when they had their **first losing year**.
- ☐ They were **losing money** on their **two largest jobs**, which were **both** within their **normal, top-size range** and within their **usual work area**.
- ☐ The **jobs appeared** to be **straightforward** underground sewage collection projects, and
the **contractor pointed** to a string of jobs they said **were similar** in which they **had made money**.
- ☐ A **closer review** of their previous projects, however, **revealed something** that **surprised** the contractor.

Case study 1

- ☐ Just about all of their **successful projects** in the past had been **precast concrete pipe gravity sewage** jobs, including all of their large projects.
- ☐ **Several previous projects** had **ductile iron pipe force mains** in them, but these jobs had **not profited nearly** as well as the exclusively **gravity sewer projects**.
- ☐ There had also been **two small exclusively force-main projects** some years back, one breaking even and the **other losing money**.

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Case study 1

- ❑ The work this ten-year-old company originally bid in its **first six years** was only **gravity sewage work** and in **recent years** was gravity system, **force-main**, or a **combination** of the two.
- ❑ The contractor had started and was **busy building a successful** construction business and **hadn't taken note of the fact** that they **weren't very successful** at doing **force-main work**.
 - ❖ They had **not been successful at bidding** it either.
- ❑ When their **financial difficulties** came to light, the **two biggest projects** that were losing money were both **force-main jobs** and several other losing projects were **combination** force-main and gravity systems.
- ❑ The **estimator reported** that because they had **missed several force-main bids**, they had **lowered their force-main unit prices** to get the **present work**.

Case study 1

- ❑ The problems continued, and the **contractor did not survive** the numerous losing projects even though **all of the exclusively gravity sewerage** projects were **profitable**.
- ❑ This contractor and their people called the company a “**sewer contracting firm**,” not even a utility contracting firm.
- ❑ It may not be a common or even acceptable name, but by definition this firm was a “**gravity sewage contractor**,” in that for their ten-year history they had **never made a profit on force-main work** or any other type of construction work other than gravity sewage projects.

They never recognized their specialty.

Case Study 2

Case study 2

- ❑ Not knowing exactly what their real success was based on also caused serious problems for an old-line company. A very large scale, 50-year-old mechanical contracting firm was operating with three divisions just before the company got into difficulties. They had an HVAC division with their own sheet metal shop, a mechanical division with their own pipe shop, and a service division that also did small contract jobs and provided contract maintenance services. The service division had grown significantly over the years, but because the other two divisions had the greater volumes, service was given little of top management's attention. The service division also added efficiency and profit to the other two divisions because it did all of the start-ups, punch-list work, and callbacks for the other divisions. This made sense because the service division had dozens of fully equipped service trucks manned by highly skilled mechanics.

Case study 2

- ❑ The HVAC and mechanical divisions made more money than the service business, although not as a percentage of sales, and were taking larger and larger contracts. Several years after a succession of top management, the new managers decided that since the HVAC and mechanical divisions represented 80 percent of the company's volume, the service business would be sold. They determined that the sheet metal and pipe shops were turning out products that could be bought at the same cost on the open market, and because the sheet metal shop and pipe shop were located with the service division on expensive real estate, they, too, were sold.

Case study 2

- ❑ The new streamlined organization now had its estimators and contract managers located in an office park with no shop overhead. They easily replaced the volume represented by the service division, and shops sold and increased HVAC and mechanical division sales 20 percent the following year. Unfortunately, the company never had another profitable year in its remaining business life.

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Case study 2

- ❑ The current management had not been around when the company was growing. They understood marketing very well and had inherited good pricing methods. What they didn't realize was that the service company absorbed most of the startup, punch-list, and callback costs for the other divisions, allowing the HVAC and mechanical divisions to appear more profitable. The service division did this work for the other divisions at its actual cost, which was much lower than the other division's costs because the service division used lower cost, nonunion labor.

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Case study 2

- ❑ Top management also did not understand that while the sheet metal and pipe shops produced work for the HVAC and mechanical divisions at the same cost the company might pay on the open market, they produced it on schedule. More importantly, changes and modifications were handled quickly and problems solved overnight. The company historically took a large share of work in a very price competitive market and made a profit because it controlled its work by being its own supplier

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Case study 2

- ❑ With all the problem solvers from the service division gone, the company could no longer produce the work for its former competitive prices. The real problem was that top management did not understand the true expertise of the organization or the basis of its past success. The company got into trouble doing the same type of work they had been doing for many years, only in a different way. In fact, they had no idea what their success or specialty was based on.

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Know the Risks

- ❑ Some may think that the risks involved in making changes in the type of construction are perfectly obvious.
- ❑ Yet, good contractors make such changes regularly and often with disastrous results.
- ❑ A contractor wouldn't deliberately risk their entire business on one project, but the extent and seriousness of the risks involved are not always obvious.
- ❑ If the risks from drastic changes are often overlooked, it is understandable that the risks involved in more subtle changes are seldom even considered.
- ❑ Subtle changes within the type of construction are nearly as dangerous as drastic changes, but are often undertaken with such confidence that construction enterprises are surprised, even shocked, when the roof falls in.

- ❑ In the construction business a lot of money is turned over, and only a very small portion of it stays with the company, so it is imperative that an organization understands exactly where their expertise lies and how it operates to generate profits.
- ❑ Managers need to know what type of construction the organization does best, and even which subcategories of work they do better, before they can move forward with any work with confidence and reduced risk.
- ❑ Once management has done this, they can decide for themselves how much additional risk they want to take on as they expand and grow the company.
- ❑ If there isn't enough of the company's type of work available to satisfy the organization's appetite, management needs to be very careful about going after a type of work they have no direct experience in and embracing risks they may not be able to measure or even recognize.

Volume Versus Profit Alternative

Volume versus profit alternative

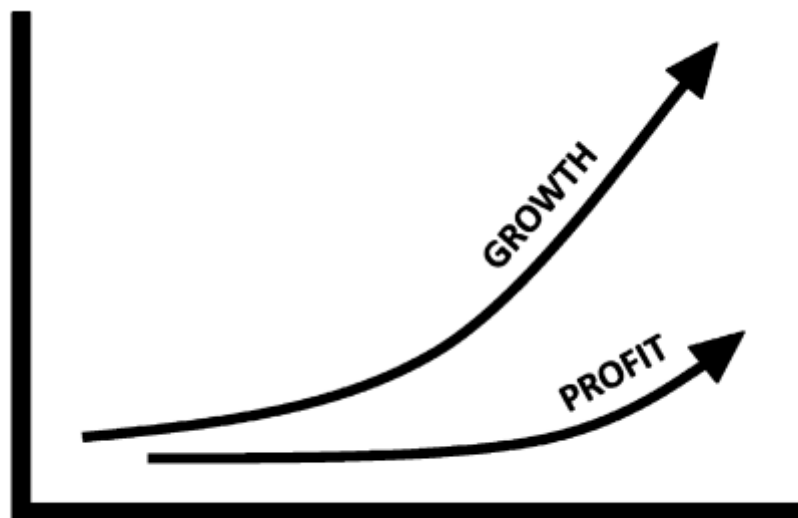
☐ Real profit growth,

as opposed to volume growth,

comes when an organization **levels out or slows down slightly** and everyone has **enough time to devote** to the work on hand, including bidding and administration.

- ☐ When managers are **not rushed or overworked** by growth, they have time to make **improvements** in the work they perform.
- ☐ When people have **time to fine-tune their skills** in the organization's specialty, there is **tremendous profit potential** available

Volume versus profit alternative



Real Profit Growth Should Be Considered before Volume Growth.

Volume versus profit alternative

- ☐ Most will agree that making more money on less volume with little risk is **real growth**.
- ☐ **Delaying a decision** to attempt a **different type of work** because the market slows down is a **valid alternative**.
- ☐ If a company, as forced by the market, **operates at no growth** or slightly **reduced volume for a while**
before expanding into other types of work or bigger jobs,
they will at least have greater cash reserves and more experience
when, or if, they decide to **take on the greater risks** of expanding
into a type of work the organization has **little or no experience** in.

Withdrawal Plan

Withdrawal plan

- ☐ A primary element of risk control is planning and having a **withdrawal plan**.
- ☐ **Before attempting** any type of work the organization has **no experience in**, a **mini-business plan** should be developed detailing
 1. How the work will be captured and performed and
 2. What will be done if the effort is unsuccessful.
- ☐ A withdrawal or escape plan **starts** by determining in advance **how long to continue attempting the new type of work** if it is not succeeding.

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Withdrawal plan

- ☐ Management must determine, in advance, the **accomplishments** and **milestones** they will use to **measure the success** of the effort.
- ☐ There is **no need** to be too **optimistic**.
- ☐ **Making a profit** during the **first or second attempt** may not be possible and, as stated about regional office planning, **profit isn't the only measure** of success.
- ☐ The company may be trying to penetrate a market or be in **on the ground floor** of a developing or expanding type of work.

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Withdrawal plan

- ☐ It is reasonable to expect to lose money on the first job or two, but management should determine, in advance, how much of a **loss the company can afford**.
- ☐ They will also want to look at the **impact of a loss** on the organization's **financial statement and credit**.
- ☐ Obviously, **cash must be available** to **meet demands** when they arise and failure to properly estimate the need and provide it will impair a company's credit rating and may even put it **out of business**.
- ☐ Withdrawal from performing a type of work can usually be accomplished with few people, if anyone, outside the company taking notice.

Exercises

1. What could potentially be some of the signals that changing or adding to the type of work performed may not be favorable to the organization?

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موسسه مهندسی و مدیریت ساخت علوی پور (ACEMI)

دفتر آموزش



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