مدیریت کسب‌وکار در صنعت ساخت
(Construction Business Management)

ماژول ۱: سازمان‌دهی کسب‌وکار

بخش دوم: مدیریت استراتژیک

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What we will learn?

- Learning curve
- Corporate objectives and strategies
- Strategic planning and management
  - Planning process
  - Situation analysis
  - Construction strategy formulation
  - Strategy implementation
  - Strategy evaluation
  - Sample of strategic planning for construction businesses
  - Cautions as you consider strategic path
- Exercises

Learning Curve

Learning curve

- Most people's work quality **improves over time.**
- **When our employees** have grown in their skills, we have **more time to work** at the important or **urgent tasks** that drive the profit dollars.
  - **Our subordinates** of tenure, in turn, often earn a **higher wage** than **average**.
    - ✓ However, how do we **increase** this phenomenon to **our advantage**?
    - ✓ How do **we speed up** this **learning curve**?

*Certainly, speeding up the learning curve is **why** the industry focuses on **training**.*

Learning curve

- Because the **construction industry** is **unique**,

  some of the **training** concepts that are well accepted in other industries

  don’t fit our industry.

  - To **make training** give us a **strategic advantage** over our competitors, we must gain insights that most **others don’t have.**

- As we **seek to grow our present workforce** to assume more responsibility (and authority),

  a **training** approach must be a **top priority.**

- It has to be the **primary option** if we are serious about replacing our **senior managers** as they start to **enter retirement age.**

Learning curve

- **Letting** all your people **make mistakes and learn** by trial and error is the **not** cost-effective way to go.
  - This approach is inefficient, costly, and takes a long time.

Learning curve

- We believe that **even** for the **most frustrated** contractors, the business will **get easier with time.**
  - **Unless they are harming** their health or their family relationships,

    they should **stick it out and continue** to own their construction firm.
    - ✓ **Many senior contractors** have related something like, "I have told many a young contractor **not to quit.**
      - As **frustrating** as the business seems, as **unfair** as it is treating you now,

        it will **start making sense** to you sometime in the **future**.

        Just don't quit.

Learning curve

- We are **fortunate not** to be in the **technology business**.
- According to Karl Fisch, what students learn in college in the **first year of a high-tech** degree will soon be **outdated.**
- He states that **50 percent of it will change** by their senior year.

Corporate Objectives and Strategies

The Owner's Goals Are Primary

- Let's look at some different goals contractors often choose.
  - To make a living
  - To fill a market need.
  - Finding the need and filling it is now a requirement
  - To capture and keep customers.
  - To construct monuments.
  - To have a high volume
  - To provide me something to do.
  - To provide my family members a job.
  - To provide choices, financial and otherwise
  - To generate a profit
  - To create value and then to leverage that value.

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The Owner's Goals Are Primary

- Some contractors believe that **second place** is for **"first losers."**
  - That may be true, but some would say it is an awfully **harsh opinion**.
- The companies of owners with that opinion **tend to be larger** and have very **competitive staff**.
  - Other contractors want to **stay local.**
    - ✓ They want **no branch offices**, just one shop with the owner running it.

Strategic Planning and Management

Introduction

- In the highly **competitive construction industry**, a construction company must **plan for the future**,

if it intends to **grow** and **remain** a viable business enterprise.

What it involves?

Introduction

- This involves
  1. Forecasting the future business **environment**,
  2. Evaluating **alternative** business strategies, and
  3. Predicting **potential** future consequences of **current** business decisions.

What does it mean?

Strategic planning

- **Strategic planning** involves the development of objectives and **then** linking them with the **resources** that need to be employed to attain the objectives.

What four questions should be answered first?

Strategic planning

- It attempts to develop answers to the following questions:
  1. What is our current situation?
  2. What do we want our future situation to be?
  3. What might inhibit us?
  4. What actions should we take to accomplish our objectives?

What four items the strategic planning would provide mechanism for?

Strategic planning

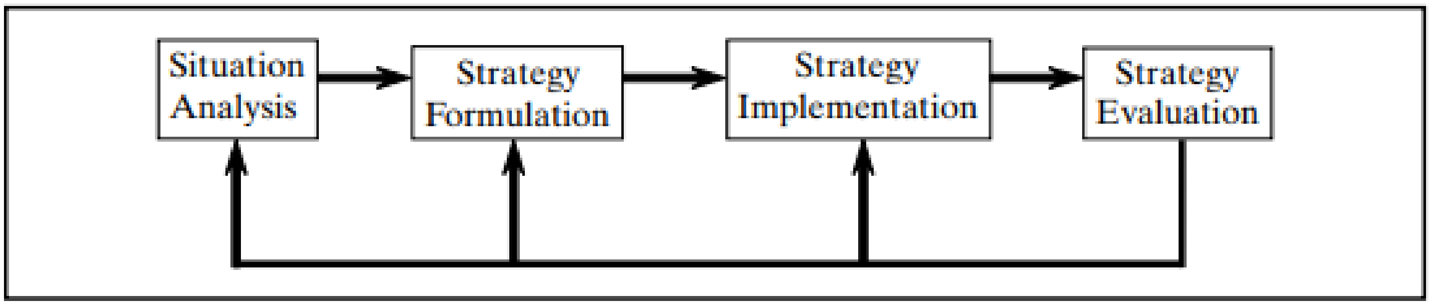
- Strategic planning provides a **mechanism** for
  1. **Assessing** company strengths and weaknesses,
  2. **Analyzing** the external environment,
  3. **Forecasting** the future, and
  4. **Selecting** objectives and action plans

  that **provide focus** and **guide company leaders** in their pursuit of success.

Strategic planning

- **Strategic management** is the process of implementing the strategic plan and making adjustments, as necessary.
- It is an **iterative process** that involves
  - Monitoring and evaluating the external environment,
  - Assessing company internal capabilities,
  - Implementing the strategies,
  - Measuring company performance relative to the accomplishment of its strategic objectives, and
  - Reallocating resources, if necessary, to improve company performance.

Strategic Management



Strategic management

Strategic planning is a key process for an established firm. If you are a very young construction company, it will be something to consider in the years ahead. A business plan will suffice for now.

Keeping the strategic planning process from collapsing due to missteps (of which there are dozens) is controllable. We have listed only 12. Amusingly, not performing strategic planning will eliminate failure, but then you will be stuck with a company driven by markets, customers, suppliers and other outside forces rather than by you and your knowledgeable staff. Take the time to do it and you will have an advantage to launch you to the best places (clients, markets, geography, etc.) in the industry.

Professionals should treat strategic planning as the holy grail of management. It is powerful for those companies that utilize it. Done well, it differentiates a company from its competitors and drives it to an unoccupied place in the market. As we stated, some firms aren't ready for it; however, all should consider it. We firmly believe strategic planning must be done by any firm of tenure that plans on a long and certain future.

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Strategic management

- Often, the **planning process** is more important to company success than are the **products (plans)** that come from the process.

Planning Process

Strategic plan for pacific constructors

- Next Figure provides an **overview** of the **planning process** from the creation of a mission statement

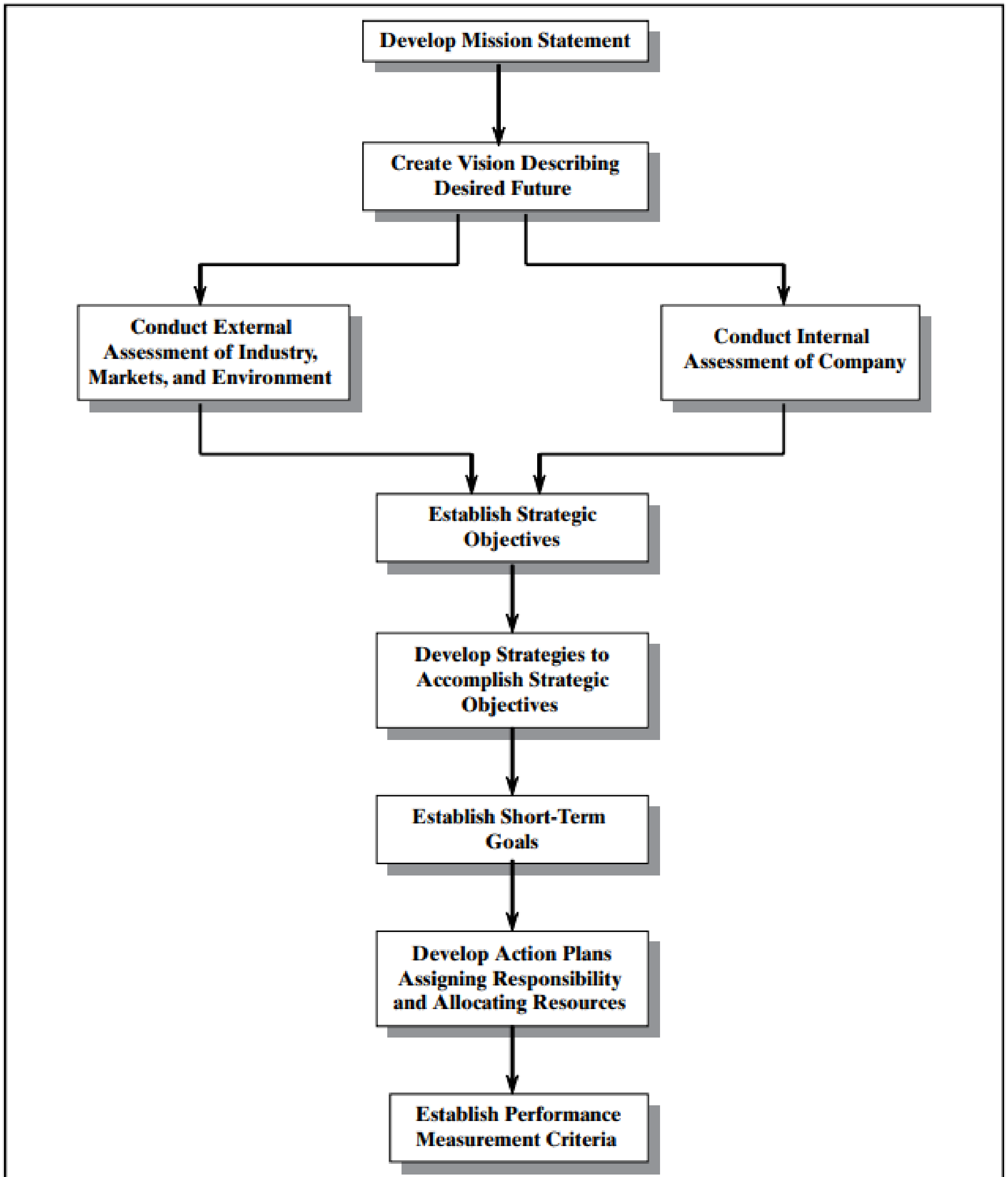
  through the **establishment** of performance measurement criteria.

- The objectives of the process are
  - To establish a framework for decision making,
  - To assign responsibilities and allocate resources, and
  - To establish quantifiable goals that can be used to measure company progress.

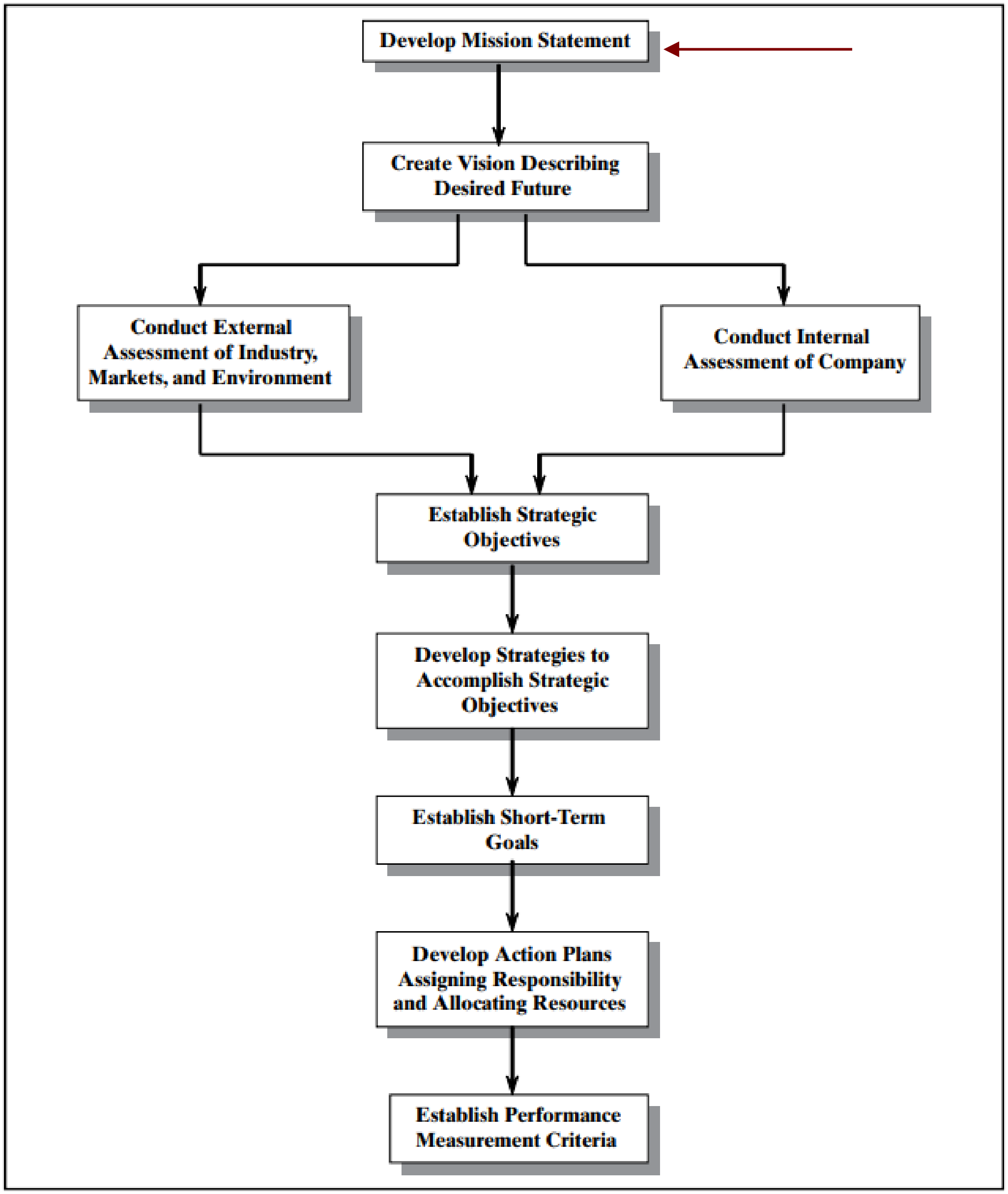
*The result is an **integrated plan***

*that can be used to **guide** **decision makers** in managing the company.*

Strategic plan for pacific constructors



Strategic plan for pacific constructors



Mission statement

- The initial step in developing a strategic plan for a firm is to develop a **meaningful mission statement**

  that has significance to both the employees and the customers of the firm.

- The **mission statement** should articulate in simple terms

  1. Why the company exists and
  2. What makes it different from other firms in the industry.

Mission statement

- This statement should be **carefully crafted**
  - To be of enduring value,
  - To provide focus to the organization, and
  - To establish boundaries for the development of strategic **objectives** and **goals**.

Mission statement – Sample

Mission

Your mission captures how you will get there or how you will win. Typically, mission statements tend to start "By providing" or "By producing" something. Companies win when there is value. What you produce or provide affects the reputation of the firm. Word of mouth will travel fast. A typical mission statement might read:

By Providing Quality Services to Value-Oriented Clients

Some examples of company mission statements are shown below.

Mission statement – Sample

- We build quality homes and neighborhoods that **exceed the expectations** we have established with our customers.
- Great Northern Constructors is an **enthusiastic**, **innovative**, **client-centered** construction services organization, committed to **exceeding** our clients' expectations in an atmosphere of **trust** and **respect**.
- Our purpose is to provide **unsurpassed service**, **risk management**, **quality** and **value**, while achieving **profitability** through competitive pricing and creativity.
- **Our people** are the **essence** and **vitality** of **our company**.
- Together in partnership, we create a **safe**, **highly productive**, and **enjoyable environment**, which challenges and enriches **each individual**.
- Collectively, we provide the **opportunity** for personal and professional **growth** in support of **individual plans** and **goals**.

Mission statement – Sample

- Western Construction constructs high-quality, management-intensive construction projects in the Western States and provides professional, client-oriented services.
- Our clients perceive us as a customer-oriented organization that delivers value better than the rest of the industry.
- We are a profitable enterprise that undertakes only projects that have the prospect of an appropriate financial return.
- We have a strong, cohesive team of talented individuals with high esteem and self-worth.
- We provide a work environment that demands respect for every individual, promotes professionalism, is upbeat, and is a fun place to work.
- We are a responsible corporate citizen, making contributions in the community and respecting the environment.

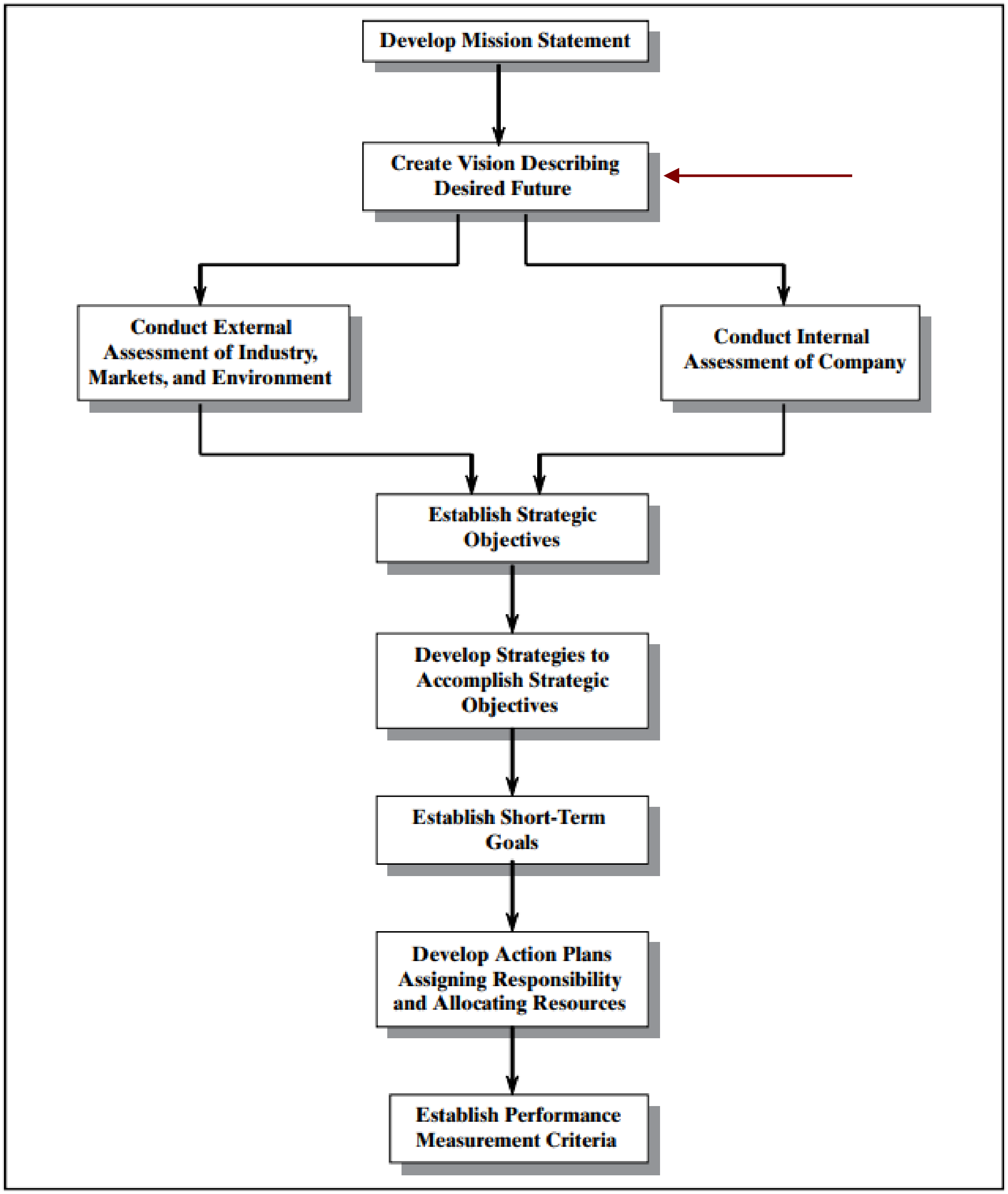
Mission statement – Sample

Tagline

A tagline is a short statement that can explain or encapsulate your philosophy.

Quality Construction Services for Quality Minded Clients

Strategic plan for pacific constructors



Company vision

- **Once** a **mission statement** has been developed,

  a vision statement is written

  that **broadly describes** where the **company intends** to be in the next ten or so years.

- This vision should be
  - Summarized,
  - Inspiring to employees, and
  - Meaningful to current and potential customers.

Company vision

- A successful vision **provides employees** the opportunity to view their positions as members of a team that has a **unified direction** and **purpose**,

  rather than viewing their roles as being responsible

  only **for their own individual tasks.**

Company vision

- To ensure its **acceptance at all levels** within the company,

  it is suggested that the **final draft** be sent to **all employees** for **comment.**

- While the **mission statement** is written using present tense because it describes **what the company does,**

  the **vision is written** to describe what the company aspires to become in the **future**.

Some examples of company vision statements are shown below.

Company vision – Sample

Vision

Vision is what your company will be known for by the average person in the industry. Many times, it is an energizing statement. It is something that has to be crafted and takes time to create and refine. Once in place, it should be rarely changed. However, after many years, it is normal to modify it to reflect a new vision and to generate a new energy. Typical vision statements might read:

> To become the infrastructure leader in the state of ____________.
> We are driven to be the best.

Company vision – Sample

- To become a **national home-building** company with the financial and organizational strengths to provide **quality homes** in **distinctive neighborhoods** throughout the **nation**.
- Western Construction will be the premier building contractor in the Western States **known for its ability** to
  1. **Create continuing partnerships** with high-quality owners to produce **best-value construction projects.**
  2. **Recruit**, **train**, and **retain** the best people in the industry at all levels within the organization.
  3. **Self-perform** key elements of the work with **highly productive**, **skilled craftsmen.**

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Company vision – Sample

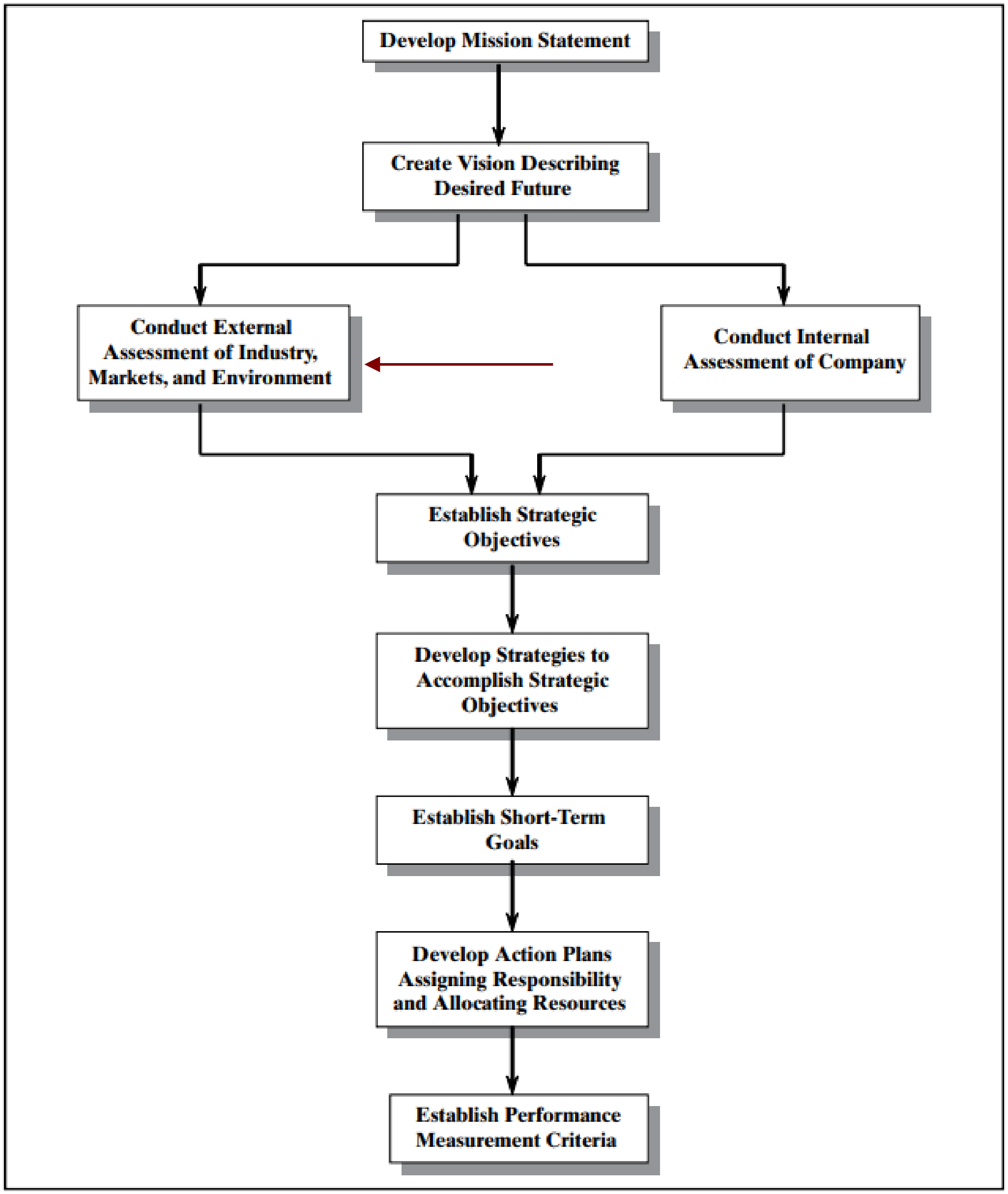
- To become the constructor of choice in the Southeastern States by creating job satisfaction and adequate rewards for our employees,

  building quality projects for our clients, and

  becoming recognized within our industry and

  the communities we serve as an outstanding organization.

Strategic plan for pacific constructors

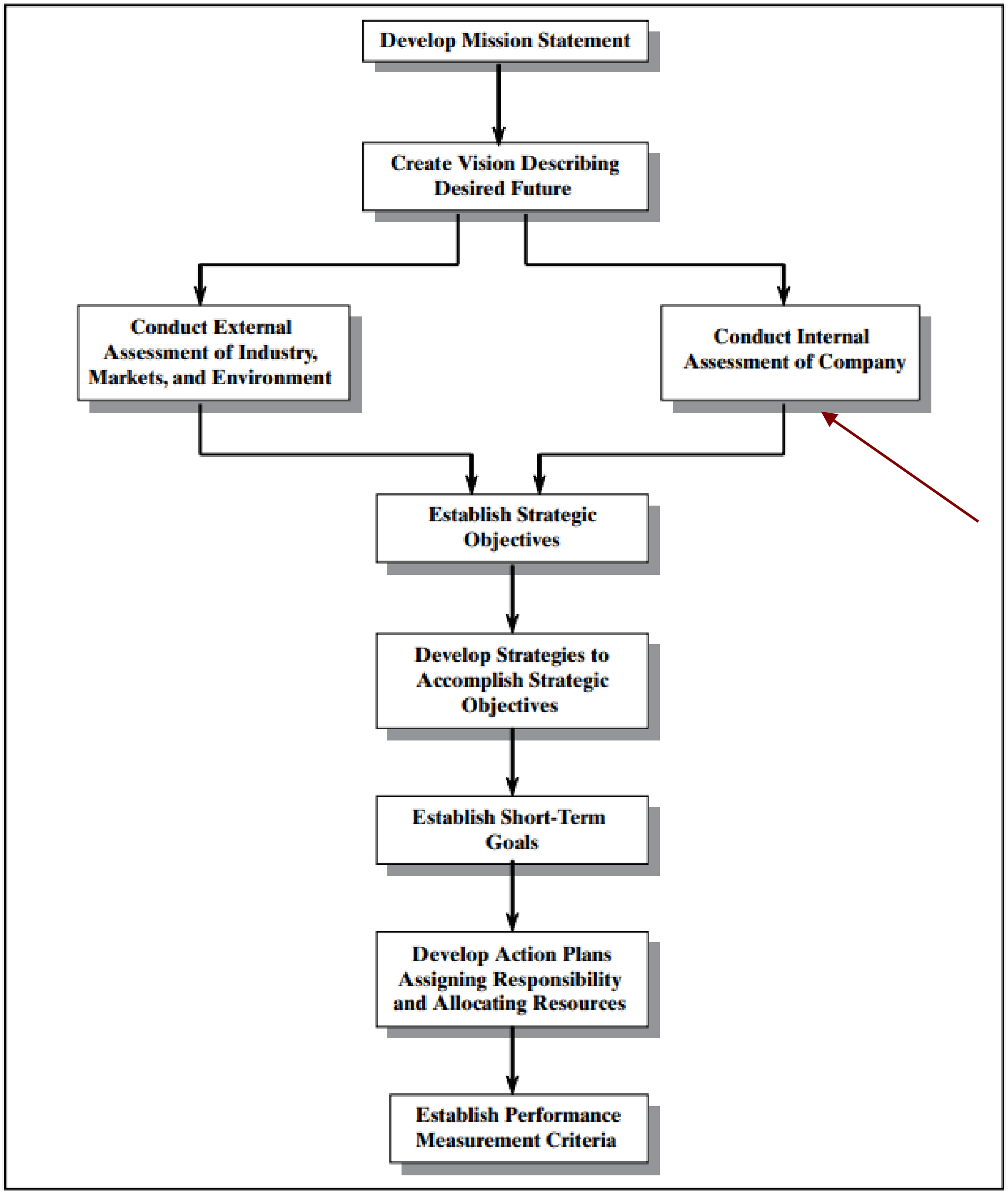


Strategic assessment

- Once the mission statement and company vision have been developed, an **assessment** of the **existing company** posture is made to serve as a **baseline** for the **development** of the strategic plan.
- By fully understanding company strengths and weaknesses, company leaders will be able to
  1. Make **realistic decisions** regarding **business initiatives** and
  2. Allocate **resources** to correct significant **weaknesses**.

This internal assessment will be discussed in more detail in the section "Situation Analysis."

Strategic plan for pacific constructors



Strategic assessment

- This external assessment should evaluate the company's **current** and **potential** customers to

  understand their selection criteria and motivation to **purchase services.**

  - Are there unmet needs among the customer base?
  - What will be the bargaining power of customers or material suppliers in the future?
  - What will be the impact of technology, government, demographics, culture, and economics in the future?

Strategic assessment

- This external assessment should **identify** **all external factors** that will significantly **impact** the **company's future**.

- In most cases, the **future performance** of these factors needs to be **forecast** based on **probable external events**.

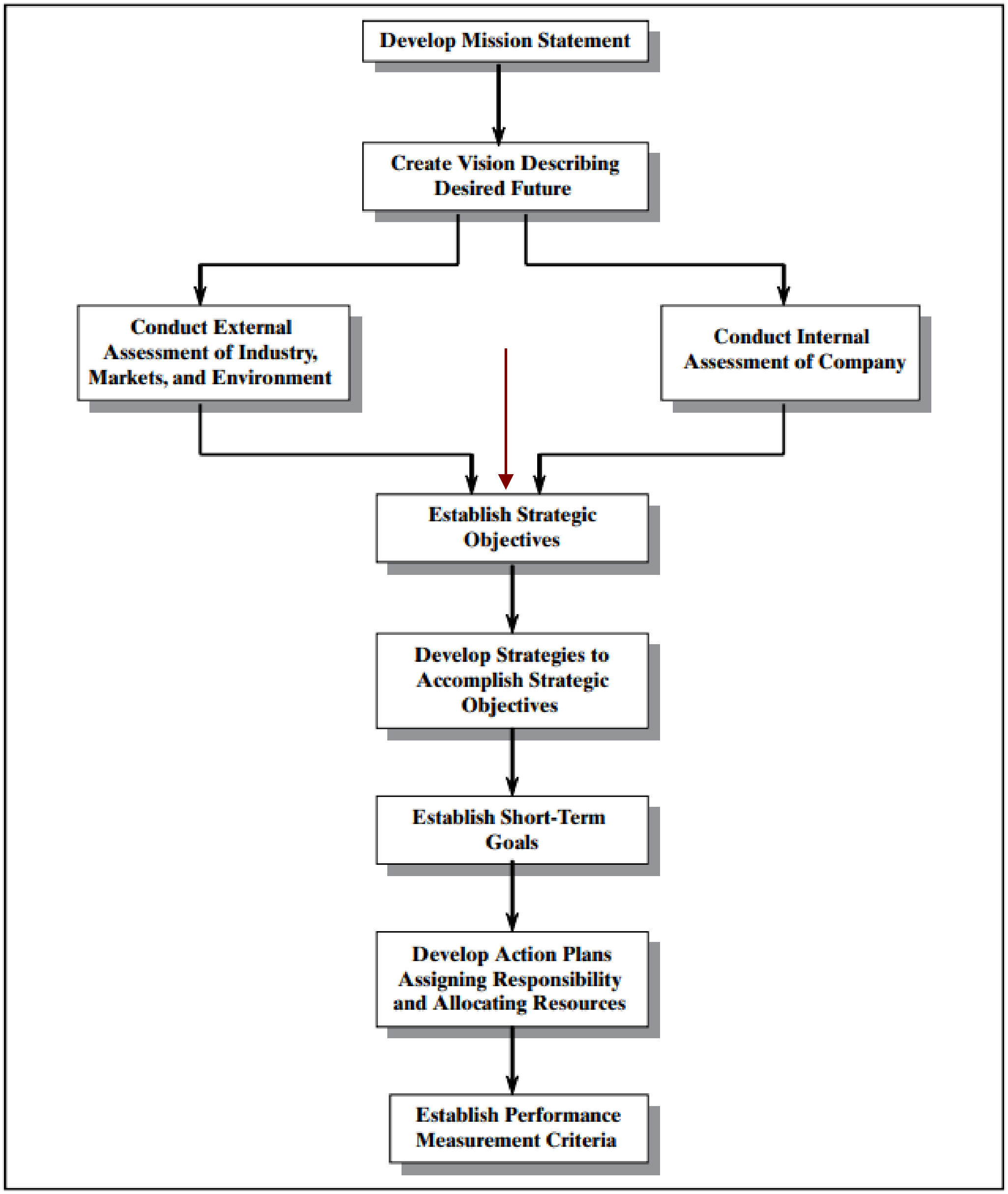
Strategic assessment

- The **output** of the external assessment is
  1. A **forecast** of the future environment and its impact on the company and
  2. The **consequences** of continuing to do business as it is being **done today**.

- This forecast may be based either on
  1. Statistical projections of **historical data** or
  2. Brainstorming by **knowledgeable individuals**.

External assessments will also be discussed in more detail in the section "Situation Analysis."

Strategic plan for pacific constructors



Strategic objectives

- **Strategic objectives** are developed to **guide the company** in the **accomplishment of its vision.**

- These objectives should be broad and timeless statements that **require action.**

- Successful accomplishment of the objectives should **take** the **company** from
  - The **baseline** determined in the strategic assessment to
  - The posture described by the company vision.

Strategic objectives

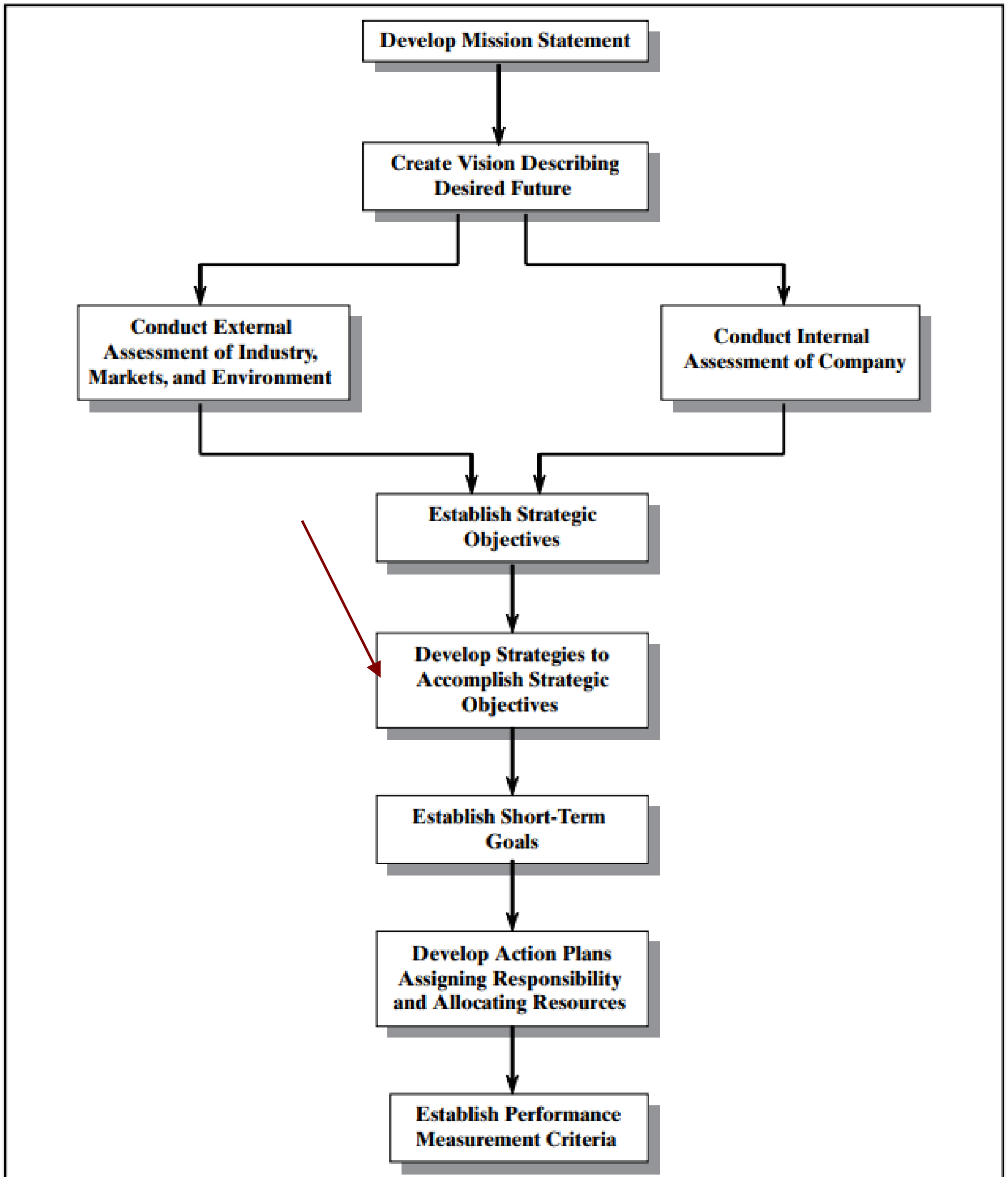
- The strategic objectives should **address** both financial and nonfinancial issues.
- They should be realistic, yet challenging, and stretch the organization.
- The objectives must be measurable and should incorporate a time dimension, so **progress** can be monitored.
- They must be structured to **avoid conflict** among elements within the company and any **unintended consequences**.

Strategic objectives

- These objectives need to be specific and action-oriented, so there is a clear understanding regarding **what is to be accomplished**.
- Does the company want to increase its profitability or market share?
- Maybe the company wants to diversify into other markets.

Development of strategic objectives will be discussed in more detail in the section "Strategy Formulation."

Strategic plan for pacific constructors



Develop strategies to accomplish objectives

- One way to proceed is to **list** each of the major alternative strategies for **objective accomplishment**.

- **Each alternative strategy** should be **evaluated** in terms of specific risk factors under **alternative future forecasts**.

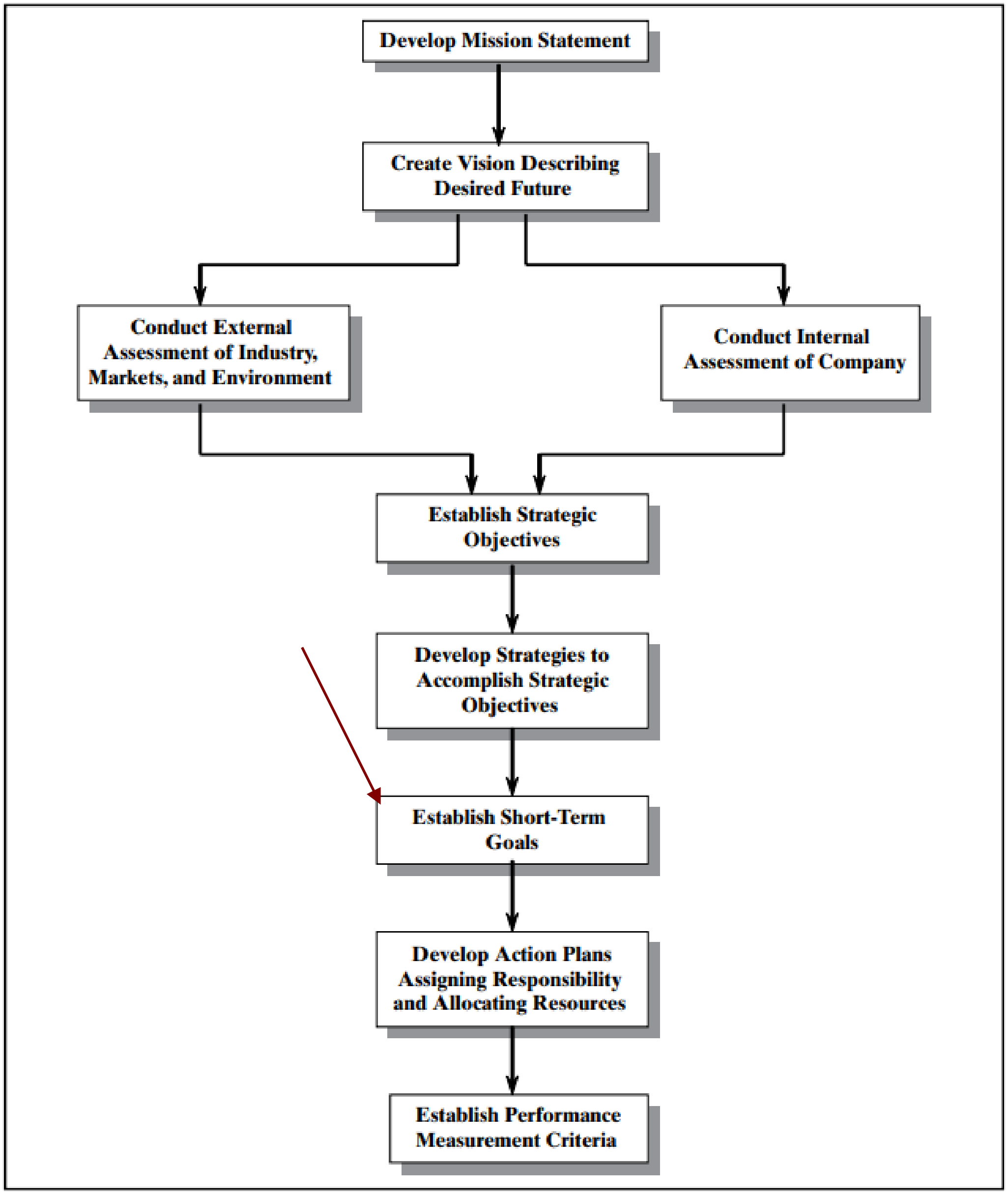
- This allows a **sensitivity analysis** of strategy selection with respect to **possible alternative futures.**

Develop strategies to accomplish objectives

- Strategies, including human resource and capital investment, are developed for **accomplishment** of the strategic objectives.
- **Planning assumptions made** in developing external forecasts need to be **reviewed** during the development of corporate strategies to **minimize risk** to the company **in the event** that external factors do not materialize as forecast.
- **These assumptions** also need to be reviewed during the **performance evaluation session** to ensure that the **assumptions are still valid**.

Development of company strategies will also be discussed in more detail under “Strategy Formulation.”

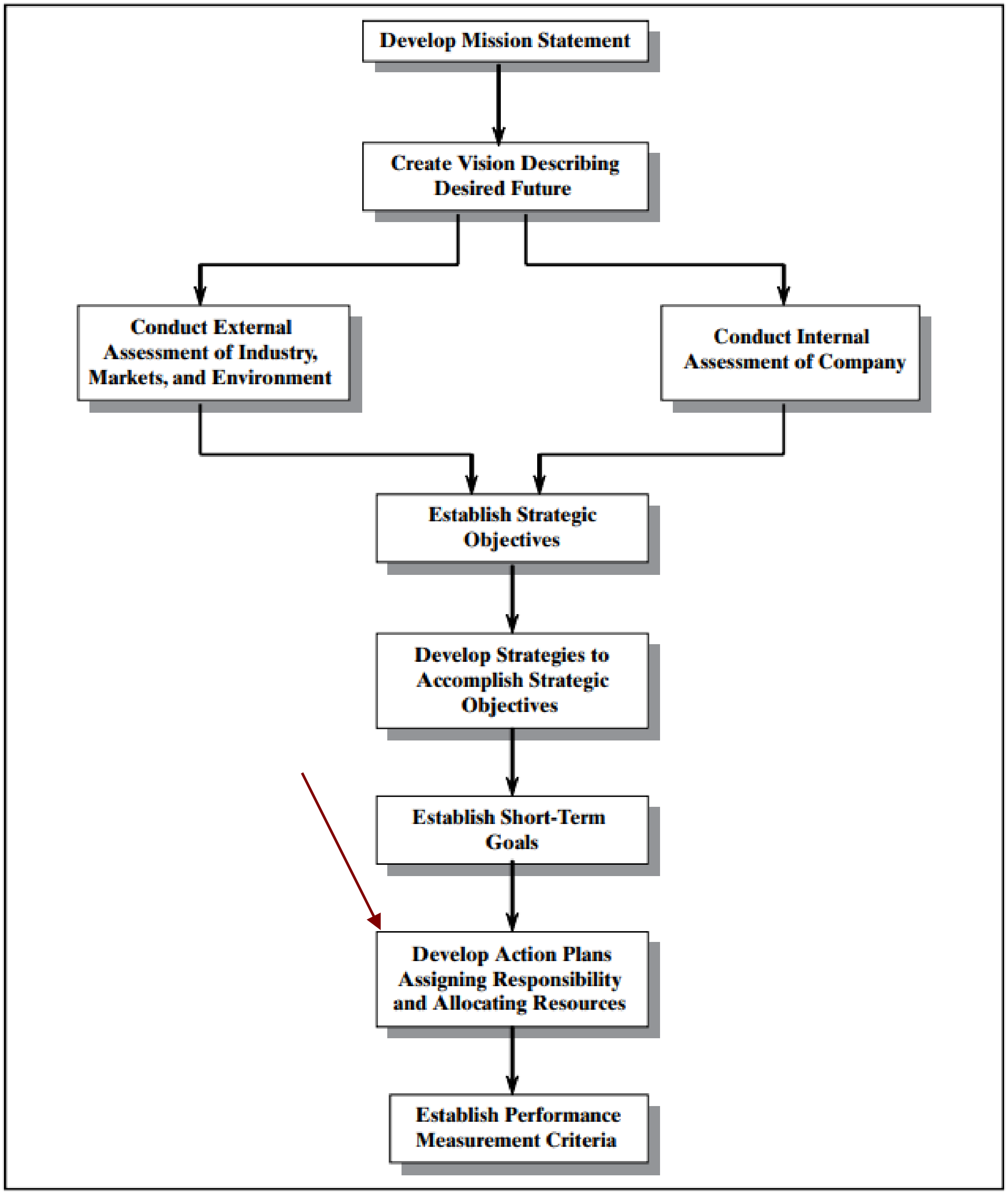
Strategic plan for pacific constructors



Company strategies and short-term goals

- **Short-term goals** are selected as **intermediate targets** toward accomplishment of **long-term strategic objectives**.
  - While the **planning horizon** for a strategic plan is typically **five to ten years**, the **planning horizon** for short-term goals is **one to two years**.
  - **Strategic plans** should be reviewed annually, and **new short-term goals** selected for the succeeding one to two years.
- **These short-term goals** are used for developing action plans that assign responsibility and allocate resources.

Strategic plan for pacific constructors



Action plans

- An **action plan** is
  1. An assignment of specific actions to an individual,
  2. An allocation of resources, and
  3. An establishment of a specific date by which the actions are to be completed.

Action plans

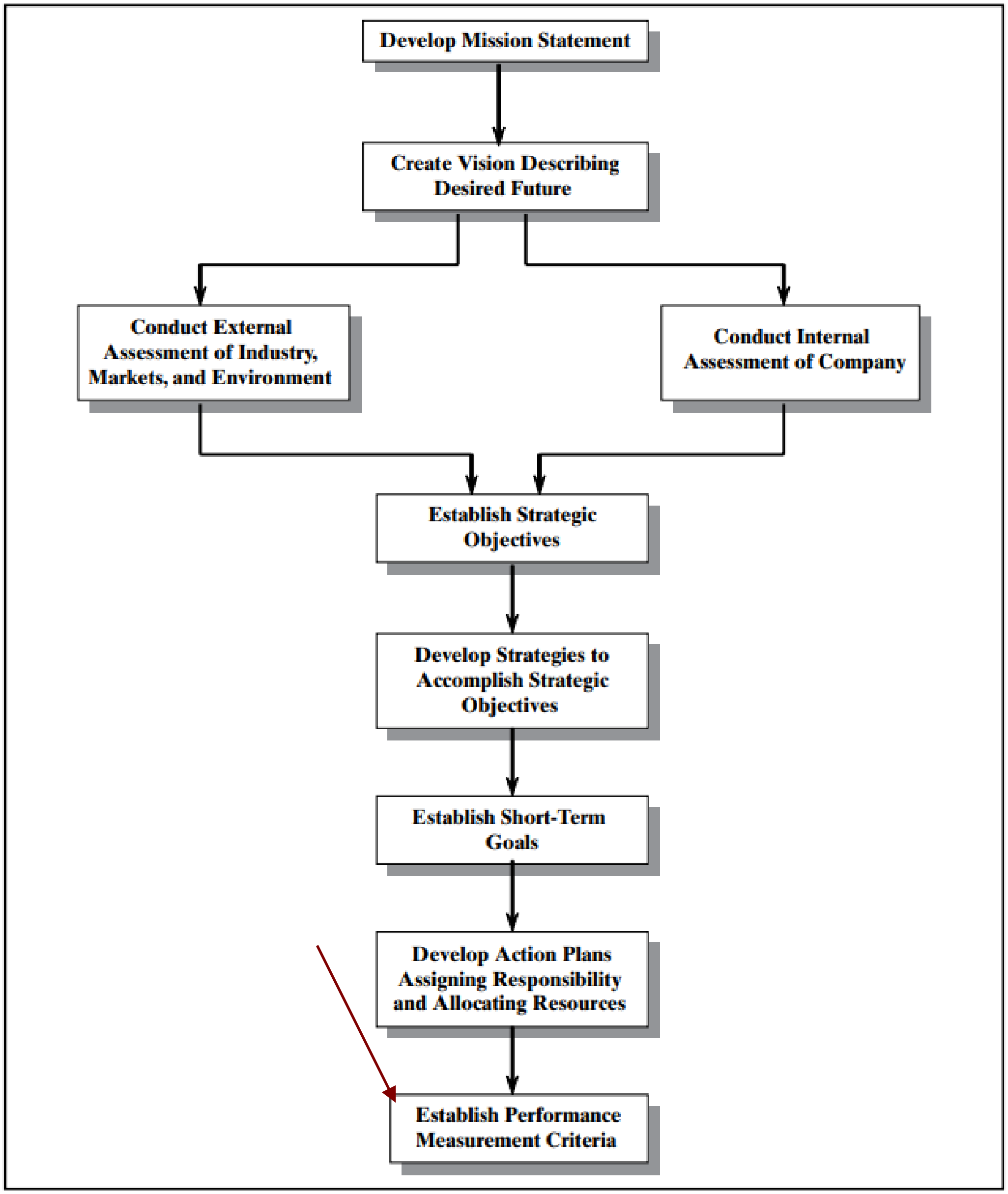
- These action plans should be developed for the **major business functions** within the company,

  such as marketing, financial management, project execution, human resource development, and information management.

- These action plans need to **specify**
  1. Which individuals will accomplish
  2. What tasks by
  3. What date with
  4. Which resources (people and money).

  Development of these action plans will be discussed in more detail under "Strategy Implementation."

Strategic plan for pacific constructors



Performance measurement

- Once the **action plans** have been developed,

  a **feedback structure** needs to be implemented to **assess progress** toward accomplishment of company goals.

- Since it costs **money to collect data**,

  it is important not only that **sufficient data be collected** to make a reasoned analysis of company progress,

  but also that **unnecessary data not be collected.**

Performance measurement

- Data collection must include **some form of feedback** from the company's customers to ensure satisfaction with the **services received**.
  - The **most common feedback system** is a monthly or a quarterly review and analysis of company performance.

Performance measurement

- Specific data are collected relating to
  - Business volume,
  - Profitability,
  - Cost of doing business,
  - Customer satisfaction,
  - Marketing initiatives, and
  - Employee development.

Performance measurement

- The **data** are **reviewed** by **company executives** to assess progress toward **meeting** company goals and objectives.
    - When the reviewed data indicate that **progress is not being made**, the executives need to determine the **reasons**.

Performance measurement

- Based on **this analysis**,

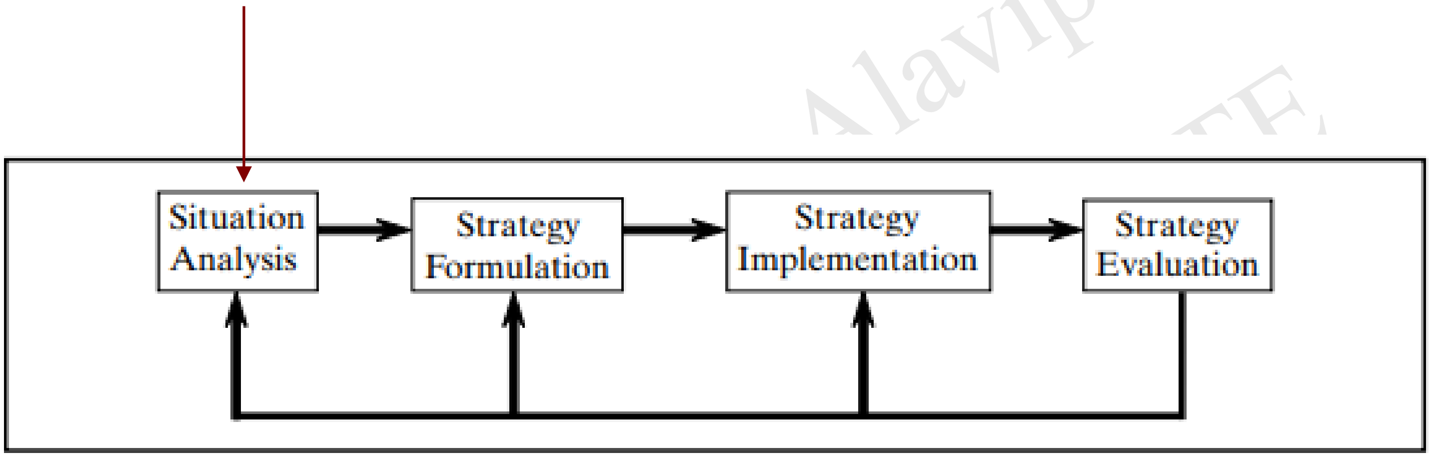
  parts of the strategic plan **may need revision**, as discussed earlier.

- This is where a **feedback mechanism** is required in strategic management.

Now let’s examine the four major steps in strategic management.

Situation Analysis

Strategic Management



Introduction

- Before selecting an appropriate set of company strategies, the company needs to analyze the **current situation**.

- This strategic assessment is sometimes referred to as conducting a **SWOT analysis**.

- The S and W refer to assessing the strengths and weaknesses of the company, and the O and T refer to forecasting future opportunities and the potential threats the company may experience.

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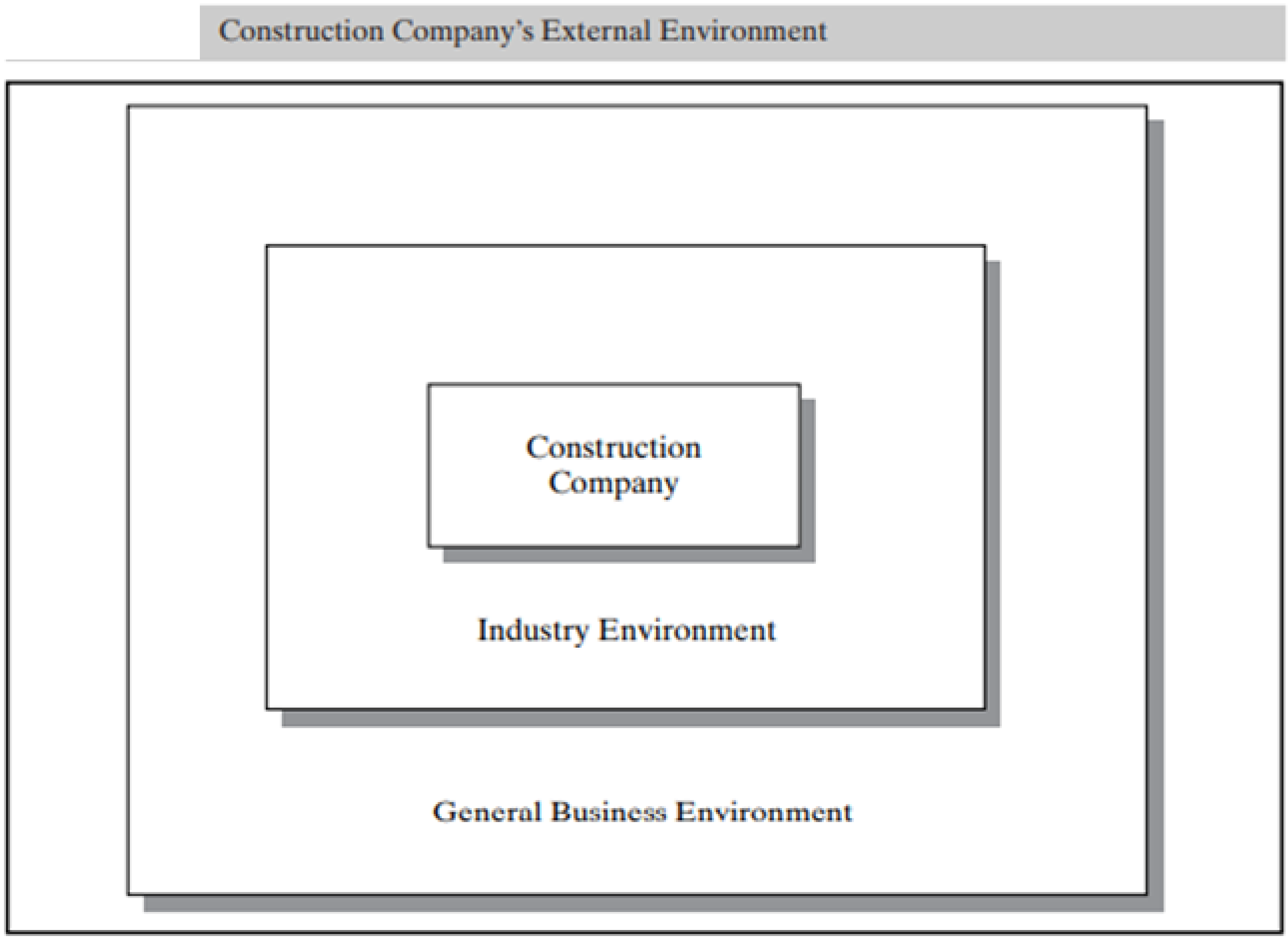
Introduction

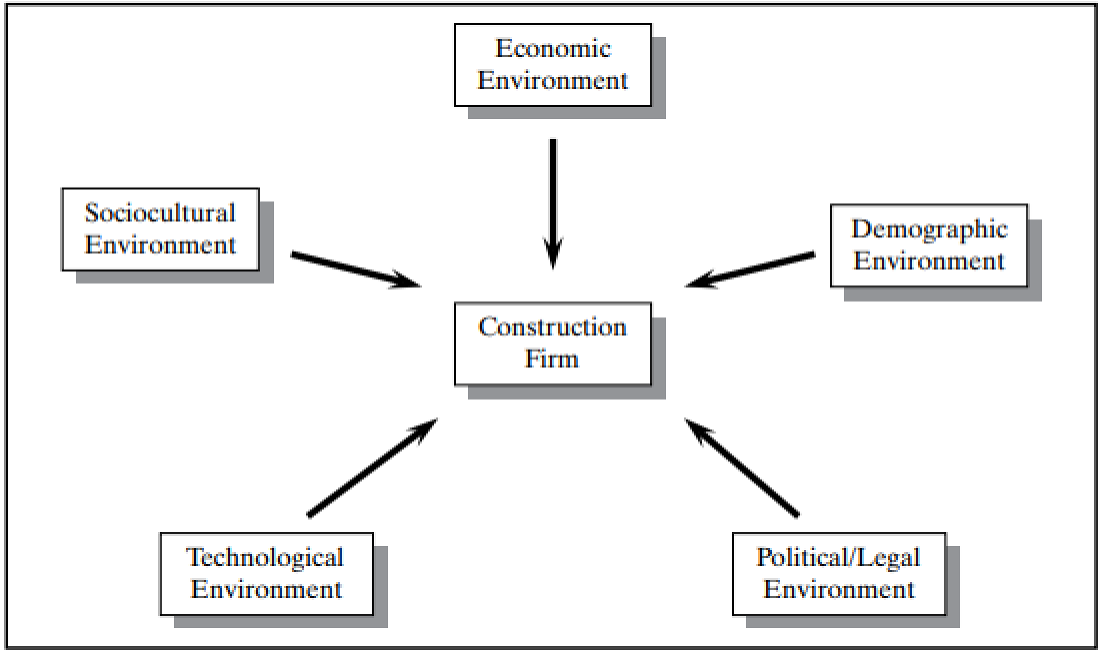
- The **reason** for developing the mission statement and the vision **before** conducting the situation analysis is to provide a **context** for **assessing** the **external environment** and the company's **internal capabilities**.

Strategic planning is concerned only with those issues that relate to the company's ability to accomplish its mission and vision.

External analysis – General business environment



External analysis – General business environment



General Business Environment

External analysis – Analysis of general business environment

Analysis of General Business Environment

Economic environment. Financing and commercial lending interest rates will increase to control inflationary pressures due to the growing economy. The rental/lease rates for commercial office and retail space are at high levels and are expected to increase by 5 percent over the next five years.

Demographic environment. The regional business forecast for the next five years is positive. Eighty percent of the employers in our market area report that they expect revenue growth and additional demand for workers over the next five years. Overall job growth is expected to average 2 percent, and population growth is expected to average about 3 percent over the next five years. Demand for commercial construction is expected to remain high because of the anticipated population growth. Construction labor will be in short supply and will impact the cost of construction.

Political/legal environment. Environmental concerns, attempts to limit the spiraling cost of construction, and concerns regarding maintaining and improving public infrastructure will result in increased governmental regulation of the construction industry and will complicate the permitting process. This trend could result in increased construction costs and place some downward pressure on the demand for commercial construction.

Technological environment. Building systems will become more sophisticated, particularly in the electrical and mechanical areas. More environmental-friendly building components will be developed, and there will be an increased use of composite materials. Web-based collaboration tools will be required by some customers, necessitating the training of company employees and major subcontractors.

Sociocultural environment. There will be an increased emphasis on reducing the environmental impact of construction. High school graduates and their parents will continue to undervalue careers in the construction industry.

External analysis – Analysis of specific industry environment

Analysis of Specific Industry Environment

Customer analysis. The company has a broad customer base, and the growing economy should provide opportunities for increased work. Customers are becoming more demanding and expect the general contractor to assume increased responsibilities for managing the permitting and design processes. Increased customer interest in the design-build delivery method is expected over the next five years.

Subcontractor analysis. Increased demand for quality subcontractors will increase their selectivity regarding the general contractors with whom they wish to work and provide subcontractors greater leverage in pricing their services.

Supplier analysis. The cost of construction materials and supplies is expected to increase by 4 percent per year over the next five years. Local high demand for supplies may result in supply shortages during the summer construction periods. These shortages will increase the bargaining power of suppliers.

Competitor analysis. The commercial construction market is highly competitive and increased market demand may result in new entrants or diversification of existing competitors. Current competitors may expand their service offerings to increase their market share and meet increased customer expectations.

Internal analysis

- To be able to select appropriate company strategies, it is important to determine
  - What the company **can and cannot** do well and
  - **What assets** it has and does not have.
- This is called an **internal analysis** or **internal assessment** of company strengths and weaknesses.
- It serves to **define** the existing conditions that are needed to **establish a baseline** for the development of a strategic plan.

Internal analysis

- Strengths are
  1. The **resources** that the **company possesses** and
  2. The **capabilities** that it has developed,

  which can be **exploited** to develop a sustained competitive advantage.

- Weaknesses are **resources** or **capabilities**

  that are **lacking** and **prevent** the company from developing a sustained competitive advantage

Internal analysis

- An internal analysis is the **process** of identifying and evaluating the company’s
  - resources,
  - capabilities, and
  - core competencies.

- Company resources include
  - Financial,
  - Physical,
  - Human,
  - Intangible, and
  - Organizational resources.

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Internal analysis

- There are **three basic approaches** that may be used in conducting an internal analysis—
  1. **A value chain analysis,**
  2. An internal audit, and
  3. An internal functional analysis.

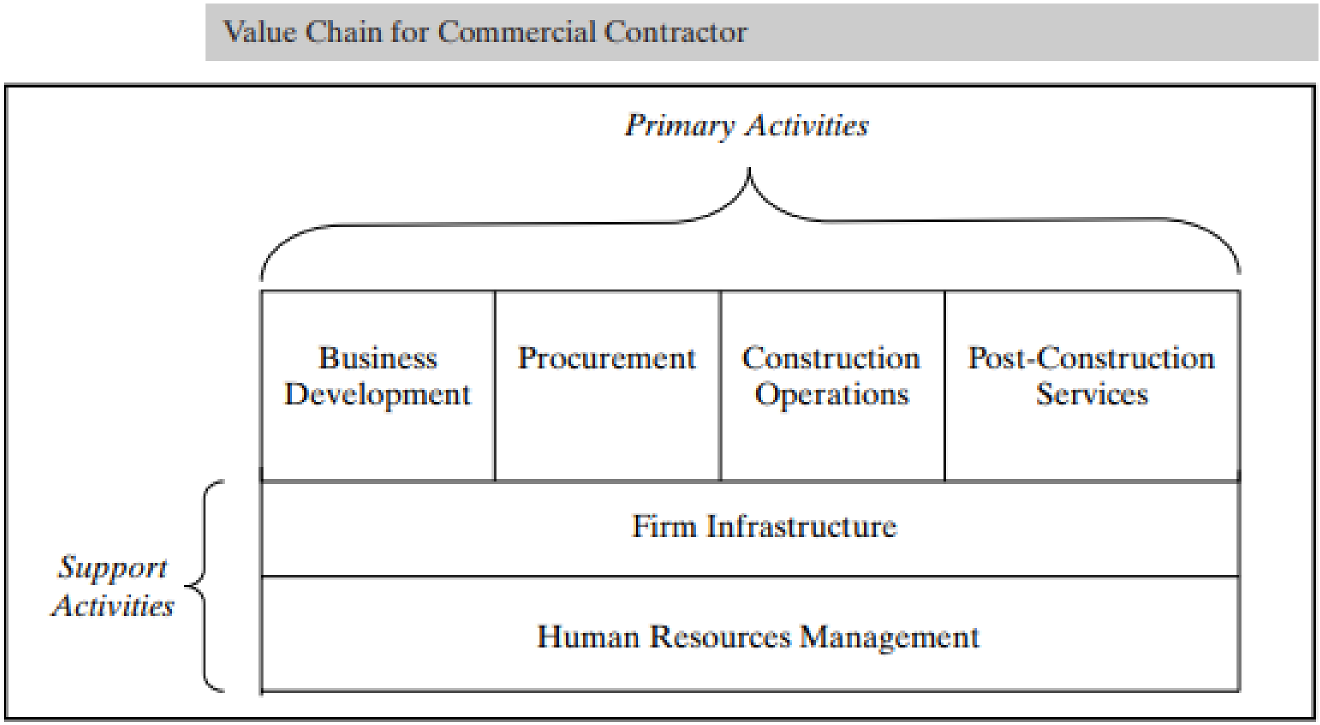
Internal analysis – Value chain analysis

- A value chain analysis is a **systematic approach** to
  1. **Examining** all of the company's functional activities and
  2. **Assessing** how well they create customer value.
- By **assessing** a firm's strengths and weaknesses **with respect** to each of these activities,

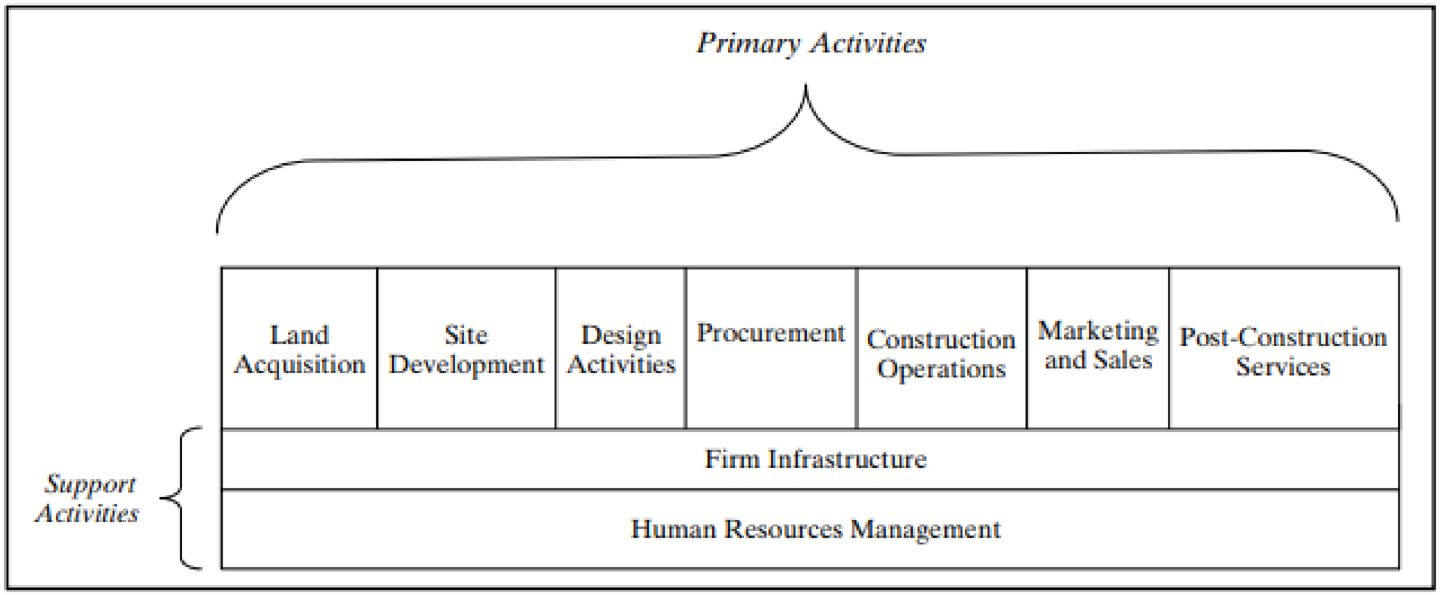
  managers can develop an **in-depth understanding** of the **company's capabilities.**
- Creating customer value is why the company exists, and

  strategic planners need to understand which values are important to customers.
- Identification of customer expectation is also a key element of the **external analysis** discussed previously.

Internal analysis – Value chain analysis



Internal analysis – Value chain analysis



Value Chain for Residential Builder

Internal analysis – Value chain analysis

- **Each of these activities** can be **further divided** for conducting a thorough internal analysis.
  - Each item is **then rated** as
    1. Poor,
    2. Below average,
    3. Average,
    4. Above average, or
    5. Excellent

    to create an overall assessment.

Internal analysis – Value chain analysis

- An example of a breakdown for the primary activities shown in previous Figure is as follows:

Business Development

- Effectiveness of market research in identifying customer needs
- Motivation and effectiveness of business development staff
- Loyalty of current customers
- Ability to attract new customers
- Dominance of company in desired market sectors

Procurement

- Relationships with subcontractors
- Efficiency and effectiveness of subcontracting procedures
- Relationships with suppliers
- Efficiency and effectiveness of material purchasing procedures
- Efficiency and effectiveness of submittal management procedures

Construction Operations

- Effectiveness of cost-estimating and cost control procedures
- Effectiveness of project scheduling and schedule control procedures
- Effectiveness of project management systems
- Effectiveness of quality management systems
- Effectiveness of safety management systems

Post-Construction Services

- Effectiveness of warranty management system
- Effectiveness of customer relationship development program

Internal analysis – Value chain analysis

- The support activities also can be further divided for detailed assessment as shown below:

Firm Infrastructure

- Adequacy and location of facilities and equipment
- Efficiency and effectiveness of finance and accounting system
- Efficiency and effectiveness of information management system
- Efficiency and effectiveness of business management systems
- Effectiveness of overhead cost control system

Human Resources Management

- Effectiveness of procedures for recruiting and developing employees
- Appropriateness of employee reward system
- Working environment
- Relations with unions
- Levels of employee motivation and job satisfaction

Internal analysis

- There are **three basic approaches** that may be used in conducting an internal analysis—
  1. **A value chain analysis,**
  2. **An internal audit, and**
  3. An internal functional analysis.

Internal analysis – Internal audit

- A second approach to conducting an internal analysis is to conduct an **internal audit**.
- This involves assessing the **company's major functional areas** to determine
    1. **If they have adequate resources** to perform their work activities and
    2. **How well they perform** their assigned tasks.
- The **primary functional areas** of a general construction company that should be audited are marketing, financial management, contract management, cost estimating, construction management, procurement, equipment management, human resources management, and information management.

Some key audit questions are listed below for each of these functional areas.

Internal analysis – Internal audit

Marketing

- What is the effectiveness of the company's marketing activities?
- What is the company's market share?
- What marketing tools are being used?
- How strong are the company's relationships with major customers?

Financial Management

- What is the company's current financial condition?
- Does the company maintain adequate working capital?
- What are the efficiency and the effectiveness of the company's accounting procedures?
- Does the company have an effective overhead budgeting and cost control system?

Contract Management

- Does the company have effective procedures to maintain all contract documents?
- Does the company have effective procedures to manager contract change orders?

Cost Estimating

- Do project cost estimates compare favorably with final project costs?
- Does the company maintain a cost-estimating database that is updated with historical project cost data?
- Does the company have effective procedures for estimating the cost impacts of change orders?

Construction Management

- Does the company have adequate quality control procedures to meet customer expectations?
- Does the company deliver projects on time?
- Does the company have effective safety programs and a good safety record?
- How does the project team manage project documentation?

Internal analysis – Internal audit

Procurement

- What are the company's relationships with subcontractors?
- How effective are subcontract procurement procedures?
- What are the company's relationships with suppliers?
- How effective are material procurement procedures?

Equipment Management

- Does the company equipment fleet generate a profit for the company?
- How are acquisition and disposal decisions made?
- Are realistic rates used to charge projects for the use of company-owned equipment?
- Does the company have an effective equipment maintenance program?

Human Resources Management

- What is the working environment within the company?
- What is the employee turnover rate in the company?
- What is the absentee rate among employees within the company?
- What employee training and development programs are available within the company?
- What type of reward system is used by the company?
- How effective are company recruiting efforts?
- What is the relationship between the company and the craft unions?

Information Management

- How is information managed within the company?
- Does the company use common databases to capture and manage company data?
- What paper or electronic files are retained and who manages them?
- Is information delivered efficiently and effectively?

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Internal analysis

- There are **three basic approaches** that may be used in conducting an internal analysis—
  1. **A value chain analysis,**
  2. **An internal audit, and**
  3. **An internal functional analysis.**

Internal analysis – Internal functional analysis

- The third approach to determining a company’s strengths and weaknesses is to conduct an **internal functional analysis**.

- This involves identifying and evaluating
  1. Firm’s resources,
  2. Capabilities, and
  3. Core competencies.

Internal analysis – Internal functional analysis

- Company resources include
  1. Physical assets,
  2. Financial assets,
  3. Human resources,
  4. Reputation, and
  5. Organizational assets.

Internal analysis – Internal functional analysis

- Company capabilities include
  - Management capabilities, such as leadership, decision making, and efficient use of company assets
  - Use of financial assets in terms of liquidity, leverage, and profitability
  - Technical skills of employees
  - Teamwork skills of employees
  - Capital and overhead budgeting procedures
  - Information management system
  - Human resources management system
  - Business development procedures

Internal analysis – Internal functional analysis

- Each company **resource** and **capability** is **evaluated** and rated as poor, below average, average, above average, or excellent.
- This will lead to **identification** of the company's core competencies, or major value-creating skills and capabilities.
  - Do these core competencies provide the company a competitive advantage in the market?
  - If so, they should be emphasized during the development of strategic objectives.
  - If not, they need to be supplemented with additional capabilities.

Internal analysis – Internal functional analysis

- An example of a set of core competencies for a construction firm is shown in Figure.

- Dedicated, hard-working, smart, and cooperative people
- Strong commitment to self-performed work
- Safe, efficient, and well-equipped crews
- Strong value-driven business
- Regional recognition for outstanding work
- Affiliation with quality owners with whom we enjoy doing business
- Strong team of partners (subcontractors, suppliers, bonding, banking, and legal)
- Geographic flexibility

Sample Set of Core Competencies

Internal analysis – Use of analysis results

- The objective of the internal analysis is to identify the company's strengths and weaknesses.
- This provides a **baseline** of the **firm's current posture** that will be used **in selecting**
  1. The strategic objectives and
  2. The company long-range strategies for their accomplishment.

*The goal is to **move** the company from its current position as described by the internal analysis to the **position described** in the company vision.*

Construction Strategy Formulation

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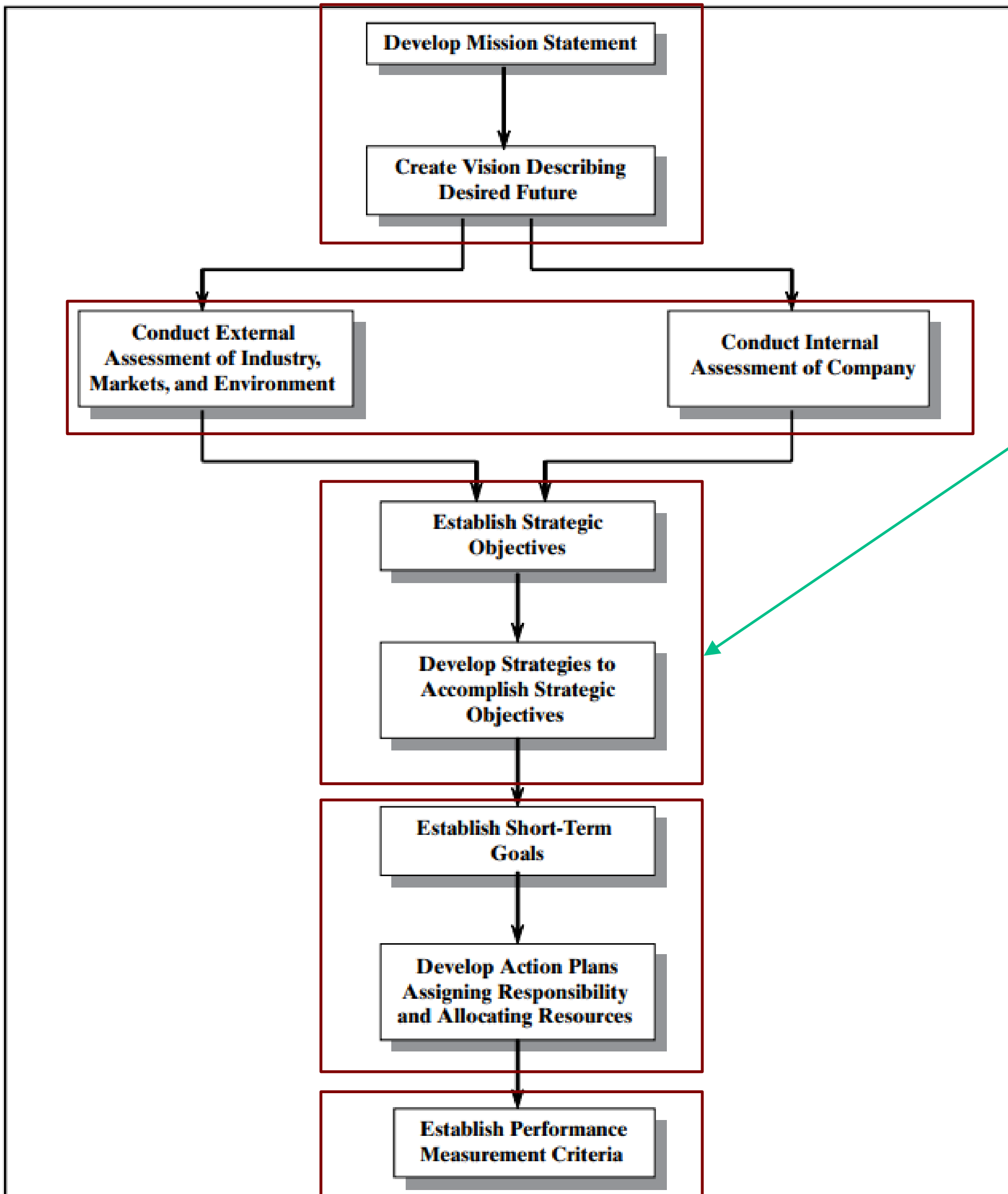
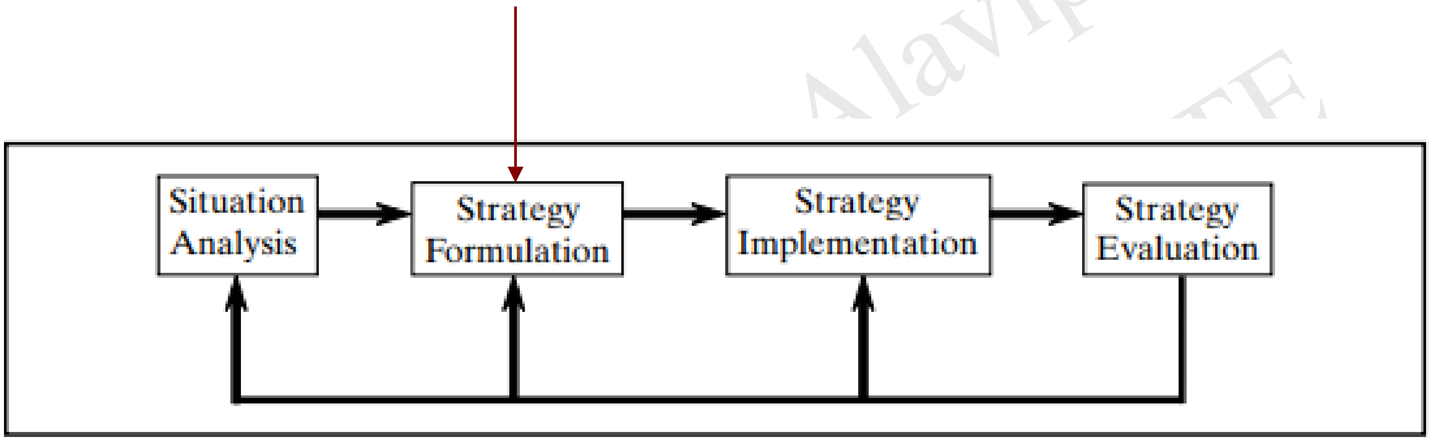
Strategic plan for pacific constructors



Strategic Management



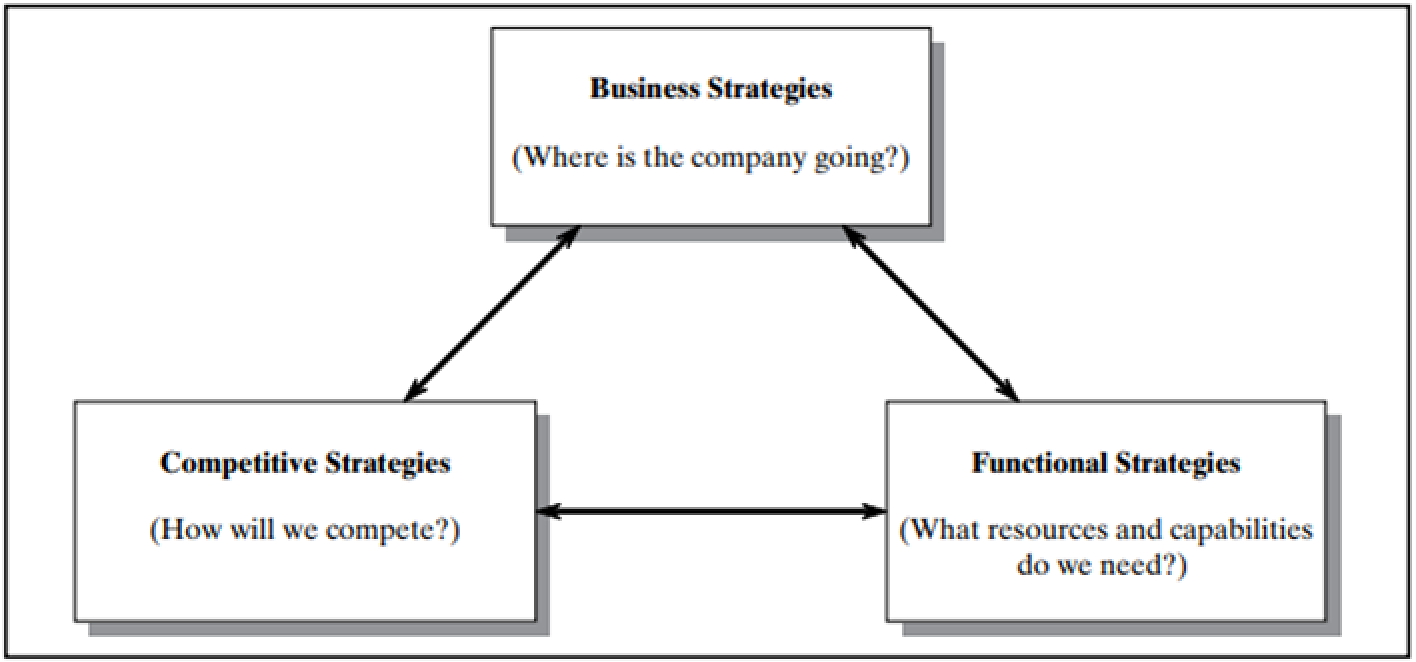
Company long-term objectives

- Company long-term objectives typically address the following issues:
  - Market standing
  - Innovation
  - Productivity
  - Physical and financial resources
  - Profitability
  - Managerial performance and development
  - Worker performance and development
  - Public responsibility

Company long-term objectives

- The following are some **examples of strategic objectives** that a construction firm might select:
  - Decrease long-term debt by $250,000 per year over next ten years.
  - Increase company profitability by 3 percent per year over next ten years.
  - Increase revenues by 5 percent per year over next five years.
  - Expand market into new geographical areas.

Levels of strategies



Levels of strategies

- Let's look at an example.
  - Suppose a construction firm has selected as one of its strategic objectives—

    Increase company **profitability** by 3 percent per year over the **next ten** years.

The strategies selected for accomplishing this objective may include the following:

Levels of strategies

Business Strategies

- Increase the number of customers by 5 percent per year by expanding services and implementing new marketing initiatives.
- Control cost of doing business to increase profitability.
- Enter the design-build market.

Competitive Strategies

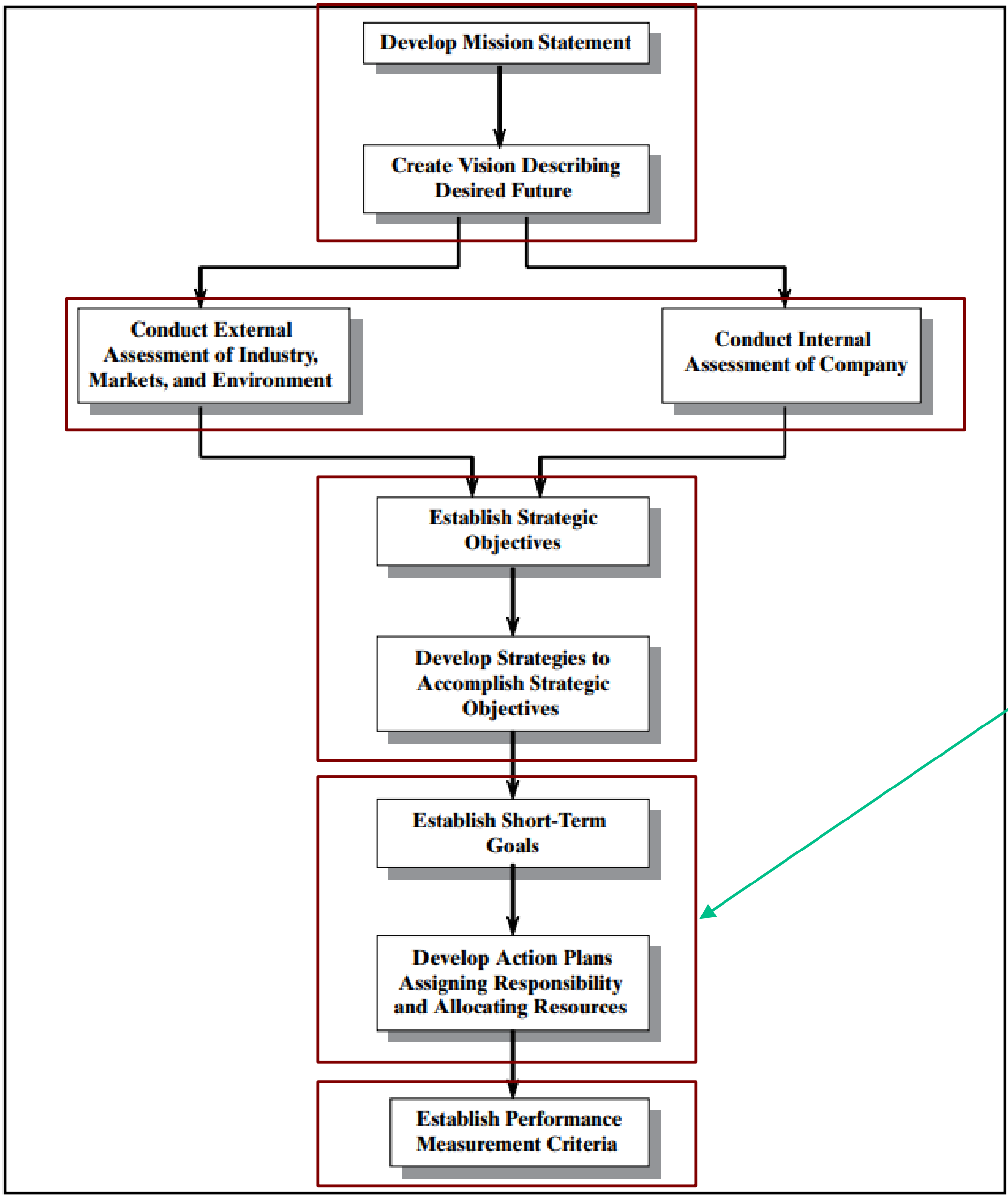
- Expand scope of service to include design-build by establishing partnerships with local design firms.
- Develop new marketing brochure to target new customers.
- Enhance recognition of company name by sponsoring charity events.

Functional Strategies

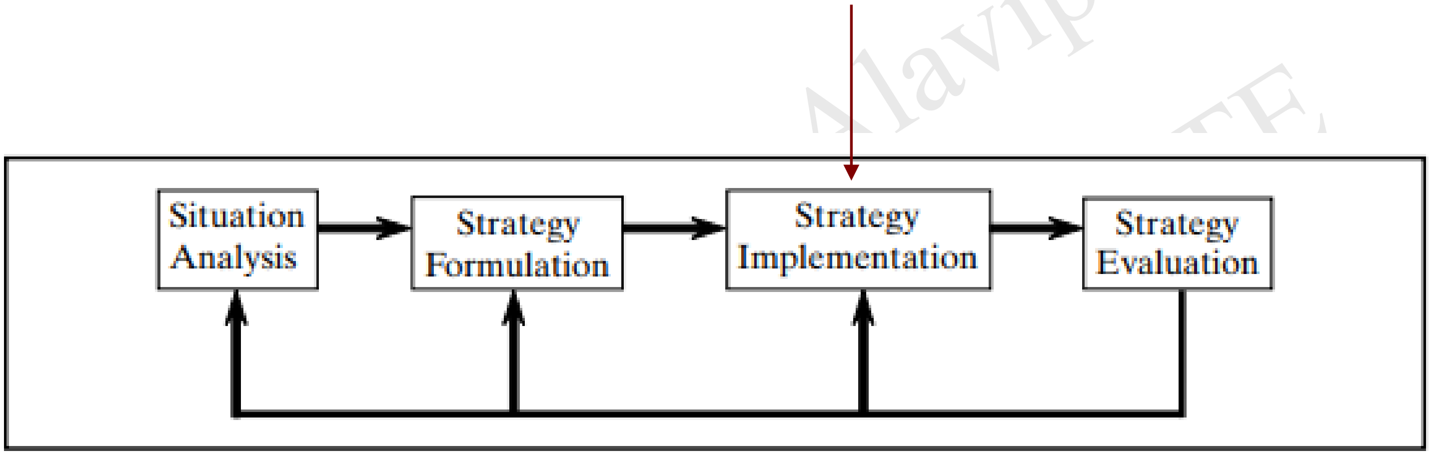
- Establish computerized project cost control systems to reduce cost of doing business.
- Establish a real-time overhead cost management system to control overhead costs.
- Recruit and develop additional staff to manage increased workload.
- Train project managers to manage design-build projects.
- Establish training program to train project managers and superintendents in presentation skills.

Strategy Implementation

Strategic plan for pacific constructors



Strategic Management



Strategy implementation

- **Once** the **company's long-range strategies** have been determined,
    1. Short-term goals are identified and
    2. Action plans are developed to implement the strategies.

Strategy implementation

- These **short-term goals** should be
  1. Specific,
  2. Measurable,
  3. Result-oriented, and
  4. Time-bound

  to guide the development of action plans.

Strategy implementation

- The **planning horizon** for these goals is **one** to **two** years.
  - Suppose a construction firm has decided to grow its business volume from **$50 million per year** to **$100 million** per year over the **next ten years.**
    - ✓ A **two-year goal** might be to increase the annual volume of work to $60 million per year.

Strategy implementation

Short-term goals are selected for each of the **strategic objectives** previously identified.

Company long-term objectives

- The following are some **examples of strategic objectives** that a construction firm might select:
  - Decrease long-term debt by $250,000 per year over next ten years.
  - Increase company profitability by 3 percent per year over next ten years.
  - Increase revenues by 5 percent per year over next five years.
  - Expand market into new geographical areas.

Strategy implementation

- Using the business, competitive, and functional strategies,

  action plans are developed to

  1. **Assign responsibility** for goal accomplishment and
  2. **Allocate resources**.

Business Strategies

- Increase the number of customers by 5 percent per year by expanding services and implementing new marketing initiatives.
- Control cost of doing business to increase profitability.
- Enter the design-build market.

Competitive Strategies

- Expand scope of service to include design-build by establishing partnerships with local design firms.
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- Establish training program to train project managers and superintendents in presentation skills.

Strategy implementation

- **Each action plan** identifies
  - The goal to be accomplished,
  - Who has responsibility for its accomplishment,
  - What resources (both people and financial) are assigned, and
  - When the goal is to be accomplished.

Strategy implementation

- Forms similar to the example shown in Figure may be used for developing action plans.

Date: *January 15, 2008*			
Goal: *Increase business volume by 2% per year over next two years.*			
Assumptions: *Demand for construction will grow by 3% per year during the next two years, but contractor capacity will increase more rapidly so that the availability of construction services will continue to exceed customer demand.*			
Action	**Responsible Person**	**Resources Allocated**	**Date to be Accomplished**
Identify 25 potential new customers per year	Chief, Business Development Department	$40,000 per year plus one new staff member	January 15, 2010 (progress to be monitored quarterly)
Target the desired new customers by assigning project managers to cultivate relationships	Vice President for Construction Operations	$50,000 per year for cultivating relationships with new customers	January 15, 2010 (progress to be monitored quarterly)
Enhance relationships with existing customers to obtain additional work	Vice President for Construction Operations	$85,000 per year to enhance relationships with current customers	January 15, 2010 (progress to be monitored quarterly)

Strategy implementation

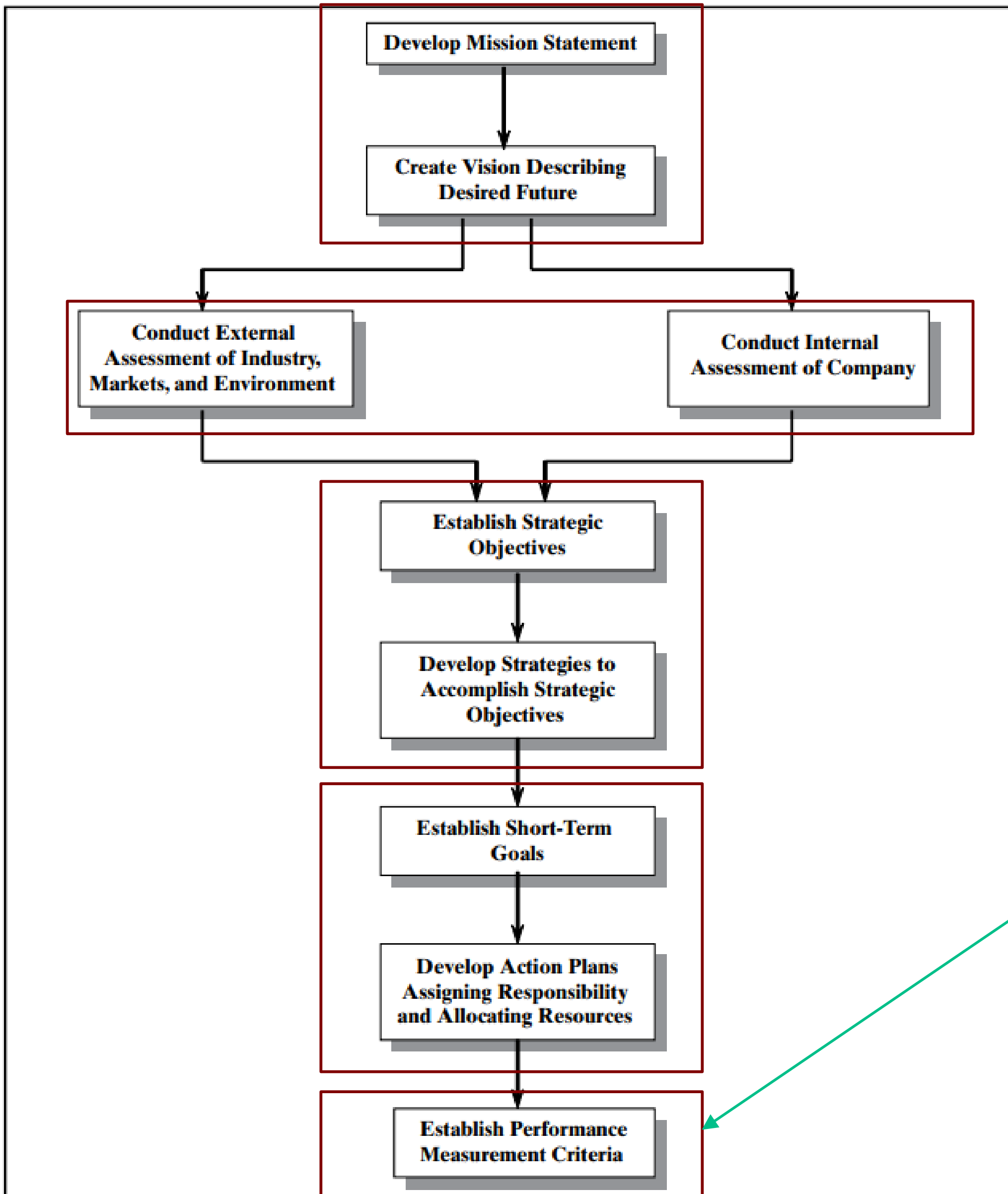
- The **resulting strategic plan** contains a series of action plans that assign responsibility and allocate resources.
- Because the future business environment may not evolve as forecast,

  a contingency plan should be developed to **identify alternative strategies** to **adjust** to

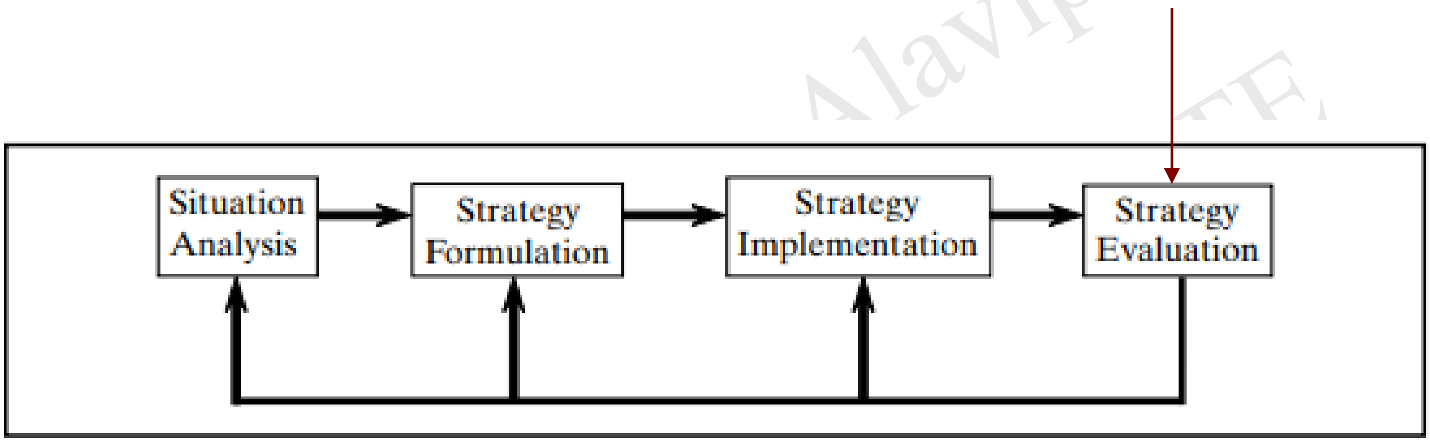
  1. Reduced demand for the firm's services,
  2. Increased competition, or
  3. Different government regulation.

Strategy Evaluation

Strategic plan for pacific constructors



Strategic Management



Strategy evaluation

- Strategic management is an iterative process that requires monitoring and periodic revision.
- **Company performance** may be reviewed monthly, but a quarterly review and analysis is **more typical.**
- **Data** relating to accomplishment of the firm's strategic objectives are collected and analyzed to determine whether or not **progress** is being made toward **accomplishment** of the short-term goals.

Strategy evaluation

- The **specific data collected** may include
  - Contracts awarded,
  - Profitability,
  - Cost of doing business,
  - Customer satisfaction,
  - Marketing initiatives,
  - Employee recruitment,
  - Absenteeism, and
  - Employee losses

Strategy evaluation

- **For example**, data that would be collected **quarterly** and evaluated for the action plan shown in **previous Figure** would include
  1. Value of work acquired during the quarter,
  2. Number of prospective customers identified,
  3. Prospective customer contacts by project managers, and
  4. Current customer contacts made by project managers

Date: *January 15, 2008*

Goal: *Increase business volume by 2% per year over next two years.*

Assumptions: *Demand for construction will grow by 3% per year during the next two years, but contractor capacity will increase more rapidly so that the availability of construction services will continue to exceed customer demand.*

Action	Responsible Person	Resources Allocated	Date to be Accomplished
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Strategy evaluation

- The data are **reviewed** by company executives to **assess the progress** related to **accomplishing** the company goals and objectives.
- **Planning assumptions** may need to be reexamined, and goals or action plans modified.
- **Annually**, the **entire plan** should be assessed, and adjustments made where appropriate.
- Generally, the mission statement and vision do **not need to be revised**, **but** the external forecast and the internal conditions need to be **reassessed**.
- **Strategic objectives** may need to be **modified**, and **alternative strategies selected.**

Sample of

Strategic Planning for Construction Businesses

ACEMI

Strategic plan for pacific constructors

- See File **Strategic plan for pacific constructors**

ACEMI

Sample construction firm five-year plan

- An **example** of one company's **five-year plan** is shown in Figure.
- Most of these sample goals are **worthy ones** for any company to pursue.
  - However, the goals for each company must be **geared to the specific needs** of that particular firm.
- If a company has a small structure, rural location, or informal client base, for instance,

  such that the goals shown in this example are too lofty or ineffective, of what use are they?

Sample construction firm five-year plan

Goals for ABC Construction Corporation

I. Growth Plan for Next Five Years
   1. Determine strategy
      a. Dominating: Acquire dozens of customers and quickly
      b. Engaging: Acquire many customers in a patient way
      c. Analytical: Acquire the right customers who are detailed oriented like us
      d. All three: Specialize in niche market
   2. Determine structure
      a. Dominating: Top-down command and control
      b. Engaging: More participatory
   3. Create business plan
      a. Small firm may have a verbal one
   4. Determine additional functions to reach goals (safety, purchasing)
   5. Determine personnel additions/changes needed to reach goals
      a. Safety director, purchasing director

II. Plan and Implement Process Improvement
   1. Pre-bid/bidding/pre-job
      a. Formal or informal
      b. Measured or spot checked
      c. Follow-up

Sample construction firm five-year plan

2. Construction
   a. Many checks and balances
   b. Owner checking every project or a subordinate
3. Closeout/post-job
   a. Only on problem projects
   b. All projects
   c. All personnel

III. Create Target Marketing Plan
1. Review successful projects
2. Define best type of work, customer, and geography
3. Measure progress toward goal

IV. Create Metrics for Measuring Business Processes
1. Pre-job planning
2. Resource scheduling
3. Weekly field planning by foreperson
4. Field planning processes
5. Closeout processes
6. Others

V. Review and Create Dual Overhead Recovery Rate
1. Create annual budget
2. Determine appropriate rate
3. Test model on past and existing projects
4. Train
5. Implement
6. Monitor

Sample construction firm five-year plan

VI. Implement Estimating Software Package (after bid process is refined) 1. Use task force 2. Diverse group 3. Understand information needed for other parties. 4. Capture and input production rates
VII. Implement Earthwork Construction Planning Software 1. As the job size grows this will be one of the keys to efficiently planning the work
VIII. Create an Operations Committee 1. Should be headed by company president 2. Good laboratory for growing personnel
IX. Review and Modify, if Necessary, Incentive Program in Relation to Corporate Goals and Strategy 1. Incentives 2. Initiatives directed through incentive plan 3. Metrics created for measuring business processes and improvement 4. Measurement will be essential for validating improvement and monitoring individual behavior

Cautions As You Consider Strategic Path

Cautions as you consider strategic path

- Certainly, people will **start investigating** your jobsites and clients **if they think you are on to something profitable**.
- This is the reason not to give out information freely.
  - ✓ *For example, consider keeping signs off jobsites and buy material from out-of-town suppliers.*
  - ✓ *Make those who want to know earn the knowledge.*
  - ✓ *In the meantime, you may be able to buy several months of time before the herd of competition enters the market.*

Cautions as you consider strategic path

- An additional benefit of **extra time** is being able to work on the cost of business.
  - As other companies enter the market, **price will become an issue**.
    - However, if you have **reduced cost** during this interim period,

      then your proposal or bid can be **less** **but** with the **same margin percentage**.

Cautions as you consider strategic path

- Your **people skills** have to drive the plan.

  For example, if they **aren't capable** of

  - Promoting and
  - Selling

  the services of a new business unit,

  don't ask them to.

- In addition, do be **very careful in hiring a new manager** to lead that effort.
  - Statistically, the **odds** are that this new employee (as with all new employees) **will not work out.**

Cautions as you consider strategic path

- You know your people will try to **follow your demands.**
  - But again, **don't ask them** to do something that is **not in their character or training**.
    - ✓ One effective management concept states,

      "Pick the employee who is trained and skilled— not the one who will just try."
- Long term, we need that **consistent effort** of someone who
  - Understands the challenge and
  - Has the skills needed for whatever the new venture is—

    not the employee **who will just try hard**.

The former is a low-maintenance employee and the other is a high-maintenance one.

- The **difference** is the **demand** on your executive time.

Cautions as you consider strategic path

- **Acquiring another business** can be very efficient in growing revenue and service offerings in construction contracting.

- There are always **construction companies** that are **excellent** in their technical skills but **mediocre** in their business processes.
  - Sometimes, a company like this is open to **merging** with your firm.
    - ✓ In the end, **everyone is happy** as
      1. You take over the office headaches and
      2. Your firm acquires a new higher-margin skill set.

Cautions as you consider strategic path

- People do **get tired** of our business and **want to work normal hours** with less stress.
  - Family concerns may be the driving motivation.
  - Health may be another.

No matter the cause, keep an ear out for these situations.

Cautions as you consider strategic path

- The **highest value** in construction is the qualified craft hour.
  - Acquiring a firm with **proven field people** may allow you to **enter a market without having** to be the **low bidder.**

- By acquiring a company, you can **upgrade your craftsmanship**.
  - **Quality** journeyman, operators, and field supervision **takes years** to develop.

Cautions as you consider strategic path

- The process has to be **quantitatively** driven—**not** based on all **emotion.**
  - The careful strategic process allows the **data to prompt** discussion.

- **Thinking** through the resulting **issues** and **insights** allows companies to outthink and outmaneuver their market peers.

Cautions as you consider strategic path

- **When checking back** the next year, all objectives **might not** have been reached.

- Also, you **might find people less enthusiastic** about strategic planning and the upcoming company workshop.

  The reason: Employees are hired for the work at hand, not the strategy.

  Too many action items means you may not achieve them all.

Compliance with the processes

- Operationally successful contractors have used the same **basic processes** (for example planning, communicating, measuring, and adjusting) over the **last hundred years.**

- The **profitable contractor** has a **systematic mentality** without exception.

- **Building a culture** of compliance gives construction firms a **huge advantage**.

The clients for whom you do the work

- Some people pursue **government work** and do quite well.
- They know **how** to **navigate** the **paperwork** and deal with the **personalities**—

  you **can't learn** that in a course,

  but **experience** gained **over time** is a must.

  - As an example, the **change order process** is well established.
    - ✓ So, the contractor can have a **reasonable discussion** with the client about it and expect a **fair-minded settlement**.

The clients for whom you do the work

- **Your clients** are a **major part** of the reason you are low or high on the risk-reward curve.

The locations in which you do the work

- There are **some places** where contractors **fare better financially** than the average contractor.
  - If you **focus on those locations**, you will immediately increase your corporation **ROI**.
    - ✓ Remember, if you do well in these spots and focus your efforts there, then you will, by default, **exclude** the <u>lesser ROI locations</u>.
      - These factors are all determined by a **quantitative method**.
        - Certainly, this is **not how you run** your business, but it is how you **start discussions** about what to do.

          However, by **using quantitative methods** you can get to a higher ROI <u>faster</u> and with less scar tissue <u>(risk)</u>.

The locations in which you do the work

You can find detailed explanations of some methods in Matt Stevens, Managing a Construction Firm on Just 24 Hours a Day (New York: McGraw-Hill, 2007).

Exercises

Exercises

1. What factors would you consider in assessing the general business environment for a construction company?
2. What factors would you consider in assessing the specific industry environment for a construction company?
3. What factors would you consider in preparing a customer analysis for a construction company?
4. How would you conduct an internal assessment using a value chain analysis approach?

Homework

1. You are the president of a general construction company that is currently doing about $10 million in business per year. One of the company's strategic objectives is to increase the volume of work by 50 percent in the next ten years. What specific strategies do you suggest the company adopt to achieve this objective?
2. You are the president of a construction company that specializes in the construction of shopping centers. What is your assessment of the general business environment in your local area for this type of company?
3. One of the strategies in your firm's strategic plan is to identify a suitable design firm with whom you could establish a joint venture and then pursue design-build projects. Write an action plan for implementing this strategy.

مدیریت کسب‌وکار در صنعت ساخت
(Construction Business Management)

ماژول ۱: سازمان‌دهی کسب‌وکار

بخش سوم: بازاریابی و مدیریت بازار

ارائه دهنده:

سید محمدرضا علوی‌پور

(PhD, PMP, CMIT)

CMAA Authorized Trainer

دانشگاه Illinois Tech آمریکا

What we will learn?

- Business Development
- Marketing Construction Services
- Construction Market Cycles
- Marketing Process
- Marketing Analysis
- Marketing Strategies
- Marketing Tools
- Marketing Plan
- Acquisition of Work
- Common Marketing Rules for Contractors
- Comparing Market Share and Profits: A Quantitative Method for Marketing and Selling

What we will learn?

- Earning New Markets
- Selling
- Customer Service
- Creating Customer Loyalty
- Common Errors in Selling in Construction
- Estimating Cost and Proposing Price
- Bidding: The Price Proposal Process
- Exercises

Business Development

Introduction

- **Business development** is the process of acquiring business for a construction company.
- This means
  1. **Retaining** those customers the **company wishes** to retain
  2. As well as **acquiring new customers** with whom the **company desires** to do business.
- The basic components of **business development** are marketing and sales.

Marketing

- Marketing is the process of
  1. **Retaining** existing customers,
  2. **Identifying** prospective new ones, and
  3. **Attracting** new customers to consider the construction firm as their service provider.

Marketing

- Typical **marketing functions** include
    1. Market research,
    2. Public relations, and
    3. Advertising.

Marketing

- **Marketing activities** occur prior to a sales contact and include
  1. Generating leads
  2. As well as networking to identify and screen prospective customers by learning their needs and attitudes.
     - The objective is to **attract customers** to the company.
- It is about
  1. **Constant renewal** of existing relationships and
  2. **Forging new ones**.

Sales

- Sales is **contacting** a specific potential customer identified

  by the **marketing process** and

  winning the construction contract.

Typical **sales functions** include?

Sales

- Typical **sales functions** include
  1. Making presentations,
  2. Submitting bids or proposals,
  3. Negotiating, and
  4. Executing contracts.

Sales activities are customer focused and

occur just?

Sales

- **Sales activities** are customer focused and

  occur just

  1. Prior to,
  2. During, and
  3. After

  a sales contact.

Sales

- The **business development process** for construction services is shown in next Figure.
- **Most construction firms** are marketing a service

  rather than

  a product,

  because

  1. The **construction site** has been selected by the project owner, and
  2. The design has been completed by a design firm.

Residential construction companies, however, often?

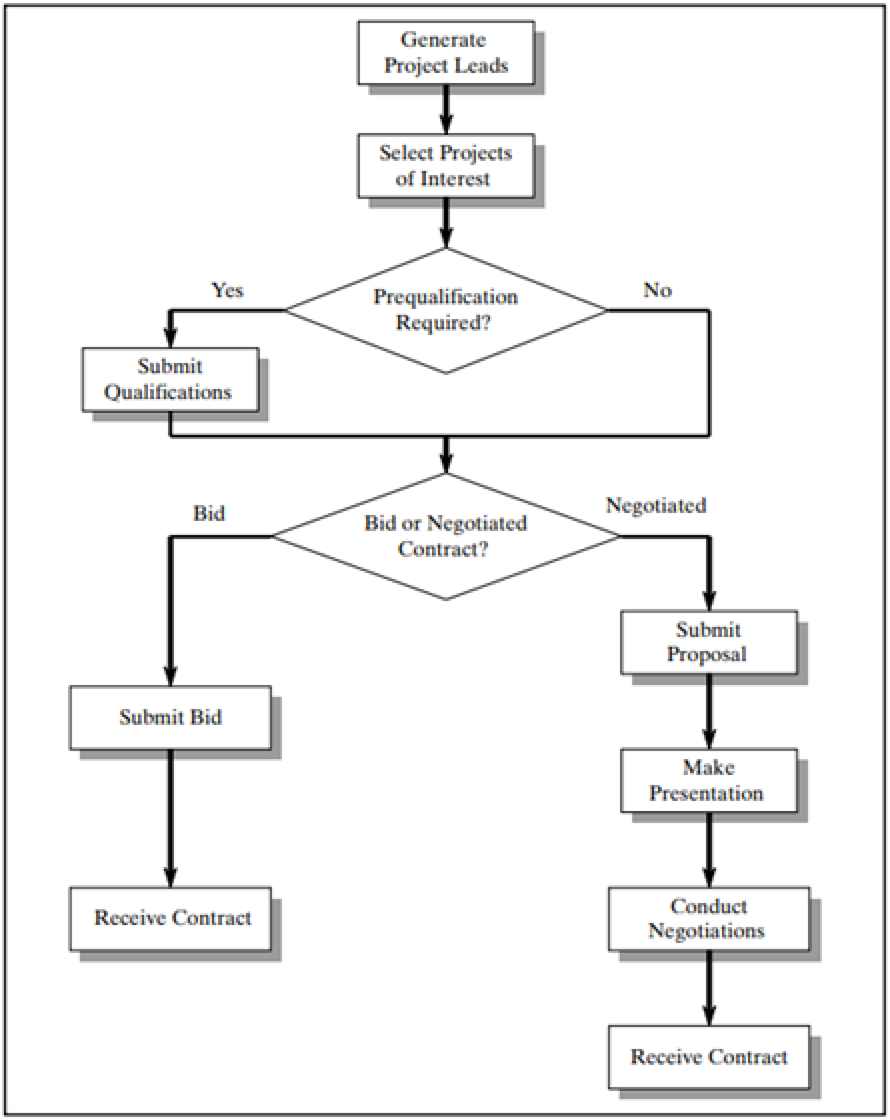
Sales

- Residential construction companies, however, often
    - Purchase a parcel of land,
    - Construct the utility and street infrastructure,
    - Construct homes, and
    - Then market the homes,

  which are products.

    - ✓ To be **successful**, these companies must understand the **product features** desired by customers.
        - **Model homes** are often used as **marketing tools** to show prospective customers **product features**.

Sales - Business development process for construction service



Strategic plan and marketing

- The strategic plan **identifies**
  1. The type of construction services to be offered by the firm (for example, construction only, design-build, or turnkey),
  2. Its geographic service area, the size of projects to be undertaken (such as $10 million to $25 million), and
  3. The types of projects and customers (public, private, or both) to be pursued.

Strategic plan and marketing

- **Historically**, marketing was performed on a **part-time basis** by company **owners** and **senior executives**.
- Marketing activities were generally **limited** to brochures and advertising.
- This has changed since the **1990s,**

  as most **medium** and **large construction** firms have established **professional marketing staffs.**
- The **marketing staff** tends to be an information gatherer providing information to

  company executives,

  project managers, and

  superintendents

  who actually make the sale.

Strategic plan and marketing

- **Most successful** construction companies recognize that **customers purchase** services from people, not firms, and that **relationship** building generally is critical to making sales.
  - Thus the people who deliver projects are often assigned the **responsibility** for cultivating and nurturing **relationships** with
    - Customers,
    - Subcontractors, and
    - Suppliers.

Strategic plan and marketing

- In this section, we will discuss the basic steps in **developing a marketing plan**.
  1. First we will **examine** the marketing process and some concepts for analyzing the company’s market.
  2. Then we will **examine** the development of marketing strategies to target prospective customers and some of the tools that can be used to accomplish the marketing objectives.
  3. Finally we will discuss the **development** of a marketing plan and the acquisition of work.

Marketing Construction Services

Basic concepts

- The basic function of marketing is to **create business opportunities** for the company.
- It involves **everything that the company does**, from
  - the appearance of its project sites and
  - its reputation for safe work to
  - its company logo and
  - the quality of its business correspondence.

Basic concepts

- Strategic marketing activities are undertaken by the firm to enhance
  1. Its name recognition and
  2. Reputation within the industry.

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Basic concepts

- Tactical marketing activities are used to

  target specific current or prospective customers.

- Internal marketing activities are used to

  keep the **employees motivated**

  to provide **quality** customer **service**.

Marketing construction services

- **Marketing** in the construction industry is quite different from **marketing** in many **other industries.**
  - Most construction companies are marketing a service, **not a product.**
    - ✓ Generally, the **product** is described
      - by a set of construction plans and specifications, or
      - in the case of design-build,
      - a set of design criteria.

Marketing construction services

- Construction firms market their services by **emphasizing** their ability to meet or exceed customers' criteria in terms of

  construction

  1. Cost,
  2. Time,
  3. Quality, and
  4. Safety.

- To many customers, **achieving** a specific project delivery date is more important than a **minimum-cost project**.

Reputation in marketing

- The most important **marketing resources** are the firm's reputation and its satisfied customers.

- Success depends on a **firm's ability** to develop enduring relationships with targeted customers by **continually** meeting or exceeding their expectations and needs.

This requires?

Reputation in marketing

- This requires
  - An **understanding** of the process by which potential customers are drawn to specific construction firms and
  - Become **repeat customers** and
  - An **understanding** of the customers' specific project requirements.

Retaining customers

- Retaining customers requires **every employee** to understand his or her responsibilities toward achieving **customer satisfaction**, because **customer service** is the most critical element of success in the construction business.

Internal marketing

- Internal marketing is needed to **ensure** that the company's employees understand

  1. Market and customer demands,
  2. Their individual roles in achieving customer satisfaction, and
  3. Their roles in achieving the company's strategic goals and objectives.

Cyclical periods

- In most construction markets, the **demand** for construction services is cyclical with periods of strong demand followed by periods of weak demand.
- To be successful during periods of **weak demand**, construction firms must be resourceful, innovative, and focused on relationship building.
- They need to develop
  - Good reputations for quality work,
  - Reasonable pricing,
  - Timely delivery, and
  - Good customer service.

Construction Market Cycles

Construction market cycles

- **Not everyone** in the construction industry fully **understands the cyclical nature** of the construction market.
- The construction market is **cyclical**, and has been for a while, **since at least WWII**.
- **When** the US **economy cycles down**, the construction market **continues to grow or flatten out** for 12–18 months, and **then cycles down**.
  - The reason for this lag is that the **majority of the construction projects** in progress and those already funded usually continue through completion.
    - ✓ During this lag, planned projects begin to be defunded and **fewer new projects are planned**, so the **backlog** to replace the work that is being completed **eventually falls off**.

Construction market cycles

- When a US economic downturn bottoms out and **begins to recover**, the **construction market lags** the economic recovery and continues to decline.
  - The reason for this lag is that
    1. It takes time to decide **which new projects** will move forward, and
    2. Additional time to design those projects.
    3. It also takes time to **fund them**, to seek **approvals and proposals**, and to **contract** for the projects to be constructed.

As the construction market begins to grow again, it usually takes from **12 to 18 months** for it to rebound to its pre-downturn size.

Impact of downturns

- Looking at a **construction company**,

  the **work priced** during the **healthy economy**, prior to a decline, is generally **profitable**.

  - However, while that work is **being completed**, the amount of work in design and funding stages is **declining**, as mentioned earlier.

    - ✓ When a construction company's **backlog begins to fall off**, the **pressure** is on.

Prospering** in cyclical markets and surviving a downturn **begin with?

Impact of downturns

Prospering *in cyclical markets and surviving a downturn* ***begin with***

recognizing what will happen *in the marketplace as soon as the* ***market softens****.*

- The result is **somewhat predictable** and

  has occurred **without fail** in every major construction industry down cycle **for the last 70 years**,

  starting with a **buyer's market.**

Buyer’s market

- When there are **fewer projects** in any market,
    1. A buyer’s market develops,
    2. Competition intensifies, and
    3. Prices and potential profits diminish.

The **ideal** in a <u>shrinking market</u> would be for each contractor to?

Buyer's market

- The **ideal** in a shrinking market would be for each contractor to **accept proportionately less work** so that the market share of each business is maintained.
  - However, there is a **tendency in our industry to**
    1. **Resist** any reduction and
    2. **Compete vigorously** for the fewer available projects,
    3. **Driving down prices** for everyone.
       - ✓ **Trying to maintain volume** in a declining market is, in effect, an attempt to

         increase market share, and

         any increase in market share is always **"bought" at a cost.**

Buyer's market

- Construction firms are subjected to both diminished sales and diminished profit, **while** their cost of doing business, being **difficult to reduce**, continues.
  - We **cannot** **control the market**, but we can control our response to it.

Buyer's market

- **Years of research** into every construction market downturn since WWII confirms that the **dynamics** of each downturn **were generally similar**.
  - The **model developed prior** to the last construction market down cycle was live **tested**

    during the 2008–2012 recession.

The compression dynamic

- What happens in a **downturn** is that larger construction companies,
  - **Desperate** to keep their **people busy**,
  - **Aggressively** go after **smaller projects** than they normally would.
    - ✓ This
      1. Takes work away from other firms,
      2. Forcing them to go after smaller projects than they normally would, and
      3. So on through midsize firms and **finally down** to small firms.

The compression dynamic

- With their greater capitalization,

  big contractors are **able to**

  use aggressive pricing to

  take **smaller jobs** and/or **expand geographically** by moving into markets they do **not normally** compete in.

  The **lowest level** in this avalanche,

  the **smaller contractors**,

  have nowhere to turn and

  some are **driven out of business**.

The compression dynamic

- As an industry, we need to **stop believing that**

  it is automatic (almost acceptable) to **lose money** during a market decline.

  - This **happens** so **regularly** to those **who refuse** to

    downsize and cooperate with a **declining market** that we have begun to think it is inevitable.

    We have got to **stop thinking that we can control** the market and

    cannot be influenced by **contractors**.

    .

The compression dynamic

- The construction market is

  a **product** of the economy and

  results from the needs of parties **outside** of the **construction industry** for

  1. **Facilities** to be built and
  2. Their **ability** and **willingness** to **pay** for them.

This is the business environment we work in

so it is critical that we learn to

prepare for, and

manage through,

the inevitable market cycles.

The compression dynamic

- **Some contractors** believe that the only way to **fight compression** is to continually lower their **prices** as larger competitors force their way into their market,

  which **causes losses** they should not incur and may **not be able to afford.**

  - What you can do is **refuse** to take work at a **loss**,

    which means **downsizing** to **cooperate** with a declining market.

Downsizing as a defense mechanism

- There are **only two choices** in a downturn.

1. Choice A: Fighting to **capture enough work** to maintain sales by any means possible.
   - This is by far the **most popular choice** but presents huge risk.
2. Choice B: The **less popular choice** of downsizing the business to cooperate with (rather than fight) a declining market.
   - This choice has far **less risk** but is more **painful**.

Downsizing as a defense mechanism

- Downsizing means **reducing** the **cost** of doing business (cutting overhead) which includes **laying off people**.
  - A **large** portion of **overhead** expenses for a construction enterprise consist of employee-related costs.
    - ✓ **Voluntarily cutting back** the size of a firm is difficult, even distressing, which is why **it is such an unpopular** choice.

Making through recovery

- A **study** of the economic dynamics of prior construction market rebounds indicates the **recovery periods (not just the downturns)** are a financial struggle for many contractors.
  - The primary reason is that **"growth eats cash,"** and **many firms strain financially** during downturns to the extent they have **difficulty financing** the increasing amount of work **during the recovery**.
    - ✓ The **business failure rate** of construction enterprises is **even worse** during the recovery than during the downturn.

Contractors need to understand **how to approach recovery**, which unfortunately can be as **challenging as a downturn**.

Alternative approach to a cyclical market

Contractors can and should prosper in a cyclical market.

- We know **in advance** that about every decade or so, the construction market **will turn down** for a **year or more**, so we must plan for it.
- It **takes a while** to become **good planners** and to trust your forecasting, but in predicting the market it is **wise to guard against excessive optimism.**
- Those who have embraced the **"Flexible Overhead"** concept and processes and introduced them into their companies have **little concern about downturns** as they can **reduce overhead** within a week and without disrupting their core team.

Alternative approach to a cyclical market

- The **successful contractor** of the future can enjoy success in both growing markets and declining markets.
- It is time to **alter** the **business model** to
  1. Flex with the market and
  2. Gain the skill sets

  to prosper through the **reality** of **periodic construction business cycles**.

Figure 13.2 The successful contractor of the future can enjoy success in both growing markets and declining markets.

Marketing Process

موسسه مهندسی و مدیریت ساخت علوی پور (ACEMI)

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