مدیریت کسب‌وکار در صنعت ساخت
(Construction Business Management)

ماژول ۱: سازمان‌دهی کسب‌وکار

بخش سوم: بازاریابی و مدیریت بازار

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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

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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 <u>customer focused</u> 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?

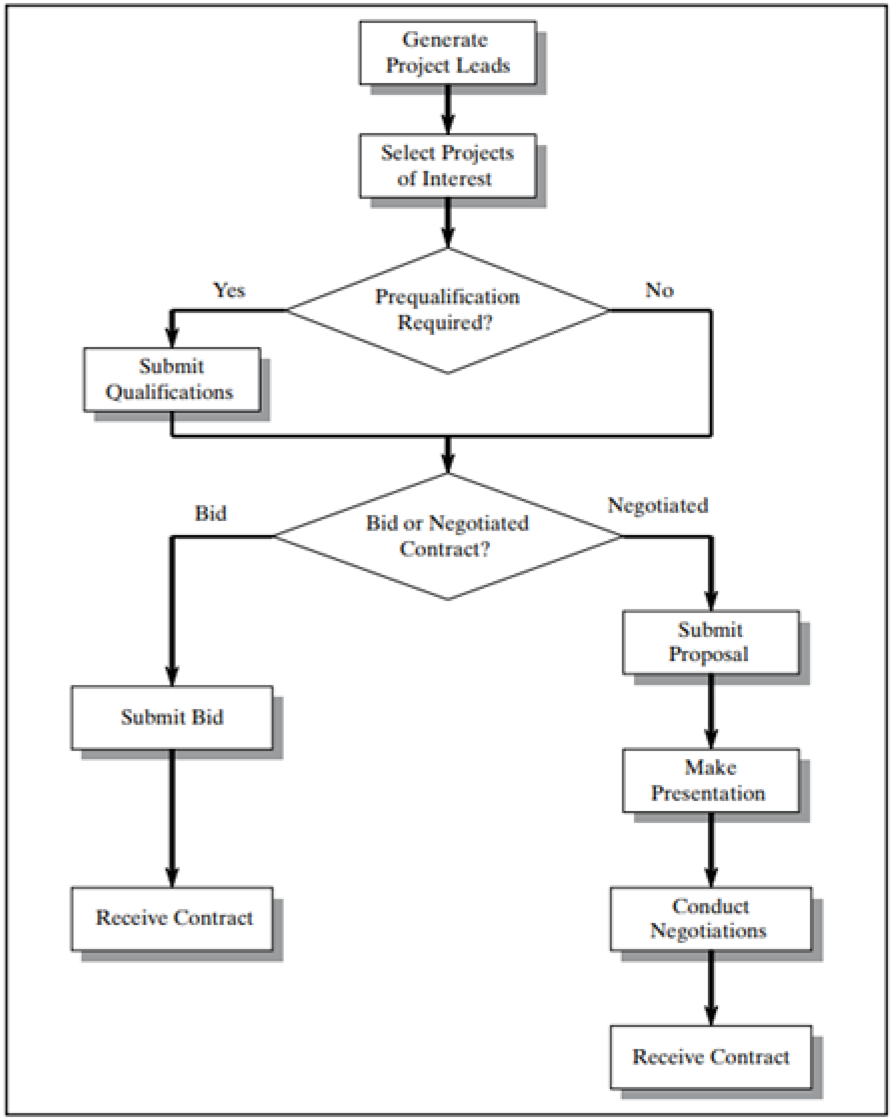
Sales

- 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.
      - o **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.

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**.

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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?

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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 <u>cyclical</u> with periods of <u>strong demand</u> followed by periods of <u>weak demand.</u>
- To be successful during periods of **weak demand**, construction firms must be <u>resourceful</u>, <u>innovative</u>, and <u>focused on relationship building</u>.
- 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 shrinking market 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 <u>2008–2012 recession</u>.

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.

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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.

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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

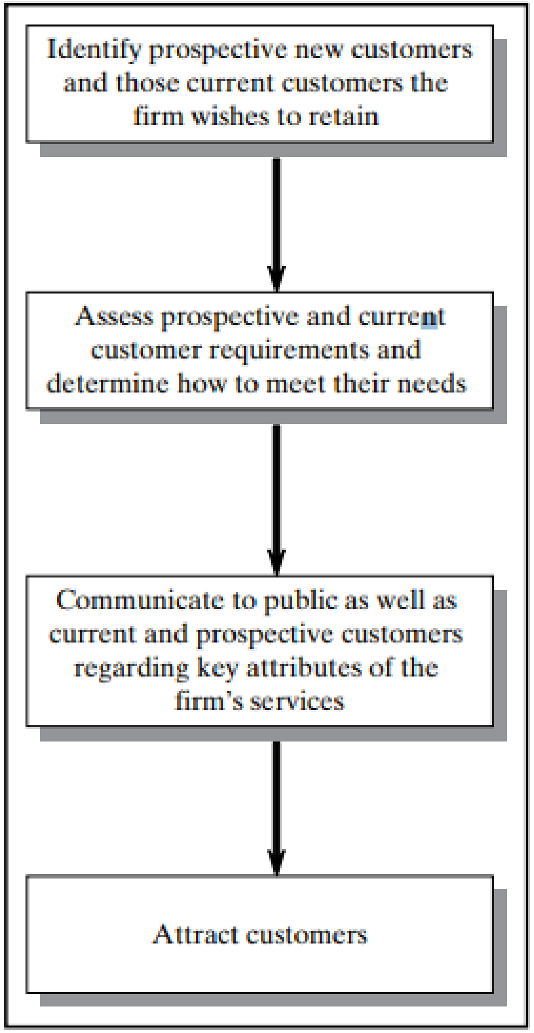
Marketing process

- The **basic steps** in the marketing process are shown in next Figure.
- The **first step** is to select the specific sector or sectors of the overall construction market that are of interest to the construction firm.
  - This is known as the **relevant market.**
  - This decision was made during the **strategic planning process** described in previous section.
- The mission statement identifies why the company exists and what type of business it performs.

Marketing process

- Once the **relevant market** has been **defined**,
  it is **analyzed** to determine which groups of customers have needs
  that **best match** the company's services and the selection criteria
  used by these **prospective customers** in selecting specific construction firms to construct their projects.
- Then the **company's services** are tailored to
  1. Take advantage of its core competencies and
  2. Deliver services that meet or exceed customer expectations.

Marketing process



STP

- The **basic marketing concept** is often denoted by the letters **STP**.
  - S means <u>segmenting</u> the market to determine the specific sectors of interest,
  - T means <u>targeting</u> the specific set of customers of interest, and
  - P means <u>positioning</u> the company for competitive advantage.

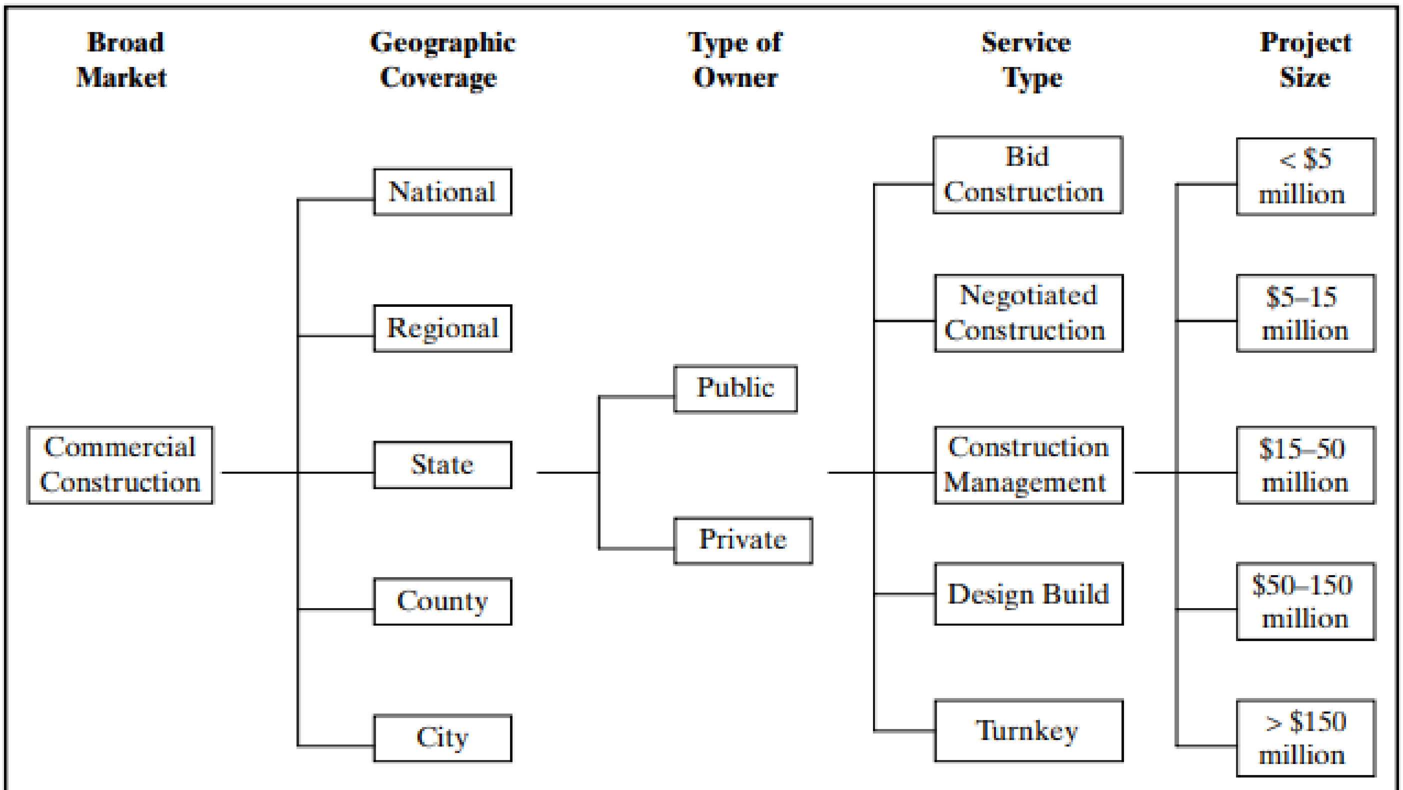
Segmenting the market

- Segmenting the market is somewhat like the **work-breakdown structure** used in developing a construction estimate.

- The market is segmented by
  - General categories of construction,
  - Geographic area,
  - Type of owner,
  - Delivery method, and
  - Project size.

- This process is illustrated in next Figure.

Segment the market



Marketing resources

- **Marketing resources** include
  - Employees and their technical skills
  - Equipment
  - Financial position
  - Reputation

Marketing resources

- Once the **targeted customers** have been identified,

  the construction firm needs to

  1. **Select the message** to be sent to them and
  2. Media for transmitting the message.

  - It could be
    - A brochure,
    - A web site,
    - A personal contact
      - ✓ By an executive,
      - ✓ By responding to a request for qualifications or proposal, or
      - ✓ By requesting a referral from a current customer or a design firm.

Customer relationship management plan

- In addition to seeking new customers, the construction firm needs strategies for **retaining current customers** with whom the firm desires **repeat business**.
- This is sometimes referred to as a customer relationship management plan.
  1. One method is to **survey customers** to determine their satisfaction with the company and its employees.
  2. Another is for **senior managers to make periodic visits** with current customers.

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Customer relationship management plan

- **Project managers** are often assigned the **responsibility** for cultivating long-term relationships with past customers and determining their future plans.
  - **Time** and **funding** must be given to the project managers

    if they are **to be expected** to perform marketing duties.

    Typically, a **half-day per week** should be sufficient.

Marketing Analysis

Marketing analysis

- During the **development** of its **strategic plan**,

  the construction firm determines

  1. The specific set of **services** to be offered and
  2. The **segment** or **segments** of the overall construction **market** that contain the customers of interest.

Marketing analysis

- There are **three components** to the market analysis
  1. Assessment of current and projected customer demand,
  2. Assessment of customer satisfaction, and
  3. Assessment of current and potential competition.

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Marketing analysis

- There are **three components** to the market analysis
  1. **Assessment of current and projected customer demand,**
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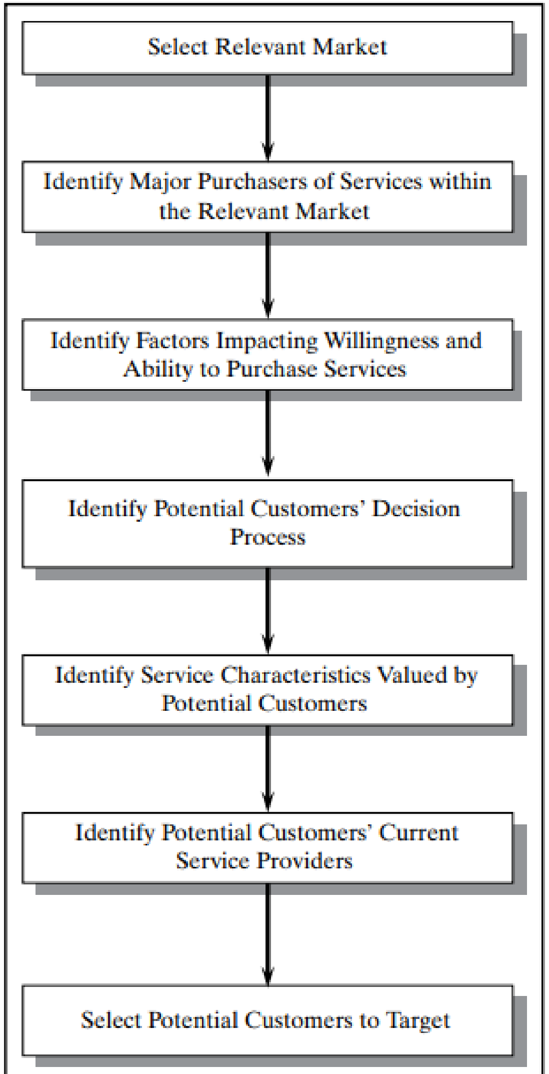
Demand assessment

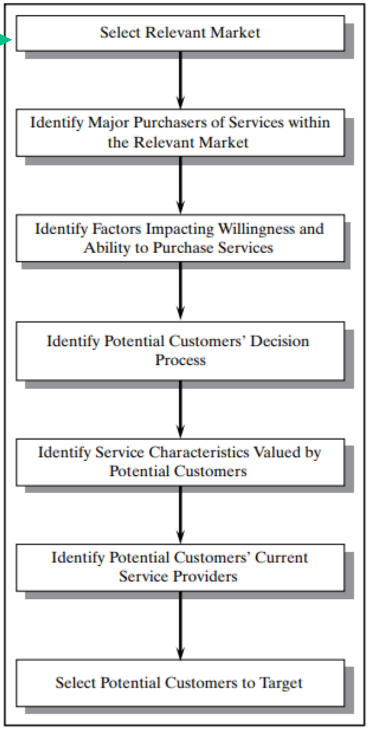


- The **basic steps** in assessing the demand for the services offered by the company are illustrated in Figure.

Demand assessment

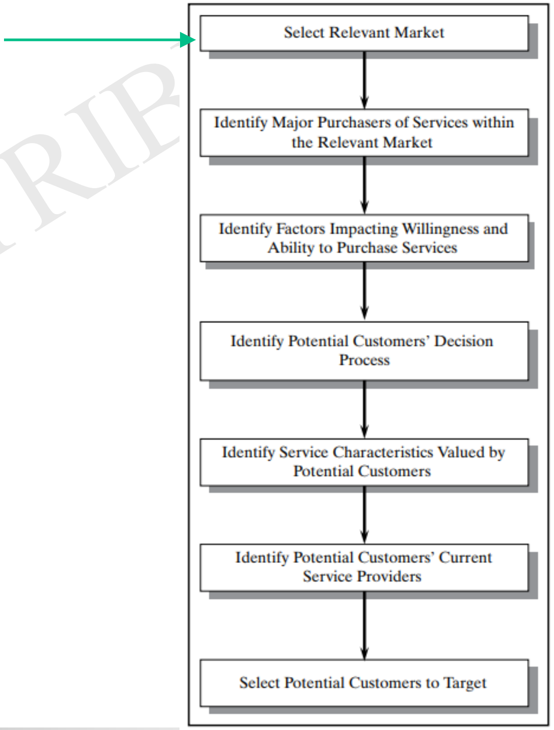
- The **first step** is to **estimate** the total demand within the **geographic area** and **sector** or **sectors** of **interest**.

- This is **similar** to the **external analysis** (opportunities and threats) discussed in previous section.



Demand assessment

- This **total demand** is then divided into the specific types of services customers may desire.
- These **segments** are **further divided** by project size to determine the relevant markets for the firm.

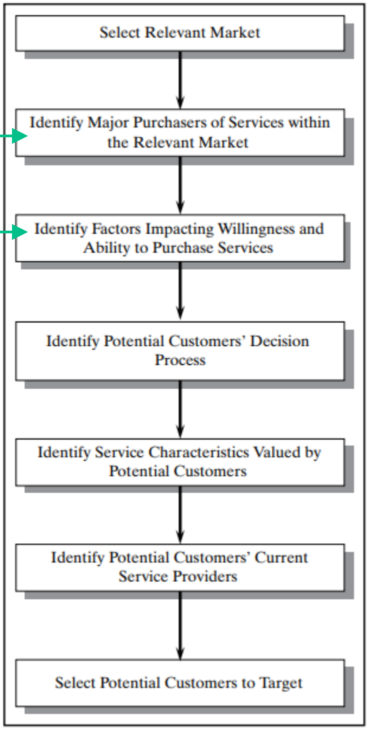


Demand assessment

- Once the **relevant markets** have been **defined**,

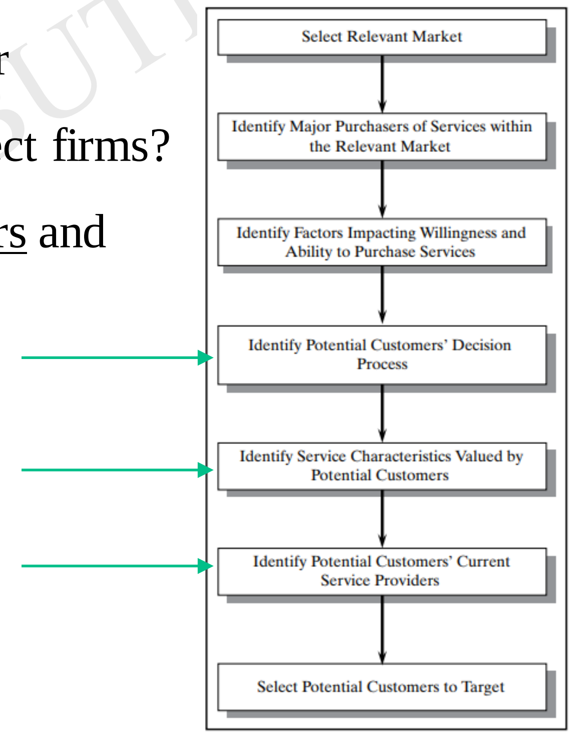
  the company **identifies**

  1. The potential customers in **each market**,
  2. Their willingness to purchase the **types of services** offered by the firm, and
  3. Their **ability** to **purchase** the services.



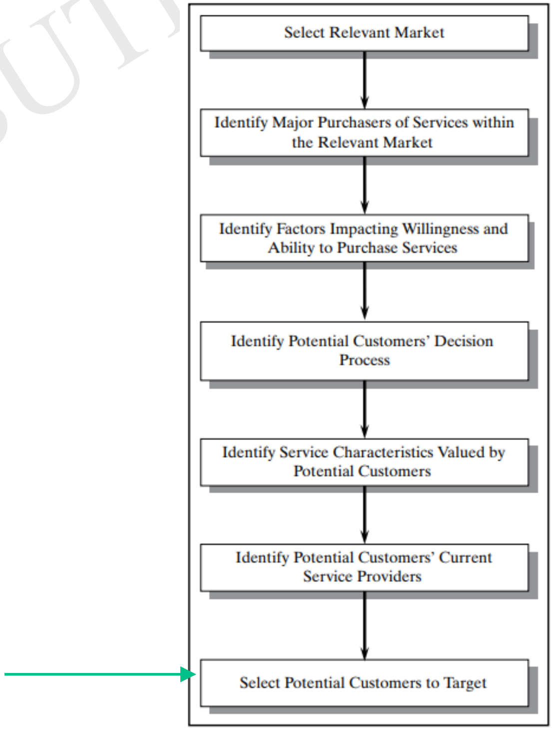
Demand assessment

- Other considerations are
  - What <u>decision criteria</u> do they use in the selection of prospective construction firms, and <u>how do they select</u> the winning firm?
  - When considering prospective construction firms,
    - ✓ Do they consider any firm that is interested or
    - ✓ Do they limit their consideration to a few select firms?
  - Do they have **long-term relationships** with <u>competitors</u> and **not consider other firms**?



Demand assessment

Based on this analysis of the relevant markets, the construction firm selects the ***specific set of potential customers*** *to target with its marketing efforts.*



Marketing analysis

- There are **three components** to the market analysis
  1. **Assessment of current and projected customer demand,**
  2. **Assessment of customer satisfaction, and**
  3. Assessment of current and potential competition.

Customer satisfaction assessment

- The key **to retaining current customers** is to ensure that they are **satisfied** with the services that they have received from the construction company.
  - One approach is to make **personal contact** with **decision makers** in the customer firms to assess their satisfaction.
  - Another is to **survey each customer** at the end of each project, using an **evaluation form similar** to the one shown in **next Figure.**

Customer satisfaction assessment

Customer Evaluation

Project: ____________________

Please rate our work and our company, so that we may improve our customer service.
Thank you for your time.

	Excellent	Average			Poor
	5	**4**	**3**	**2**	**1**
Project Evaluation:					
Within Budget					
On Time					
Quality of Work					
Responsiveness					
Safety					
Company Evaluation:					
Customer Communications					
Internal Communications					
Teamwork					
Service Attitude					
Technical Skills					

Comments: ____________________

Customer satisfaction assessment

- While the company **might not offer** the least-cost service,

  the **customer needs** to perceive that **added value** was obtained for the **additional cost.**

- Customer value may be defined as

$$\text{Customer Value} = \frac{\text{Perceived Performance}}{\text{Delivered Cost}}$$

This is not a mathematical formula, but a way to assess value obtained per dollar of investment.

Marketing analysis

- There are **three components** to the market analysis
  1. **Assessment of current and projected customer demand,**
  2. **Assessment of customer satisfaction, and**
  3. **Assessment of current and potential competition.**

Competition assessment

- **Before** selecting marketing strategies, a construction company needs to assess its competition in each of its relevant markets.
- The company needs to
  1. **Identify** existing competitors,
  2. **Assess** the likelihood of new entrants, and
  3. **Evaluate** the services currently offered, or likely to be offered, by competitors.

- A worksheet similar to the one illustrated in next Figure can be used to analyze each competitor.

Competition assessment

Competitor Evaluation

For each major competitor, answer the following questions:

1. Name and location of competitor (main office): ______________________
2. Estimated size of staff: ______________________
3. Types of customers targeted by competitor: ______________________
4. Marketing techniques used by competitor: ______________________
5. Major strengths of competitor: ______________________
6. Major weaknesses of competitor: ______________________
7. Primary reasons why customers should buy our services rather than competitor's:

Competition assessment

- In **most instances**, a construction firm will have **less than ten** firms in each relevant market that it considers **its competitors**.
  - A worksheet is **prepared for each one.**

Marketing Strategies

Marketing objectives

- **Marketing objectives** are identified in the strategic plan.
- They typically **relate** to market share or sales volume.
- Strategies are then selected to **achieve** these **objectives**.

Marketing strategies

- Marketing strategies are developed at three levels—
  1. Strategic marketing,
  2. Tactical marketing, and
  3. Internal marketing.

Strategic marketing

- **Strategic marketing** strategies are those selected to **enhance** company name recognition and its reputation.
- These might involve
  - Changing the company logo,
  - Sponsoring a youth sports team,
  - Advertising in trade publications,
  - Participating in trade shows, or
  - Repainting company vehicles.

Strategic marketing

- **Image builders** include:
  - Clean jobsites and company facilities
  - Neatly attired employees
  - Courteous, professional behavior from all employees
  - Promptness for meetings and service calls

Tactical marketing

- **Tactical marketing** strategies are those selected to target **specific** current or prospective customers.

- These might include
  1. Targeted mailing of focused brochures,
  2. Cold calls by project managers, and
  3. Sponsored social activities.

*There are **three alternative tactical marketing** strategies that might be adopted to **increase sales**.*

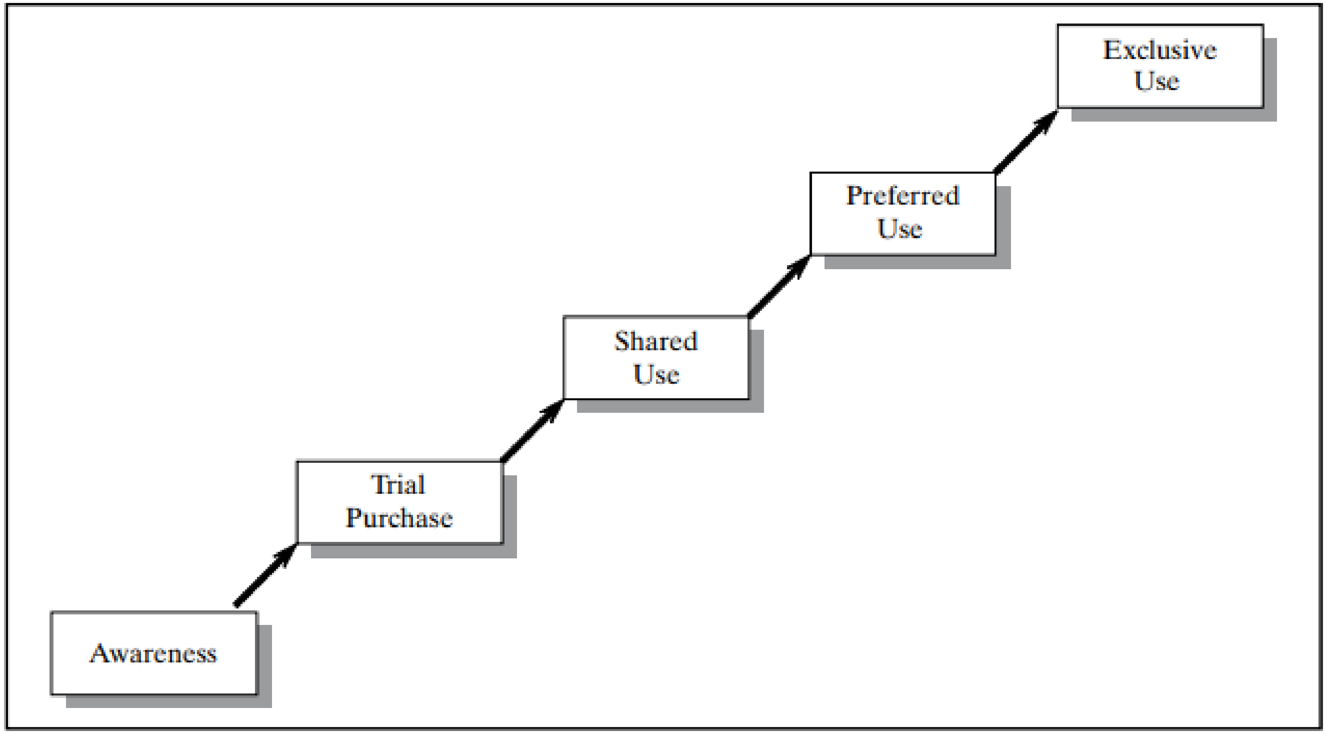
Tactical marketing – Increase demand

- One is to **increase** the **demand** for the <u>type of services offered</u> by the company.
  - This is **almost impossible** to accomplish,

    because **construction firms** generally have **little influence** on <u>customers' desire or ability</u> to purchase construction services.
    - ✓ It is **possible**, however, to **increase the demand** for a specific service by **convincing** a customer to <u>select a different delivery method</u>.
      - *For example, using a design-build approach rather than using the traditional design-then-build approach.*

Tactical marketing – Buying cycle

- **Another tactical strategy** is to move existing customers up the “buying cycle,” which is illustrated in Figure.



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Tactical marketing – Buying cycle

- Awareness means the **prospective customer** is aware of the construction firm and its service capabilities.
- Trial purchase means the **customer has decided** to select the firm for a single project.
- Shared use means the **customer has decided** to use the construction firm and **one or two of its competitors** for all projects.
- Preferred use means the **customer uses the construction firm** for most of its projects, but **occasionally** uses other construction companies.
- Exclusive use means the **customer has decided** to use the construction firm for **all its projects.**

Tactical marketing – Acquire new customers

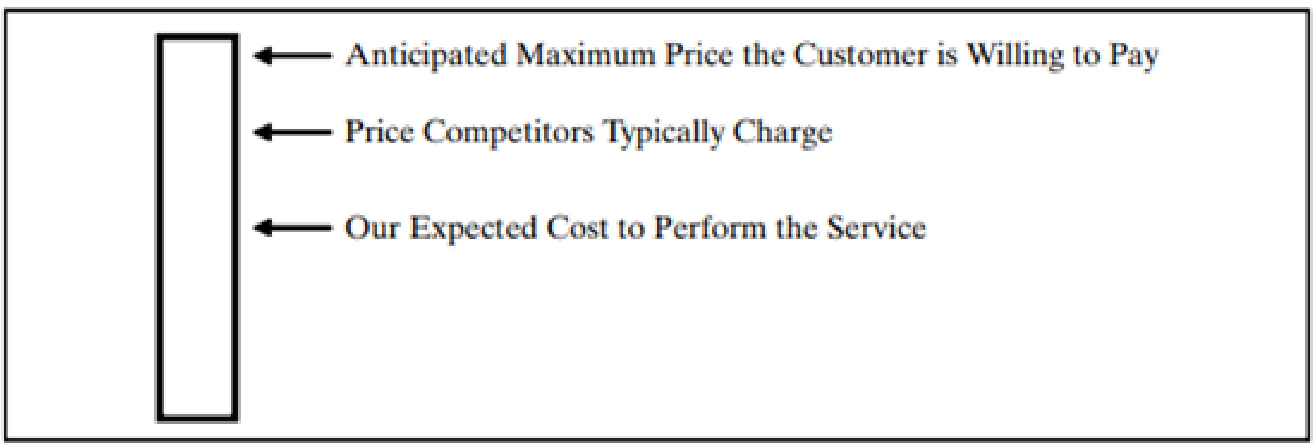
- The **third tactical marketing** strategy is to **acquire new customers** by **attracting them** away from the firm's **competitors.**
  - This may mean
    - <u>Entering new markets</u> or
    - <u>Diversifying</u> and <u>offering additional</u> or <u>altered services</u>.
- To be successful, **marketing tools** are needed that demonstrate the **better value** provided by the construction company's services **in relation** to those **offered by its competitors.**

Internal marketing

- **Internal marketing** strategies are those selected to
  1. **Inform** employees of company activities and
  2. **Ensure** that they **understand** their **role** in maintaining the company's reputation and in marketing its services.
     - This might include newsletters and training sessions.
     - It is also important to keep employees **motivated** by **publicly recognizing** their service and accomplishments.

Service pricing factors

- One of the major decisions to be made in the selection of marketing strategies is the decision regarding **how to price** the services the company offers.
- The **key factors to be considered** in this decision are illustrated in Figure.



Service pricing factors

- Services must be priced **above the cost** of delivering them

  if the firm is to generate a **profit**.

- Services **may be priced above** those of competitors

  if service attributes provide **more value** for the customer’s investment.

Communication strategy

- The central issue in marketing is the development of a **communications strategy**.
- This involves **answering** the following questions:
  - What is the message?
  - Who is to read the message?
  - How is the message to be communicated?
  - What effect on the reader is desired?

Marketing fee

- Marketing is **not free.**
- It requires both human and financial resources and is a **cost of doing business**.
- Many construction firms spend 1 to 3 percent of their annual gross sales on business development.

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Marketing plan

- A **marketing plan** is used to identify
  1. The specific **marketing objectives** for the firm,
  2. The **strategies** to be used in accomplishing these objectives, and
  3. The **action plans** that assign **responsibilities** and allocate **resources**.

Marketing Tools

Marketing tools

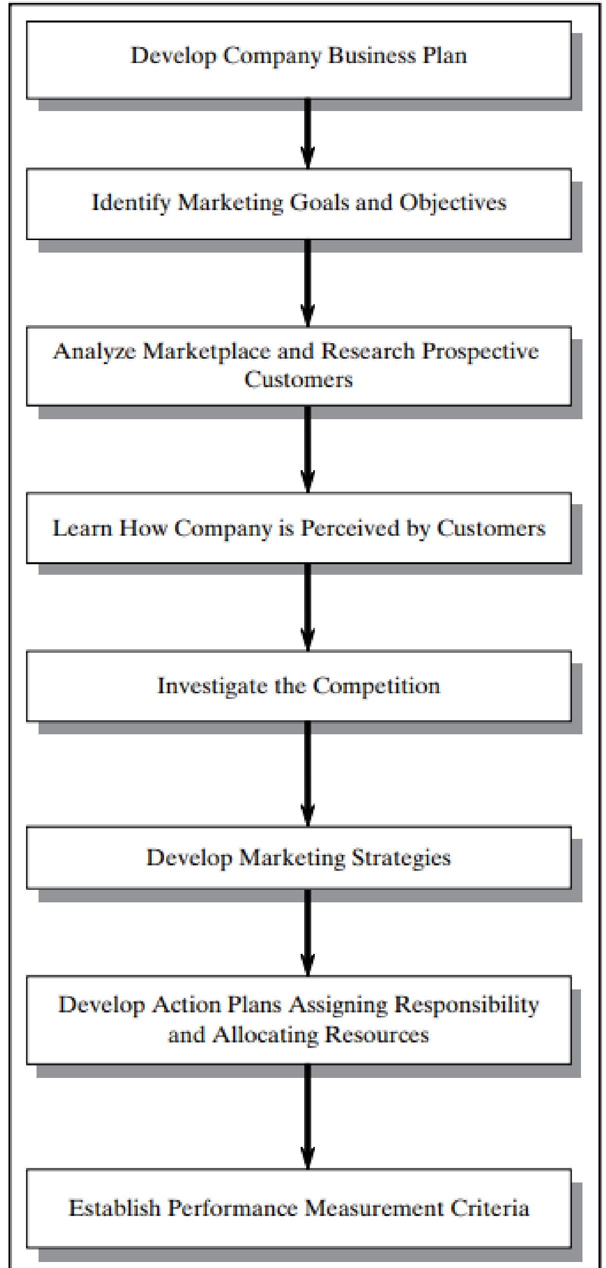
- The **major ones** are discussed in this section.
- The potential use of these tools to accomplish strategic, tactical, or internal marketing goals is shown in Figure.

Marketing Tool	Strategic Marketing	Tactical Marketing	Internal Marketing
Company Reputation	✓	✓	
Company Logos	✓	✓	
Business Cards	✓	✓	
Stationery and Business Forms	✓	✓	
Brochures	✓	✓	
Newsletters	✓	✓	✓
Advertising	✓	✓	
Market Reference Files	✓	✓	
Networking	✓	✓	
Public Relations	✓		
Web Sites	✓	✓	✓
Subcontractor Relationships	✓	✓	
Supplier Relationships	✓	✓	
Statements of Qualification		✓	

Marketing Plan

Marketing plan development process

- Marketing without a plan is like attempting to construct a **building** **without** **a set of drawings.**
- The **process for developing** a marketing plan is illustrated in Figure.



Marketing plan development process

- The marketing plan **describes**
  1. The marketing objectives,
  2. The strategies, and
  3. The action plans the company will use to accomplish its overall company objectives.
- It is structured to **support** the accomplishment of the company strategic objectives identified during the strategic planning process.

Phases of customer development

- The plan needs to address the following **phases of customer development**:
  - Obtaining access to the customer
  - Orienting the customer to the services provided by the construction company
  - Cultivating a relationship with the customer
  - Maintaining the customer relationship

Marketing plan – Example

- For example, suppose a construction company established a **strategic objective** to increase its **business volume by 3 percent per year** over the next ten years.

- To accomplish this objective, the company may need to **broaden its management systems** and to recruit and develop **additional project management teams.**

- It **also needs** to develop **marketing strategies** to develop **additional business opportunities.**

Marketing plan – Example

- **One set of strategies** should be focused on maintaining relationships with existing customers.
- This may include
  - Providing them with newsletters and
  - Tasking project managers

    to make monthly contacts with their counterparts in customer organizations.

Marketing plan – Example

- **Another set** of strategies is needed to identify and develop **new customers**.

- This may involve
  - Publishing a new brochure,
  - Advertising,
  - Networking,
  - Participating in trade shows, and
  - Making cold calls on targeted organizations.

Marketing plan – Example

- A **third set** of strategies is needed to **enhance** the <u>construction firm's public image and reputation.</u>
  - This may involve **sponsoring charity events** or youth sports activities.

Marketing plan – Example

- A fourth set of strategies is needed for **internal marketing**.
  - Newsletters and training events or workshops are often used for this purpose

Marketing plan

- Once the specific strategies have been selected,
    - Specific **action plans** are prepared allocating resources,
    - Assigning **responsibility**, and
    - Establishing **time frames** for accomplishment.

Marketing plan overview

- Once the **market analysis** has been completed,

  it is often useful to **quantify**, for the company,

  the **specific marketing goals** for **each market sector** in which the company aspires to compete.

- An example is shown in Figure.

	Health Care	Hospitality	Higher Education	Commercial Office
Project Type	Hospitals, clinics, and laboratories	Luxury hotels, casinos, and resorts	Community colleges and universities	Mid- to High-Rise
Geographic Area	Western U.S.	Northwest U.S.	Western U.S.	California
Min/Max Size	$20–$100M	$40–$200M	$10–$75M	$15–$125M
Volume	$150M	$150M	$100M	$100M
Fee	$4.5M	$6.0M	$3.5M	$4.0M

Marketing plan overview

- These goals are **then used** to craft marketing strategies for their accomplishment.
- These **quantifiable goals** can then be used to measure the progress in accomplishing the company's overall business plan.

Acquisition of Work

Acquisition of work

- Once the target customers have been **identified**, it is time for the **sales team** to get into **action**.

1. If the **prospective customer** selects construction firms solely on price, such as many public owners,

   the **sales team** must prepare a responsive bid based on the **contract documents**.

2. If the owner uses an **interview and proposal process**,

   the **sales team** must develop a winning presentation that can **engage the customer**

   followed by a winning proposal that fully responds to the customer's Request for Proposal.

Common Marketing Rules for Contractors

Common rules

- People either accept or reject you **after two years** or **27 exposures**.

- Several studies have confirmed that **after sufficient time**, a prospect has made a **decision about you**.
    - Therefore, **pursuing** a potential client **after this length of time** or **after a couple of dozen contacts** is cost ineffective.

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Common rules

- **Don't sell** when you're doing marketing.
- Price, terms, and conditions should **not be disclosed**.
- You have to build **value first**.
- You may find **sharing other benefits** (not attributes) is **more important** to prospects than price at this stage.

Benefits and attributes

- Let me define benefits and contrast them with attributes.
  - Benefits go directly to a **client need**, such as a high-quality and low-maintenance shelter or structure.
    - ✓ It translates to less cost and less hassle to own it.
  - Attributes are **characteristics** of the construction firm such as age or size.
    - ✓ Interesting, but not as real or direct as benefits.

Benefits and attributes

- A sample comparison of company benefits to attributes, with typical client interpretations, is shown in Table.

Benefit	Attribute
"We average fewer than three punch list items for each 1 million dollars of work" *Meaning to client: My contractor doesn't delay the end of the project, so I get to use it sooner.*	"We are a 108-year-old company." *Meaning to client: Interesting, but are you on your way up or down as an organization?*
"We've never gone to court to settle a construction claim." *Meaning to client: The contractor isn't a litigious type. They are reasonable over things that might happen. My total cost of construction won't include a large legal bill.*	"The $50 million ABCD project was our greatest project yet." *Meaning to client: "Nice. May be a name dropper. My project is smaller, but it is very important to me. It is my greatest project. Are you focused on me?"*

Wide network of people

- For those who choose to have a **wide network of people** as a business principle, they are **mistaken**.
  - Gladwell's lesson is that a professional has to choose **150 well connected people** who will be an **asset to** him or her.
  - The **mindlessness** of **large**, **blind** appeals to anyone who will listen is very **inefficient** in the long term.

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Poor construction performance

- Keep in mind, however, that **no amount of marketing** can **overcome poor** construction performance.
  - Make certain you can install the work marketed.
  - Perform at a **high craft** and **management level**.
    - ✓ If not, take a pause and **fix** the **problem**.

Comparing Market Share and Profits: A Quantitative Method for Marketing and Selling

Quantitative method

- The quantitative method we recommend is to compare

1. The trend of market share with
2. The trend of profits.

   - This will factually determine your **progress** and **success** in marketing and selling.

Quantitative method

- We believe that construction market share does **not** make any **sense without a profitability number.**
  - The specific profitability number we use is a *gross profit percentage*.
    - ✓ By definition: Gross profit is **what remains** from revenue after **direct or field costs are deducted.**
    - ✓ We use the period's (quarterly or monthly) result of acquired work.
  - Market shares is a calculation of the **value of work won**

    divided by total market value of value of work available.

Trend and its timing – Buying market share by cutting profit margins

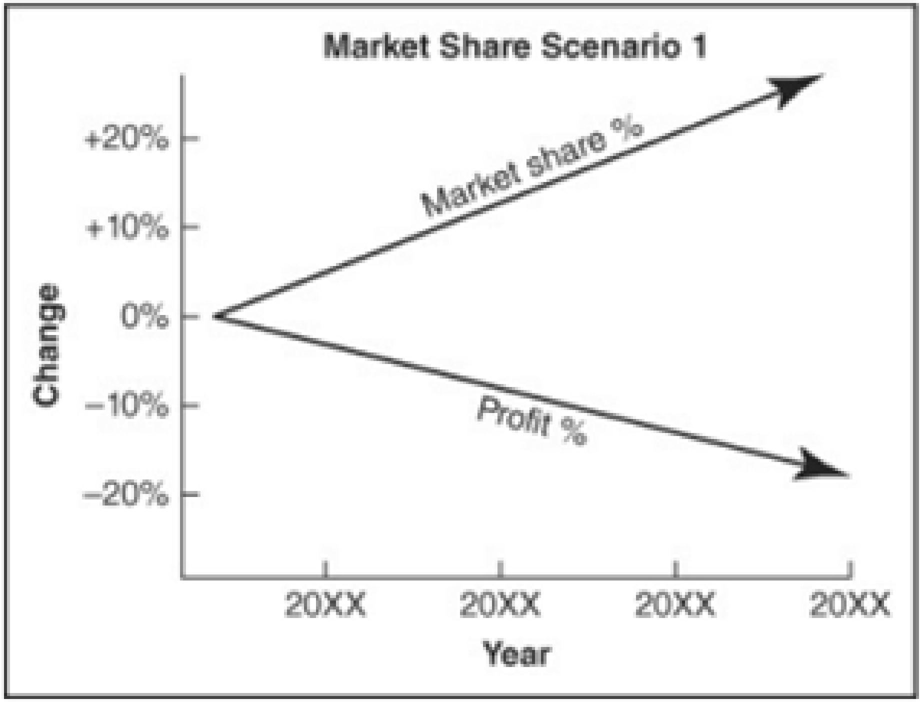


Figure illustrates what happens when the contractor attempts to “buy” market share by cutting profit margins.

This results in **working harder** for **less profit.**

Trend and its timing – Buying market share stable but profits down

If you see your **market share** **stagnating** while your **profitability** is **losing** ground you need to investigate the reasons.

Is the economy poor and you have had to cut your margins?

Trend and its timing – Falling market share and profitability

This represents the **most stressful business scenario**.

You are **winning less** often at a **lower profit** percentage.

The reasons that account for this include poor craft skill, bad project execution, negative client perception, and higher competition.

Trend and its timing – Raising market share and profitability

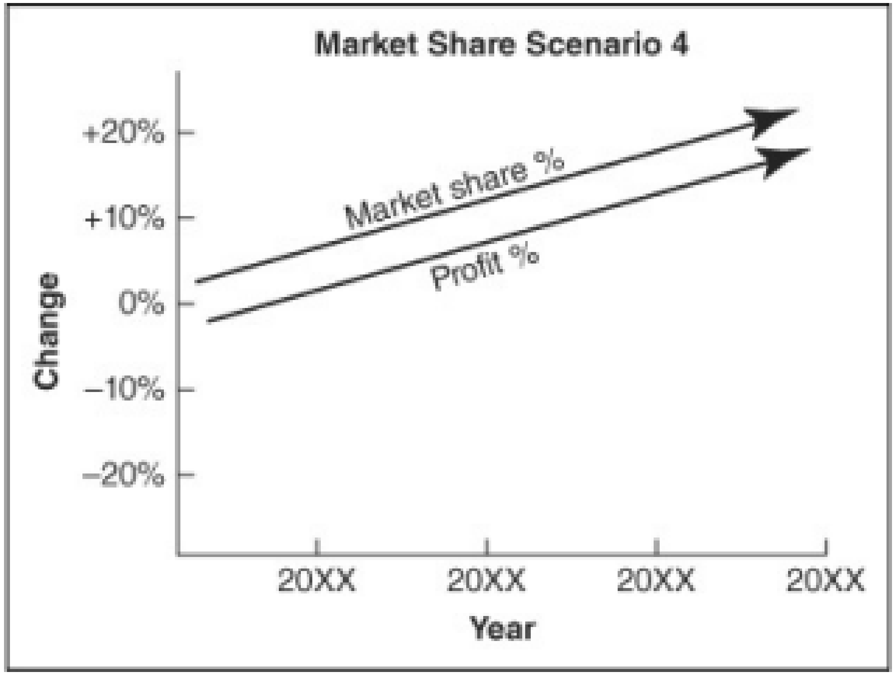


Figure illustrates a **golden situation**.

As many have said before, **knowing why** you are **successful is critical**.

The **reason** is simple: so you can **repeat** it in the **future**.

The answer should **never be** *“because we are just good.”*

That is a recipe for **future problems**.

Three-year trend on profit and market share

- There are several iterations of the market share and profitability relationship.
- Table shows this relationship on a three-year trend basis.

	Market Share Rising	Market Share Steady	Market Share Falling
Profitability rising	Gold	Business savvy	Harvest
Profitability steady	Future plan	Day-in-day-out	Red flag
Profitability lower	Buying the future	Market reversal	Depressed leader

Three-Year Trend on Profit and Market Share

Three-year trend on profit and market share

- **Gold.**
  - This is the **best of all possible** worlds.
  - The business is **gaining ground** on the competition and you are being paid more for it.
- **Business savvy.**
  - The company is **keeping** market **share level** while **finding more ways** to **profit**.
- **Harvest.**
  - Contractor may be **taking** the **opportunity** to price higher, **lose** market share, but gain profits.

Three-year trend on profit and market share

- **Future plan.**
  - The company is keeping profit percentage level but also winning more work.
- **Day-in-day-out.**
  - **Level** in both profit and market share percentage, the company is not gaining or losing in either area.
- **Red flag.**
  - Profit percentage is steady, but market share percentage is falling.
  - You need to **ask** whether you are **losing** your **aggressiveness**.
  - Are businesses or customers **leaving you**?
  - Would it be a good time to make **some personal calls**?

Three-year trend on profit and market share

- **Buying the future.**
  - You are gaining **market share percentage** but making **less profit** in doing so.
  - Is this **your purpose**?
  - Are you *running the wheels off the trucks?*
  - Are your people getting **tired**?
  - **Will you** at some **future** date reverse this and **make more money** working **less hard?**

Three-year trend on profit and market share

- **Market reversal.**
  - **Profit percentage** being **down** is **not a surprise** on your profit and loss statement,

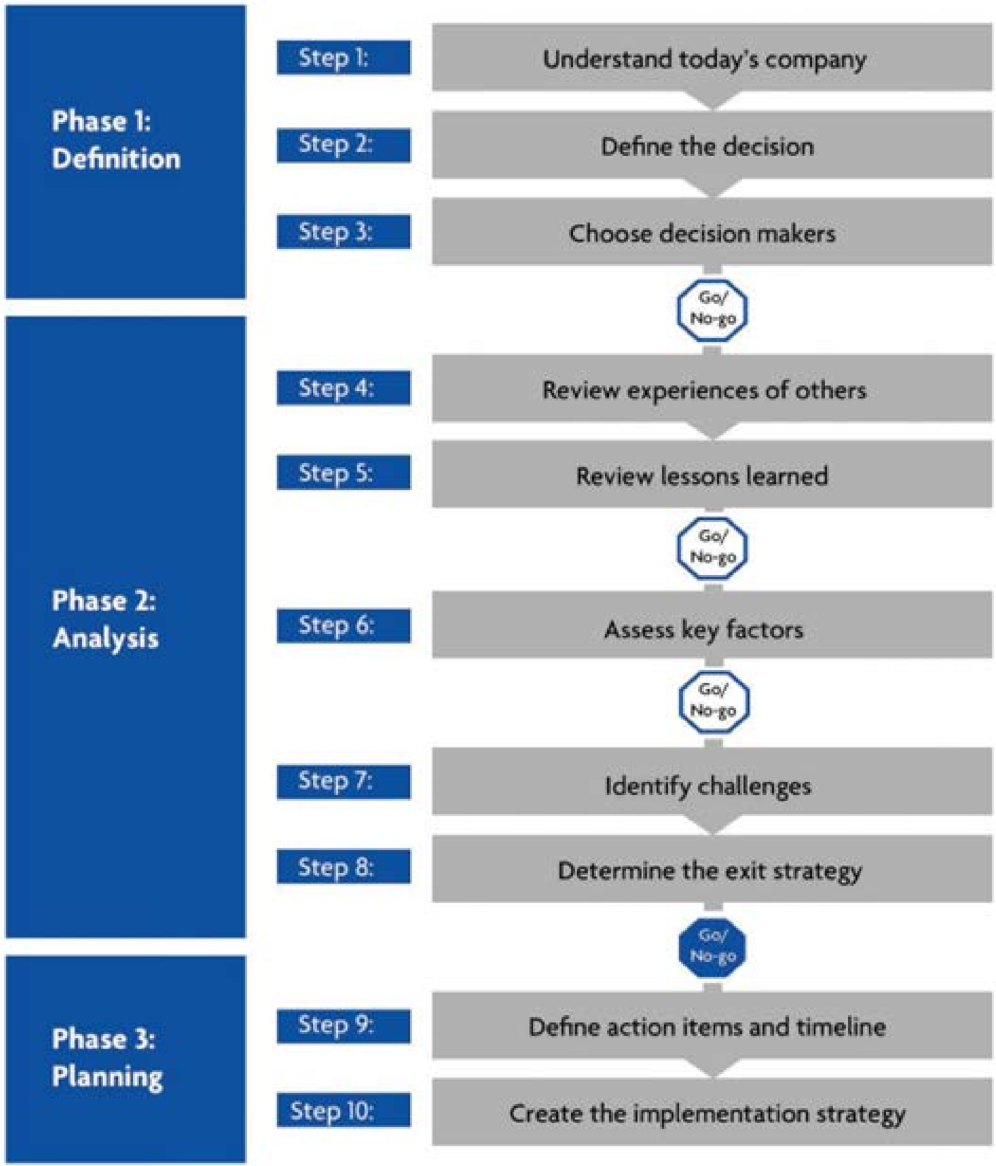
    because you have **been forced** to **bid lower** in recent months.
  - The **economy** may be **weakening**.
  - A **competitor** may be driving **down prices**.
  - This is a **frustrating scenario** that needs further **investigation**.

Three-year trend on profit and market share

- **Depressed leader.**
  - **Losing** market share and profits.
  - The **leader** may believe that the economy is poor and is acting as if that belief is true.
  - If a **new**, **unsophisticated competitor** is in the market, the manager may be **trying to compete** against this thoughtless contractor.
  - You need to do a **tough analysis** of this situation.

Earning New Markets

Framework to guide a contractor entering a new construction market

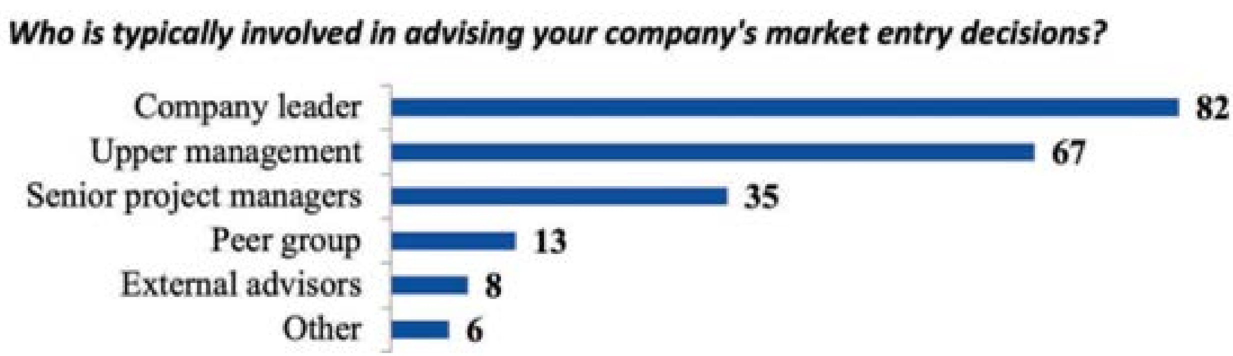


Examples of market entry

WHERE WE WORK / WHO WE WORK WITH

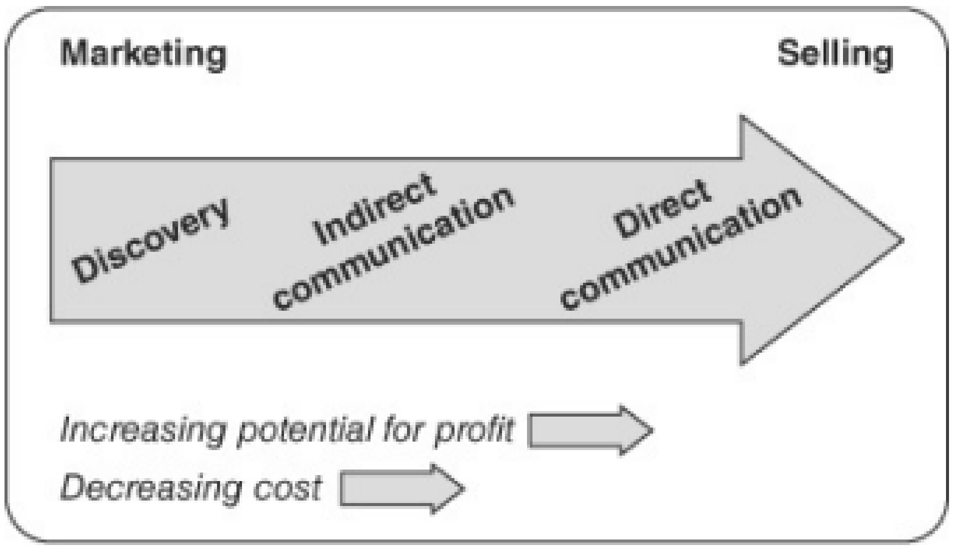
WHAT WE DO	Same	New
Same	N/A (Not considered a new market entry)	• Geographical expansion • Size of projects • Type of projects • Type of customers
New	• Add a new trade or service • New technology • New process	N/A (Very risky)

Who is involved in making market entry decisions?



Selling

Marketing versus selling



Six steps to selling in construction

- Simplicity means speed.
- These six steps are very simple.
- This means you can execute them quickly.
- You can also learn them very easily.
- Only six steps, but done with discipline, you can achieve perfection.

Step 1. Gather Information

- Knowing the clients and their circumstances means you can **speak confidently** with them.

- **Gathering much information** builds great confidence.

- For most construction firms, a structured list to prompt questions and to capture information is an efficient approach.

Step 2. Meet Potential Clients Face-to-Face

- This step is crucial, especially when selling to a **new client.**

- Studies suggest that during the **first 19 to 39 seconds** of a meeting, you either **cement** or **destroy** the relationship with the client.

- Don't forget to be a **good guest** and **direct** your **attention** and **energy** to the client.

- The **habits you exhibit** during the meeting can **deteriorate the relationship** from a <u>trusted to an untrusted</u> one.

Step 3. Ask Directed Questions

- Be polite and **ask for permission to ask questions** of the potential client.

- Being skilled in **asking directed questions** allows your prospect to **discover the strengths** of your company on their own.
    - *You just show them the path.*

Step 3. Ask Directed Questions

- A **directed question** might be,
  - "In this economy, is it important to have contractors who submit complete bids?"
    - ✓ Since the answer is obviously **yes**,

      this **narrows clients' attention** to the thought of contracting with construction firms

      who **submit complete bids** and **not those who submit proposals**

      that will allow for **multiple change orders** later.

Step 3. Ask Directed Questions

- These **directed questions** should be in the following order:

(1) A question that asks the client what they like about their present source.

(2) A question that reflects what they fear or don’t want from a new or untried construction contractor.

(3) Questions that reflect the strengths of your company, such as ISO 9000 Registration, safety, history, and the like.

- We recommend that **approximately six questions** of this nature be asked in this category.

Step 4. Support the Answers

- Once the directed questions are **answered** and the **client shows interest** in your attributes,

  such as your **experience modification rate**,

  you must be able to **prove it.**
- In this step, the **salesperson** should have **proof ready at hand**.
- Keep a **book of direct evidence** at hand that includes
  - Copies of insurance coverage,
  - Bonding capacities,
  - Reference letters,
  - Safety records, and
  - The like.

This is simple and direct, but it is powerful approach.

Step 4. Support the Answers

- **Some salespeople** may feel that **keeping proof** (certifications, licensing, past project resumes, etc.) is **unnecessary** to carry around in binder.
  - However, **most construction service buyers** at one time or another have been burned by salespeople who made **false claims.**
- The sophisticated and usually well-funded client is **sensitive to unproven statements**.
  - So be **proactive** and have **proof ready**.
- The client is probably being pursued by many contractors and **doesn't have time to play games.**
- Clients have deadlines, too.
  - **Prove your claims** so that the buyer can start thinking of the **next step in using your services.**

Step 5. Closing the Agreement

- When you and the potential client are ready to move to the next phase, such as **prequalification**,

  you **simply** check your calendar, and say something like, *"I can bring by the information on the 23rd in the morning or the afternoon of the 24th."*

  - If they start looking at their calendar, you have closed.
  - If they don't, it doesn't matter.
    - ✓ **Any attempt** to switch to any one of several dozen sophisticated closes at that point will appear as an **attempt to manipulate**.
      - You certainly **won't be trusted afterwards**.

In the following weeks, your phone messages may not be returned or your phone calls may not be answered at all.

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Step 6. Moving Forward

- Once agreement has been made, be a **good guest** and **leave**.
  - Don’t linger and wear out your welcome.
- As you know, people are busy.
  - After leaving, you should get back to the client within an hour confirming the decision to meet again.
    - ✓ Email or fax is good.
    - ✓ This is insurance against “cold feet.”
    - ✓ All of the above information can be maintained in a single notebook for inspection by the contractor.
    - ✓ This is an easy process to monitor that will reflect the current progress of a salesperson.
    - ✓ We believe it mitigates one more risk of contracting.

Step 6. Moving Forward

- If the process is **interrupted**, such as the prospect having to leave **suddenly**, and you have to **get back** together at a **later time**,

  start at the beginning and ask,

  "Has anything changed since the last time we met?"

- Once you get back into the process, **move forward**,

  confirming information from the last meeting.

Customer Service

Customer service

- Great customer service begins with considering **everyone you work with** to be a **customer**, including

  subcontractors, general contractors, project owners, designers, government, the general public, and many others.

- Each of these stakeholders has **different needs** that must be
  - Understood,
  - Appreciated, and
  - Satisfied.

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Customer service

- According to Theodore Levitt, Harvard Business Review, No. 81306:

The most important thing to know about intangible products is that the customers usually don't know what they're getting until they don't get it.

- **Only then** do they **become aware** of what they **bargained for**;

only on dissatisfaction do they dwell on the process and related interactions. Satisfaction is as it should be, mute.

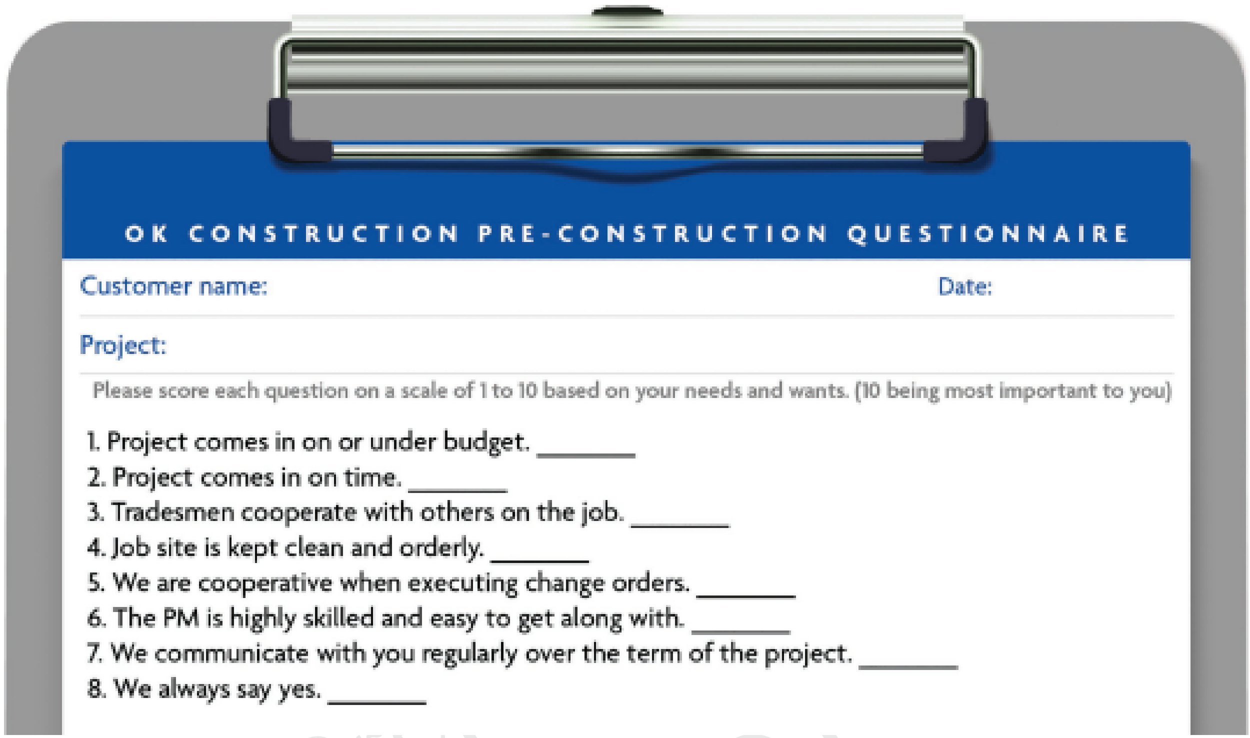
Its **existence** is affirmed **only by its absence**.

Customer Questionnaires

- Here are the pre-construction and post-construction **questionnaires** the team came up with.

- As you work with your **existing customers** you will add, remove, alter, or substitute other questions that are more relevant to your clients.

Customer Questionnaires



OK CONSTRUCTION PRE-CONSTRUCTION QUESTIONNAIRE

Customer name: Date:

Project:

Please score each question on a scale of 1 to 10 based on your needs and wants. (10 being most important to you)

1. Project comes in on or under budget. _______
2. Project comes in on time. _______
3. Tradesmen cooperate with others on the job. _______
4. Job site is kept clean and orderly. _______
5. We are cooperative when executing change orders. _______
6. The PM is highly skilled and easy to get along with. _______
7. We communicate with you regularly over the term of the project. _______
8. We always say yes. _______

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Customer Questionnaires

OK CONSTRUCTION POST-CONSTRUCTION QUESTIONNAIRE

Customer name: Date:

Project:

Please score each question on a scale of 1 to 10 based on your level of satisfaction.
(10 being the highest level of satisfaction)

1. The project team delivers on its promises and never stonewalls an issue.
   Project Manager _____ Superintendent ______Foreman, Tradesmen _____ Other _____
2. The project team has respect for the customer (GC). _____
   Project Manager _____ Superintendent _____ Foreman, Tradesmen _____ Other _____
3. Company placed a highly qualified Superintendent, General Foreman or Foreman on this project that take
   charge and drive the job to completion. _____
4. If the team makes a mistake they admit it without covering up or casting blame. _____
5. The team is in the customer's corner. _____
6. The team is consistent and treats me with openness and candor. _____
   Project Manager _____ Superintendent _____ Foreman, Tradesmen _____ Other _____
7. The team offers customer (GC) participation in all aspects of the project. _____
8. The team keeps the customer informed about the change order process. _____
9. The team is courteous, respectful of needs of neighbors to the project. _____
   Project Manager _____ Superintendent _____ Foreman, Tradesmen _____ Other _____
10. The team communicates effectively to the customer (GC). _____
11. The team conducts efficient and informative meetings. _____
    Project Manager _____ Superintendent _____ Foreman, Tradesmen _____ Other _____

OK CONSTRUCTION CHANGE ORDER POLICY

There is a prevailing belief in the industry that contractors look for, and cause, change orders as a secondary source of profit. OK Construction does not solicit change orders or rely upon them as a source of profit. The purpose of this change order policy is to clarify for the owners that we serve, their designers and representatives, and all our project partners, that our approach revolves around the avoidance of change orders. Moreover, owner-initiated and designer-initiated change orders, should they arise, will be transparently processed.

Changes to the original scope have very real ramifications on the efficiency, productivity, and schedule of the project. Continuous progress and productivity are key to the successful completion of the project, and rely on timely decisions and the active participation of the owner and designer. Construction is a sequential process. When work is performed out of sequence, areas are left uncompleted, or re-work is caused by lack of information, it dramatically impacts progress and efficiency. Even when compensated for the extra work, we cannot regain the lost efficiency or productivity and are sometimes forced to absorb overtime costs to maintain schedule. Contrary to popular belief, projects with a large number of change orders often cause a disruption of schedule and a reduction of earnings. Moreover, change order compensation does not make up for the lost opportunity that exists if a project proceeds without delays or disruption. In comparison, projects with few change orders are more efficient and much more likely to be delivered on schedule.

It is OK Construction's policy to be proactive with owners and designers to maintain schedule and avoid change orders, to the extent possible. Owners have a significant role in the construction process, and we feel responsible to assist those who do not understand their role including the critical nature of timely decisions and direction. Managing a project efficiently depends on a well-informed team of stakeholders. If owners wish to rely on their designers for decisions that involve change orders, the authority given to the designer to bind the owner to change orders needs to be confirmed in writing.

Project efficiency depends on a proactive team of owner, designer and contractor, from the very beginning of the project. Therefore, we would like to all be on the same page in understanding the change order process, which can be a difficult topic if we wait for change orders to occur. In order to best serve you, we would like to understand who is designated a responsible representative with change order authority. We would also advise the project stakeholders that we will copy the owner with all correspondence that impacts, or potentially may impact, schedule or costs.

Creating Customer Loyalty

Customer loyalty

- Customer Satisfaction is Worthless, Customer Loyalty is Priceless.

  – Jeffrey Gitomer,

Customer loyalty

- At the minimum, your customer expects
  1. Service and performance as agreed,
  2. Quick response when you're called on,
  3. Fair treatment, and
  4. Privacy of business information.
- But simply meeting those minimum requirements **doesn't go far enough**.
  - You must create **loyalty**.
  - Loyalty comes from consistently giving your <u>customer more than is required</u> or <u>expected of you</u>

Loyalty factors

- In many companies, we reduced this answer to four factors:
  1. Budget,
  2. Quality,
  3. Relationships, and
  4. Schedule.

Common Errors in Selling in Construction

Price

- **Introducing price before you have communicated all your benefits.**
  - Make certain you have earned the **right to a higher price** (rather than the lowest).
  - Again, we are assuming that you want to find **well-funded** and **discerning clients** who **value your** craft and management skill.

Knowing market

- **Not knowing or following the marketing message.**
  - Even if your message was unintentional, it is still true because the potential prospect believes it.
  - When you are face-to-face, know what themes to follow and how to bridge them to important benefits.

Asking for a referral

- **<u>Asking for a referral when you haven't earned one.</u>**
  - Enthusiastic salespeople make this error from time to time.
  - After one project, they may ask,

    "Do you know of anyone else who may be interested in our services?"
    - ✓ Good thought but bad timing.
    - ✓ Wait until you have earned the right.
      - It may be after 3, 5, or 10 projects, but not 1.

Building value

- To **make-above average profits**, a contractor must build value in the eyes of the client.
- To illustrate the concept, the formula is straightforward:

$$Value\ perception = Perceived\ benefit - Perceived\ cost$$

Building value

- Raising the value of your construction service **starts with the basics**.
- At the top of the list is timely and quality construction.
- **On-time** and **trouble-free installations** are what **most** construction buyers desire, price notwithstanding.

Building value

- Other value-increasing actions contractors should consider include
  - Accurate as-builts
  - Paperwork that is timely and accurate
  - Seamless reporting in the client's format and desired method (such as electronic)
  - Attentiveness to unique construction needs such as early completion of certain areas over others

Estimating Cost and Proposing Price

موسسه مهندسی و مدیریت ساخت علوی پور (ACEMI)

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