

# **Strategic Planning for the Emerging Contractor**

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# Agenda

**I Organizational Growth**

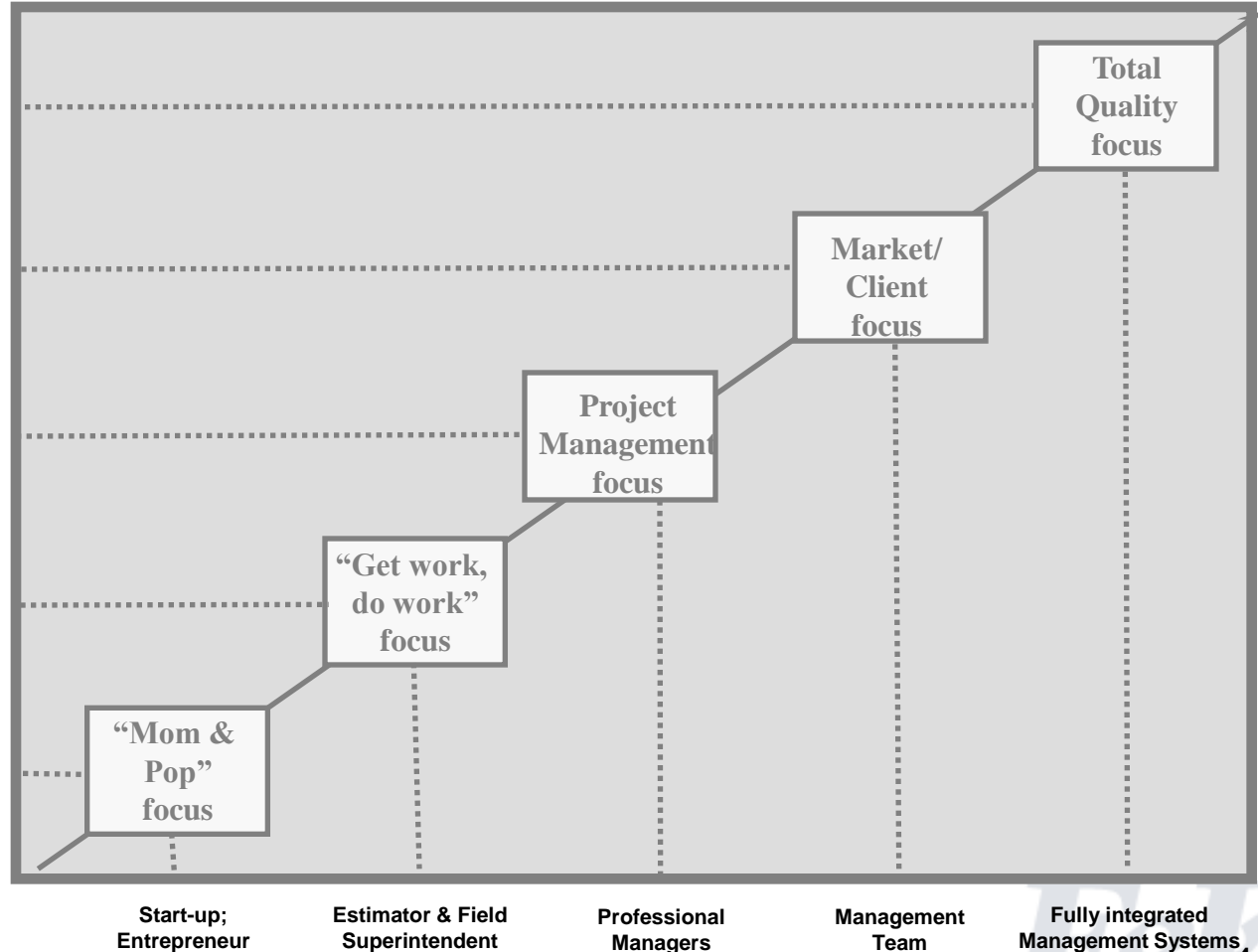
**II Strategic Planning**

# The U.S. Construction Industry

- Approximately 818,000 contractors
  - 85,000 contractors closed between 2003 and 2004
- 90% employ under 20 employees while 1% employ over 100 employees
- Employs 6.9 million people
- 9% of the Gross Domestic Product

# Stages of Growth

<u>General Contractor</u>	<u>Sub-contractor</u>
over \$250 million	over \$50 million
\$50 million to \$250 million	\$15 million to \$50 million
\$15 million to \$50 million	\$5 million to \$15 million
\$1 million to \$15 million	\$500,000 to \$5 million
\$0 to \$1 million	\$0 to \$500,000

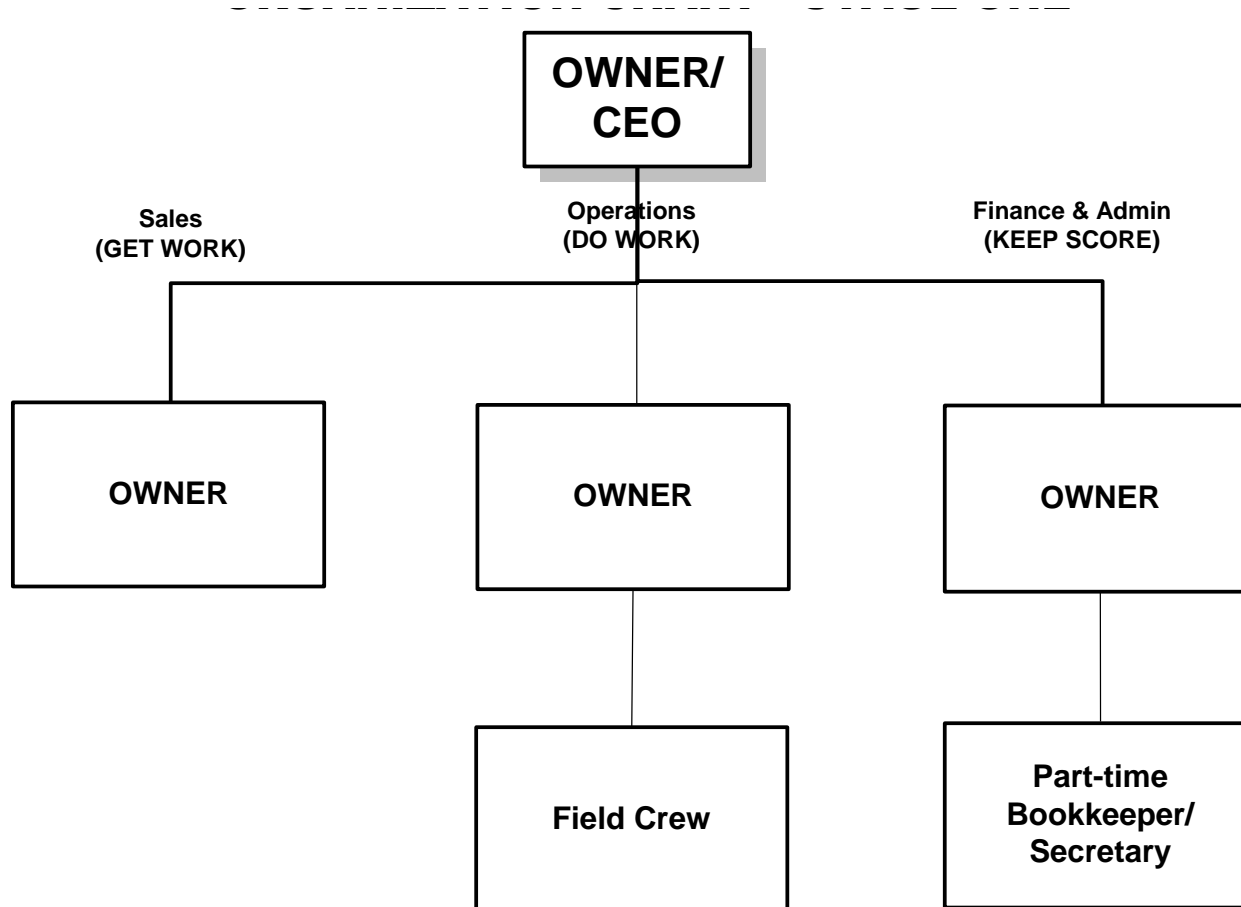


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# Organization Chart Stage One



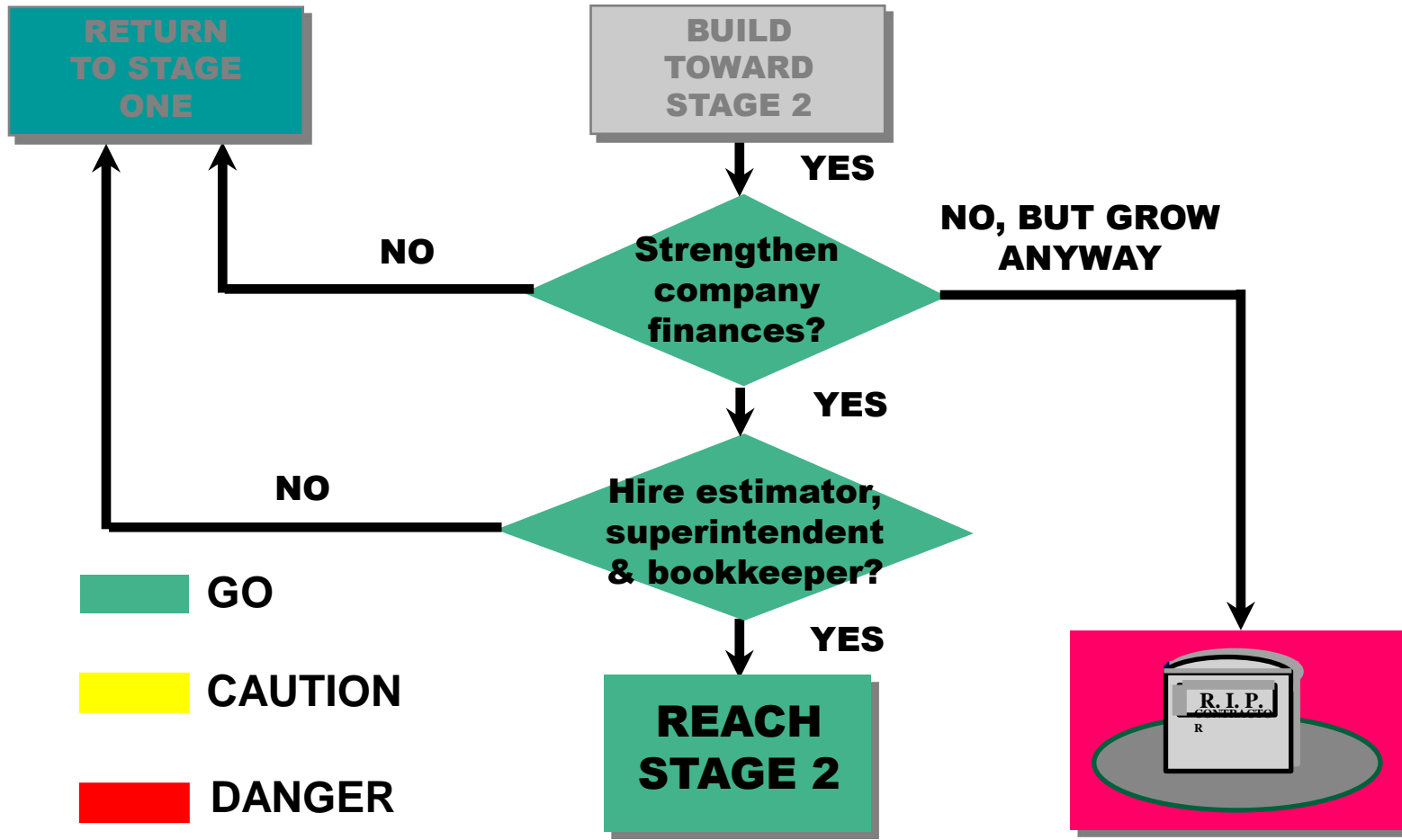
# Suggestions for Stage 1 to 2

## Build Organization

- Time Management Study

	Stage 1 Before	Stage 2 After
Operations	40%	30%
Sales/Estimating	30%	60%
Administration/ Bookkeeping	30%	10%

# Do We Grow from Stage One to Two?



# Strengthen Company Finances

		<b>RMA</b>	<b>CFMA</b>		<b>New England</b>	
		Sub*	GC	Sub	GC	Sub
1.	General/Sub-Contractor	Sub*	GC	Sub	GC	Sub
2.	Gross Profit	23.8%	6.0%	13.9%	6%	25%
3.	Operating Profit	3.4%	1.2%	2.4%	3%	5%
4.	AR Days	59	47	66.1	50	60-75
5.	Debt to Equity	1.7:1	3.2:1	1.6:1	1.2:1	1.5:1
6.	Revenue to Working Capital	11.3	18.2	8.4	<15	<10
7.	Gross Profit \$/Employee/Hour					
8.	Underbillings/Revenue					
9.	# of "A" Customers					
10.	Employee T/O					

\* 238990 All Other Specialty Trade Contractors



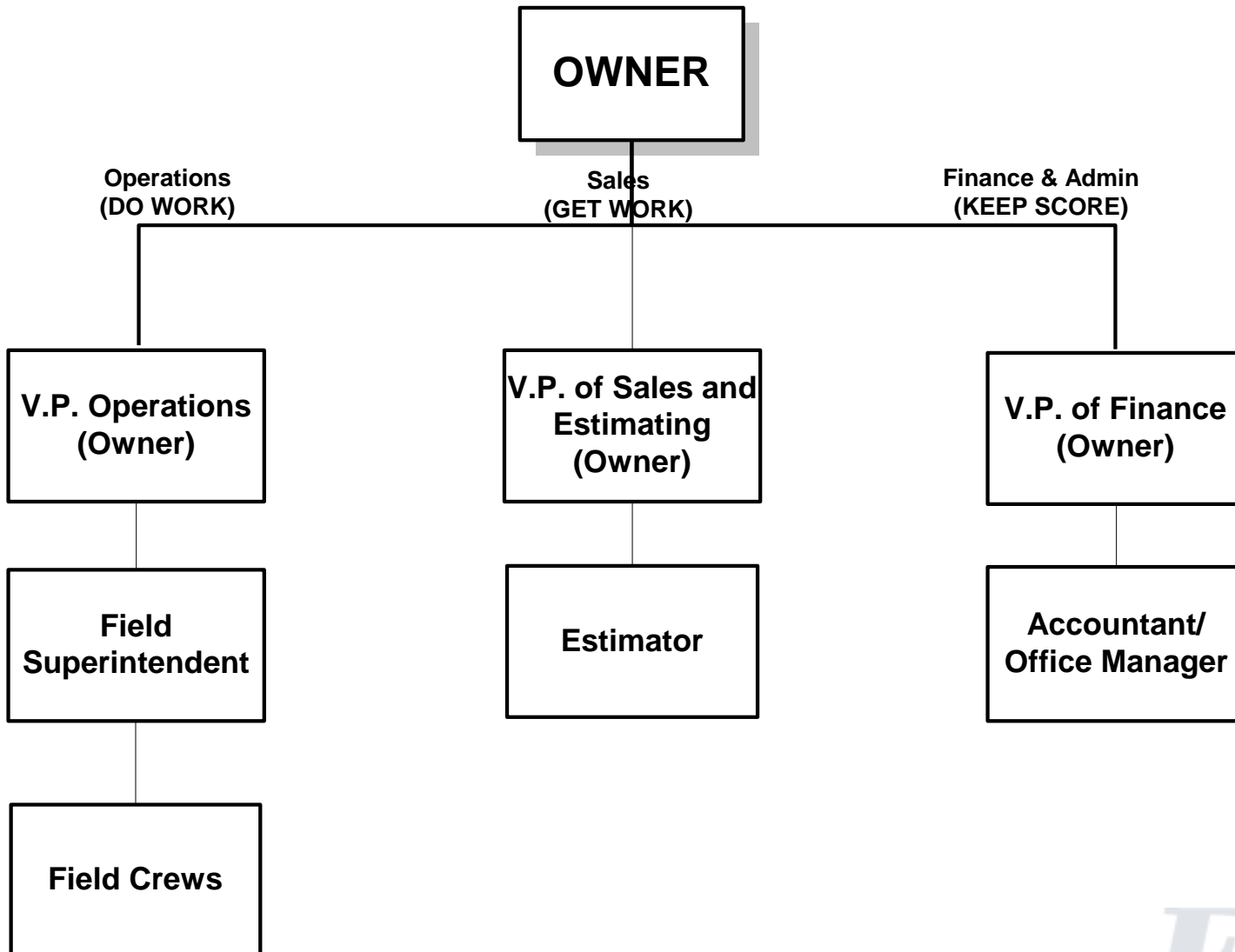
# What Does it Mean?

- Efficiency? Office/field
- Competitive advantage?
- Appropriate markup?
- Are we different?
- Risk
- Leverage
- Customer satisfaction
- Morale
- Are we building a business?

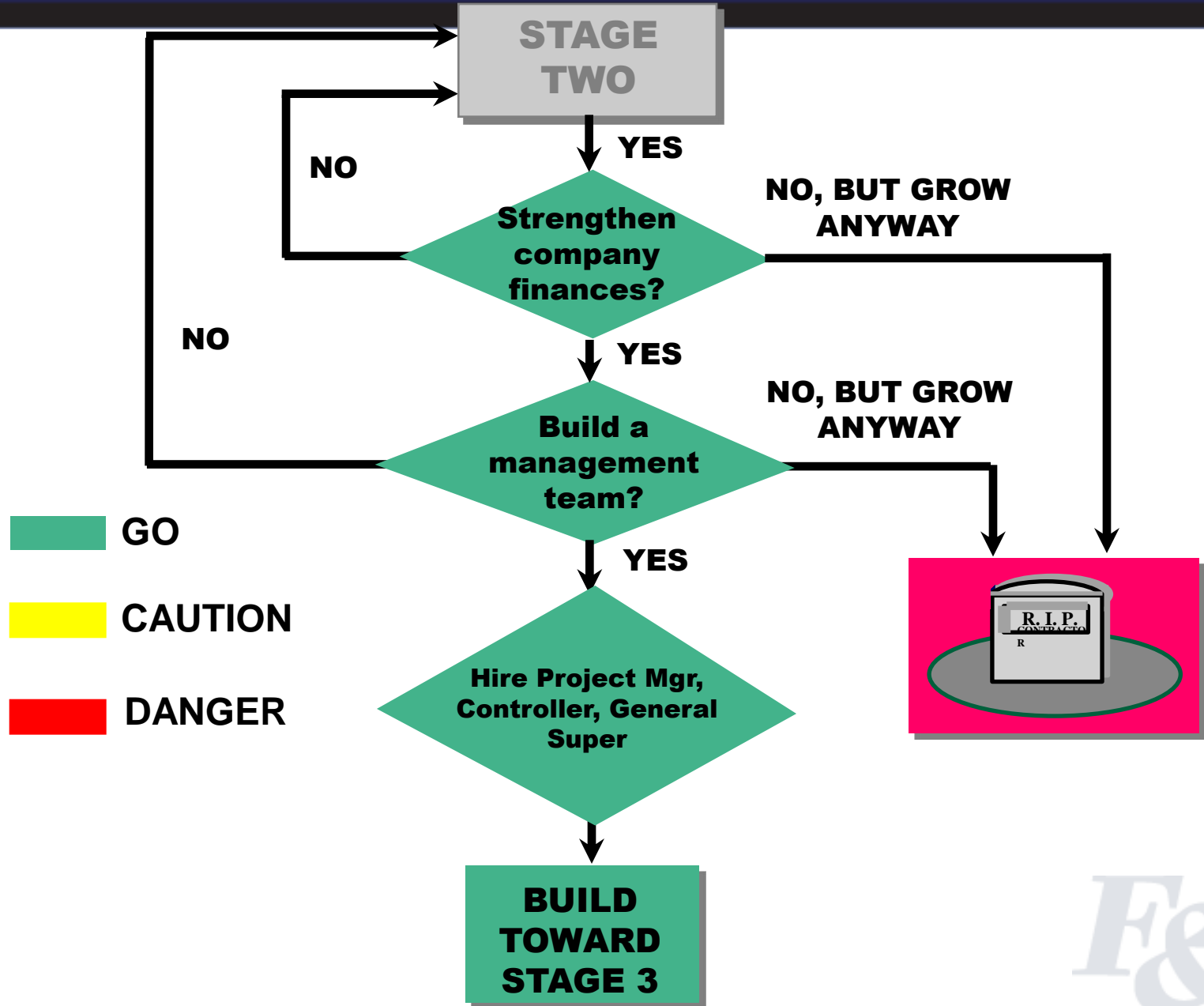
# Suggestions for Stage 1 to 2

- Options
  - Operations
    - Hire superintendent/foreman
    - Promote from within
  - Sales/Estimating
    - Hire estimator
    - Promote from within (take off)/interns
  - Finance and Administration
    - Hire accountant/office manager

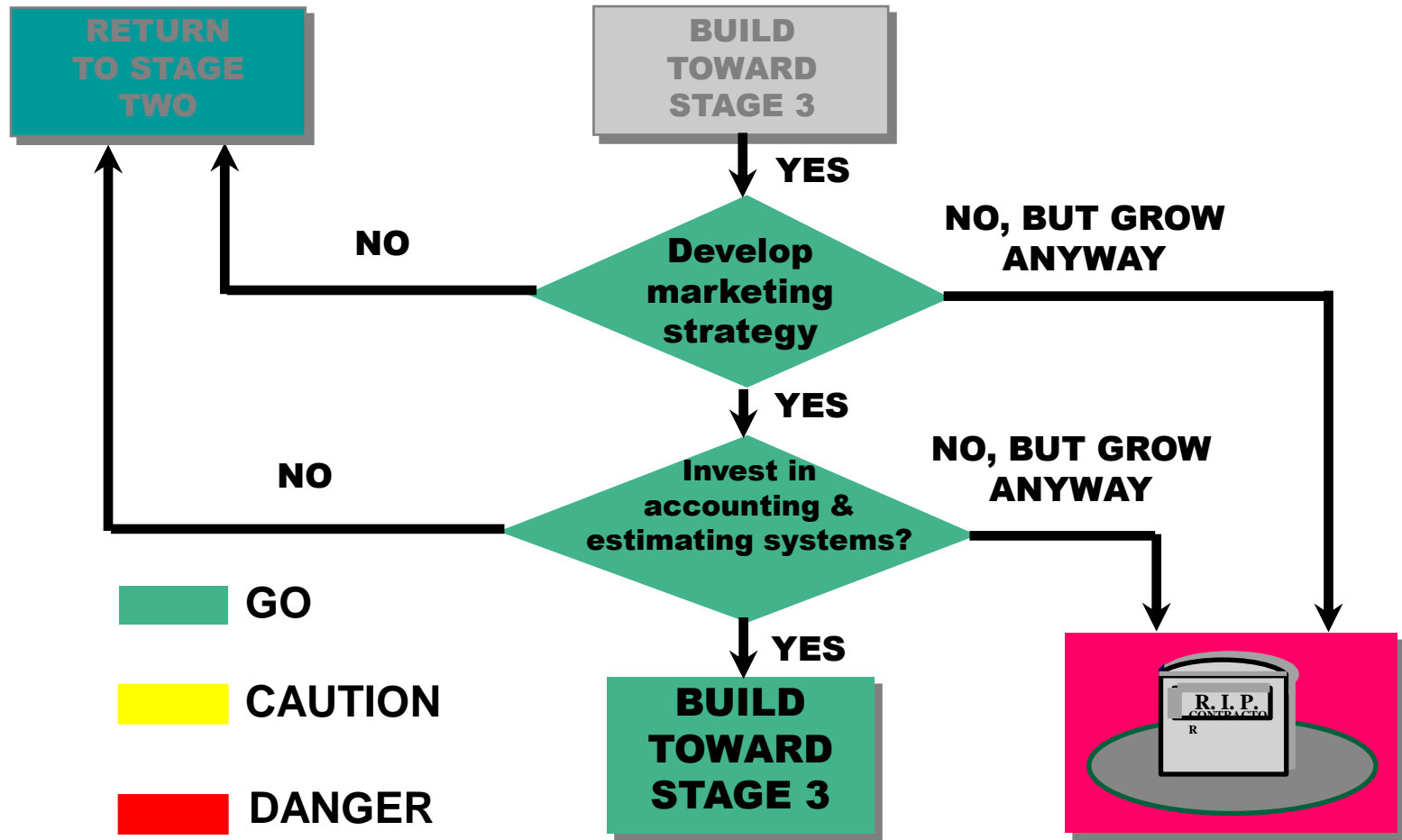
# Organization Chart Stage Two



# Do We Grow from Stage Two to Three?



# Do We Grow from Stage Two to Three?



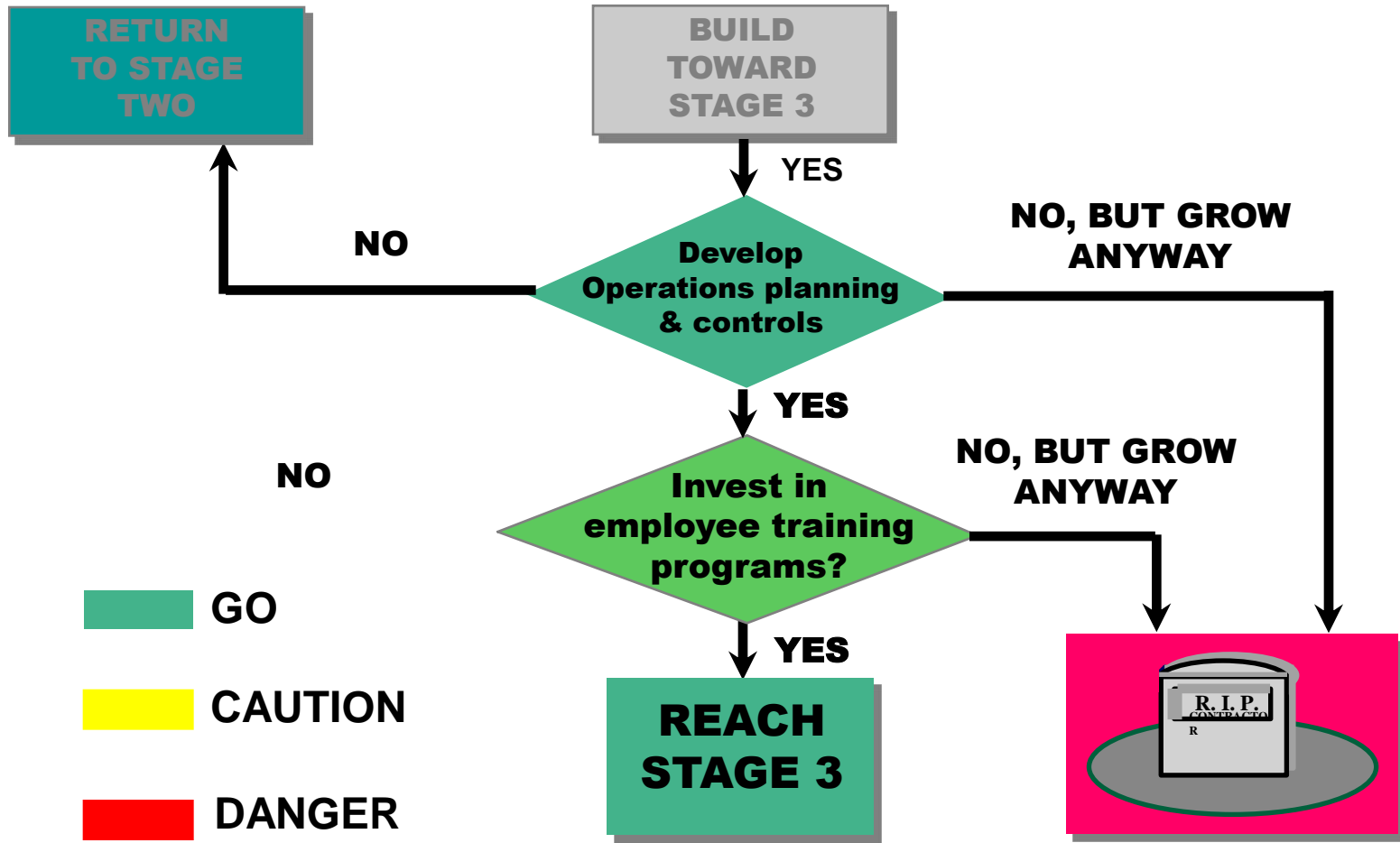
# Develop Marketing Strategy

- Customer markets
  - Sales analysis
  - “A” customers/markets
    - Significant
    - Recurring
    - Strategic
    - Profitable
  - Success stories “Raving Fans”

# Accounting & Estimating Systems

- Accounting systems
  - Integrated job cost and general ledger package
  - Translate data into useful information to make \$\$\$/Real time information: current vs. historical
  - Create an atmosphere of accountability
- Estimating systems
  - Utilization more important than ability to synchronize with accounting or project management software

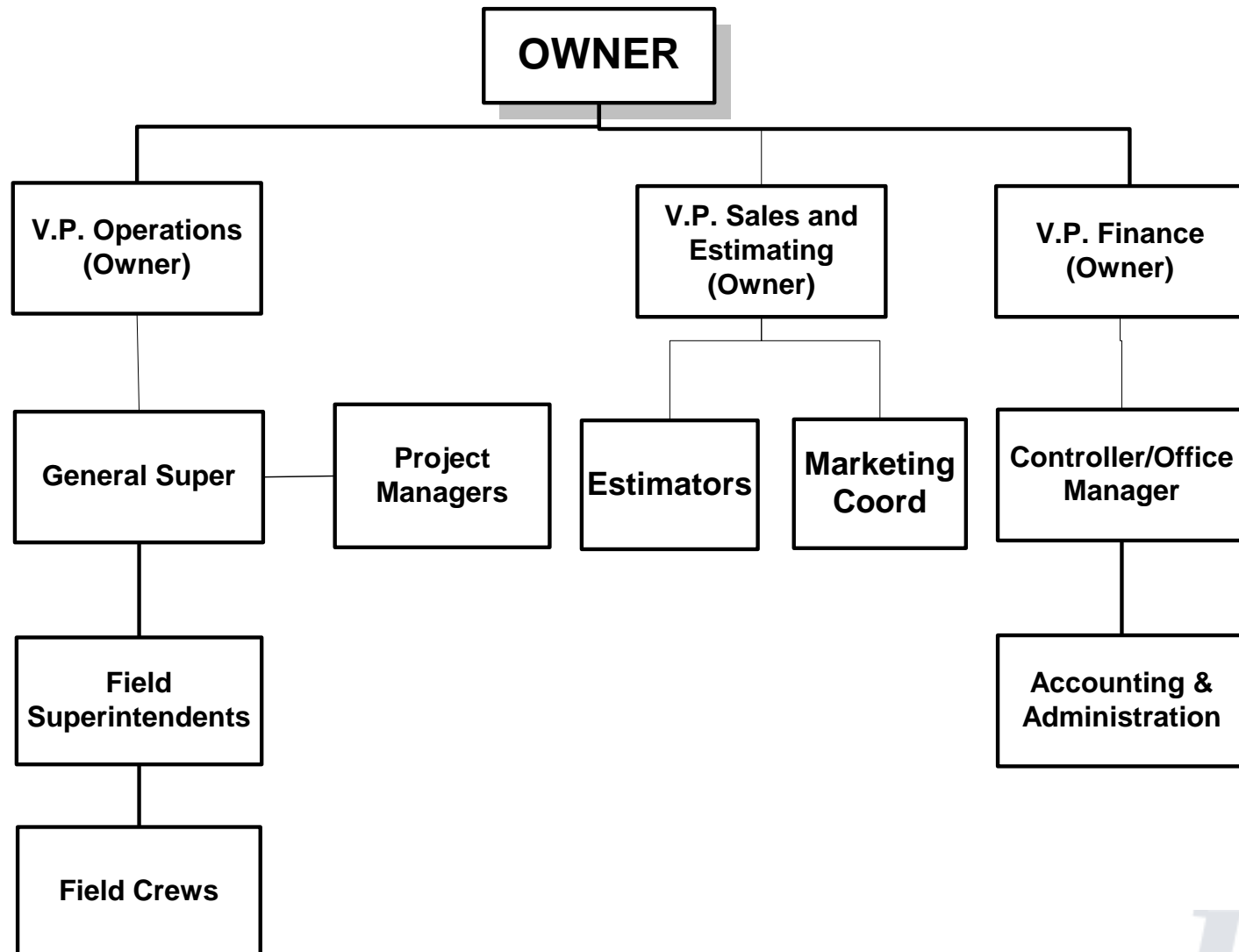
# Do We Grow from Stage Two to Three?



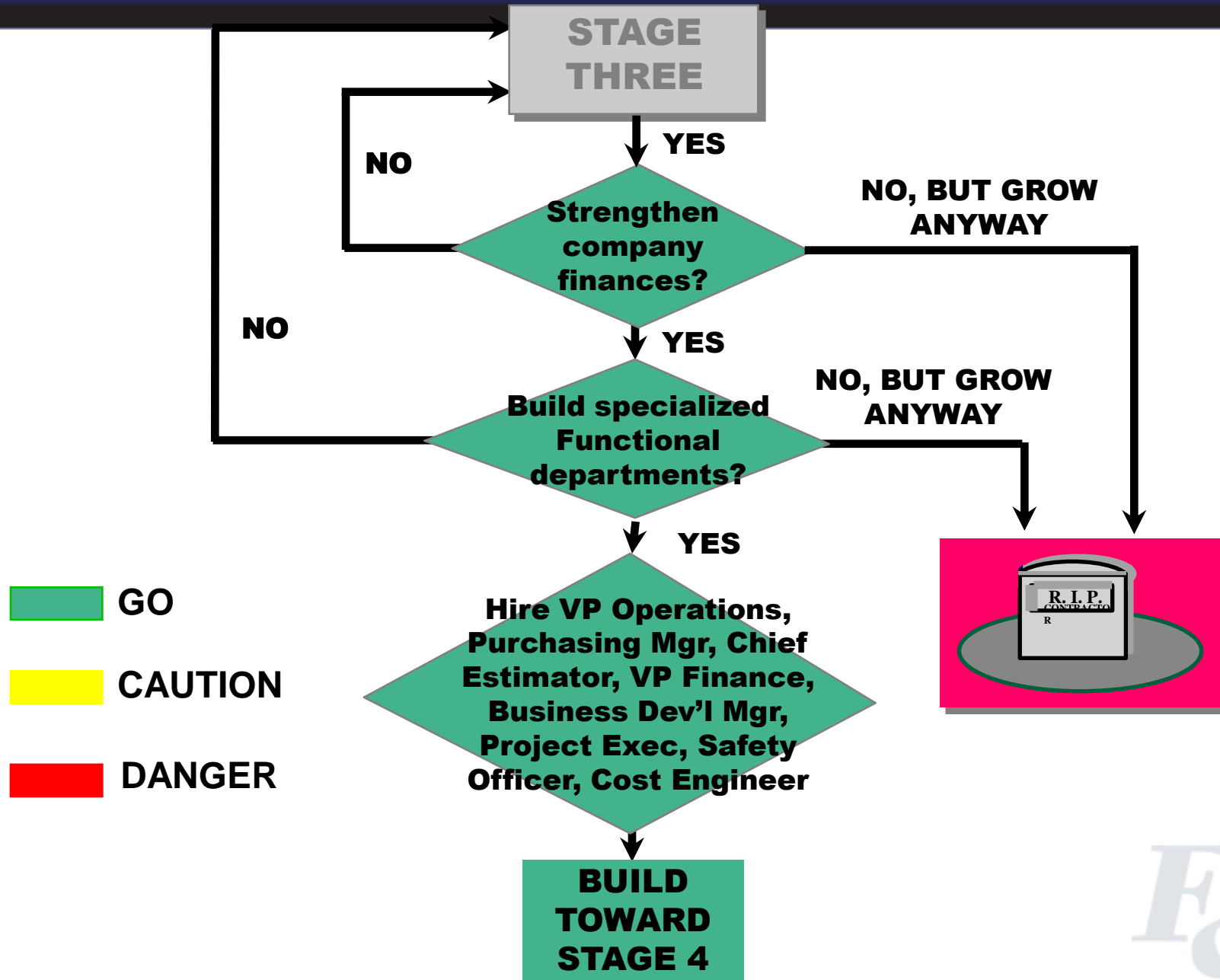
# Operations Planning and Controls

- Standardize project delivery system
  - Pre-job meetings
    - Estimating/PM/Super turnover meeting
  - Job meetings
    - Estimate to complete (PM/Super – accountability)
    - Change orders (if spec/out of spec)
      - Ability to predict job outcome through management correlates with company's financial success
  - Post job meeting
    - Continuous improvement
- Critical path scheduling (Microsoft Project)
- Streamline standard products
  - Change orders/estimating
  - Submittals
  - As built

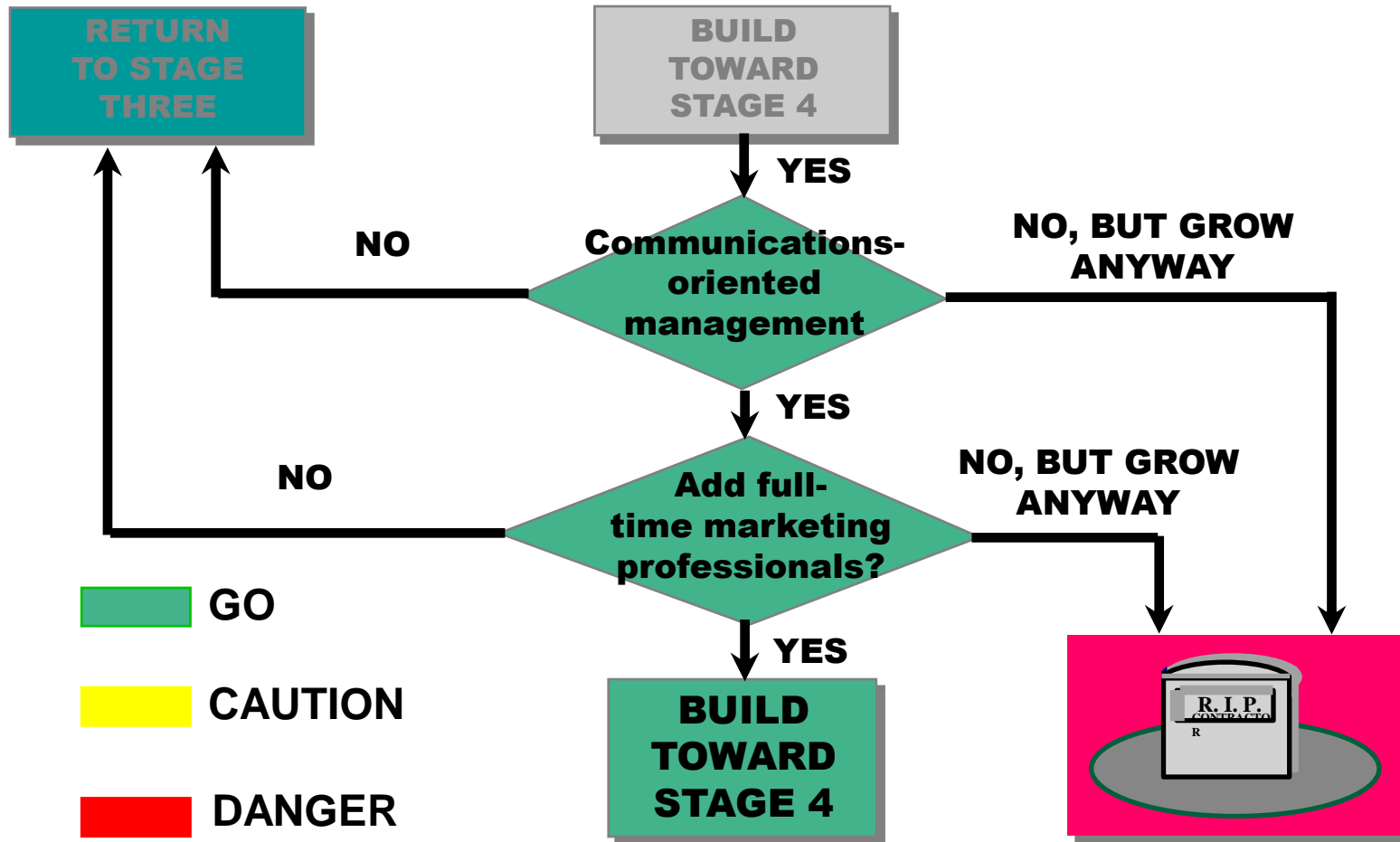
# Organization Chart Stage Three



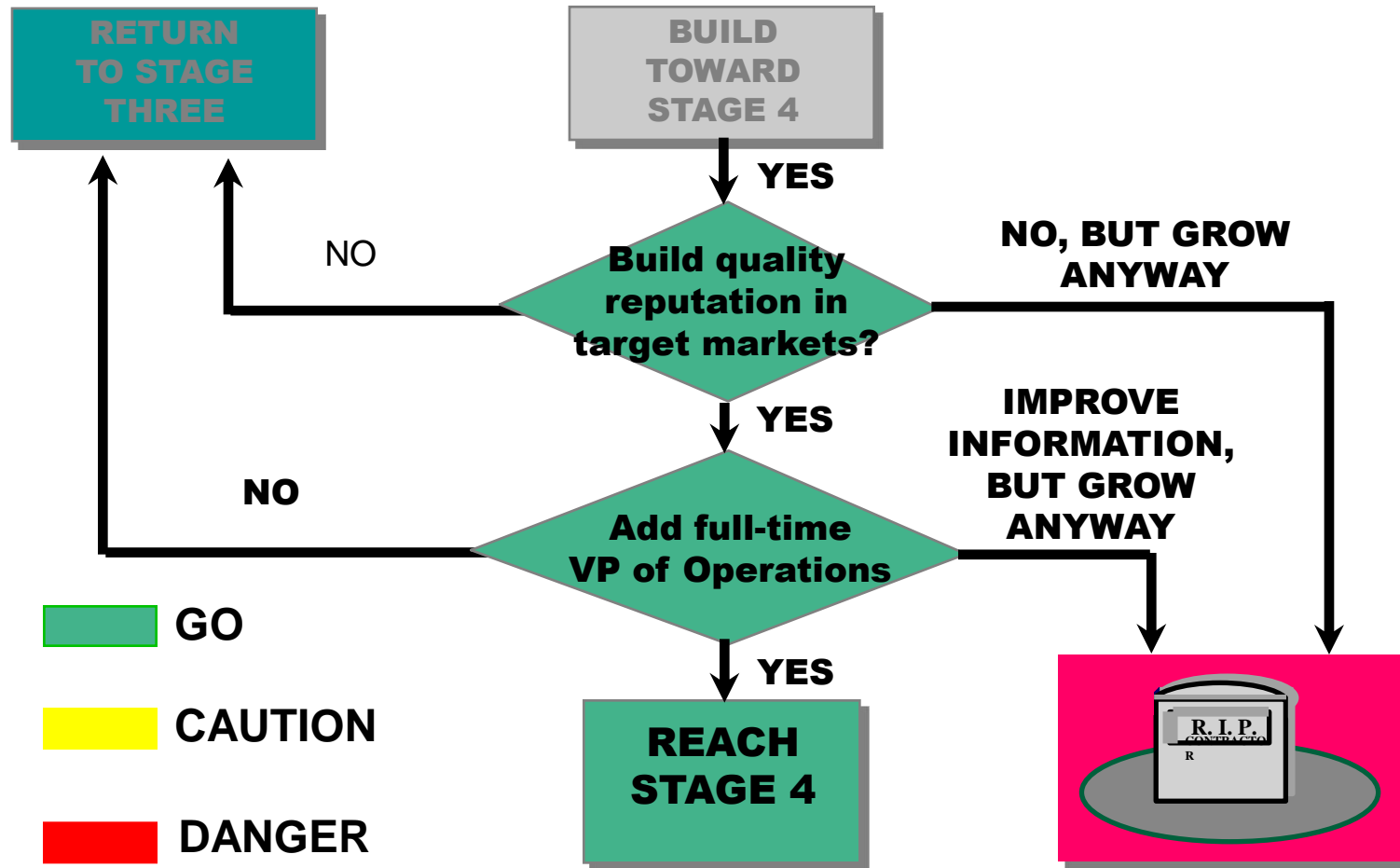
# Do We Grow from Stage Three to Four?



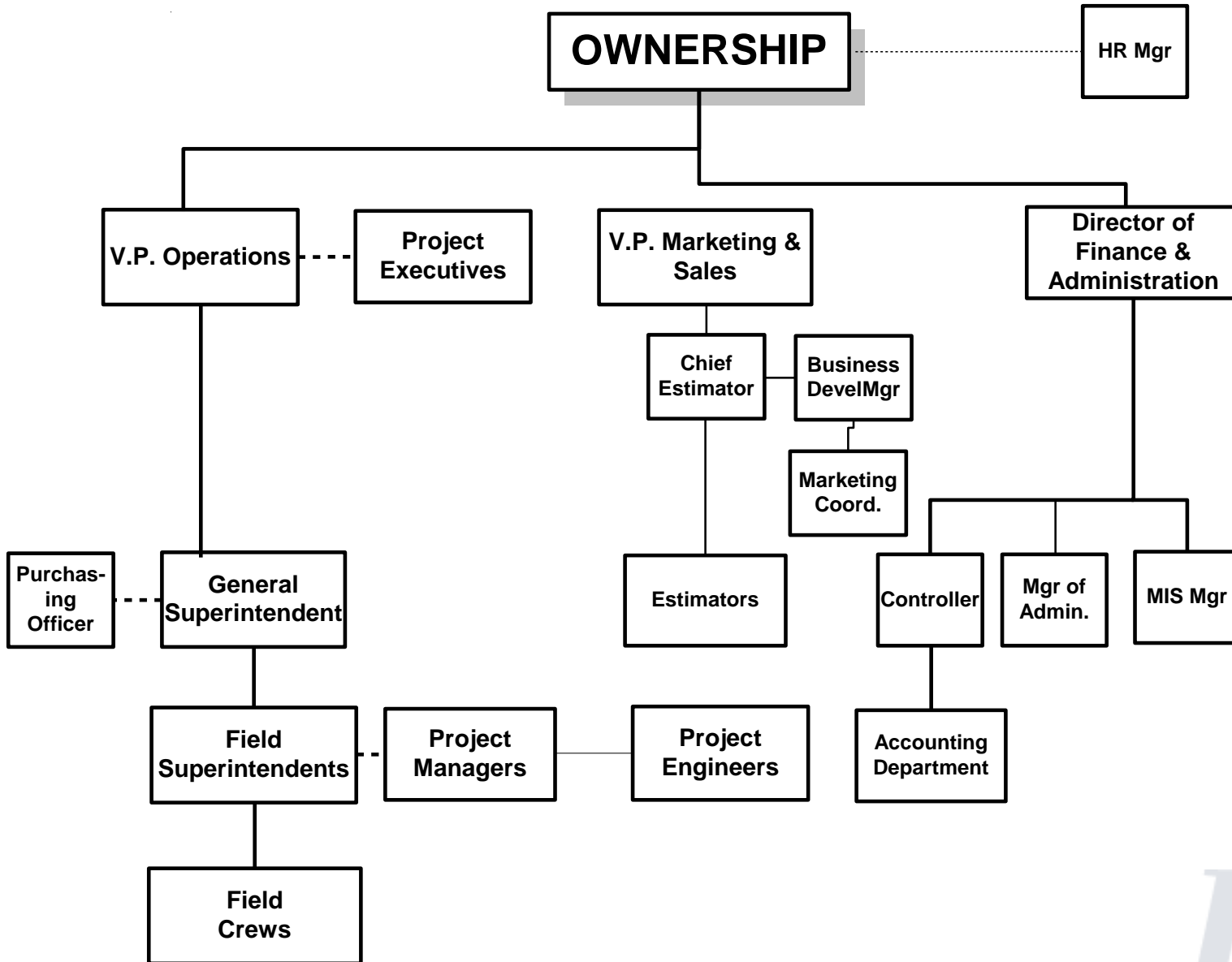
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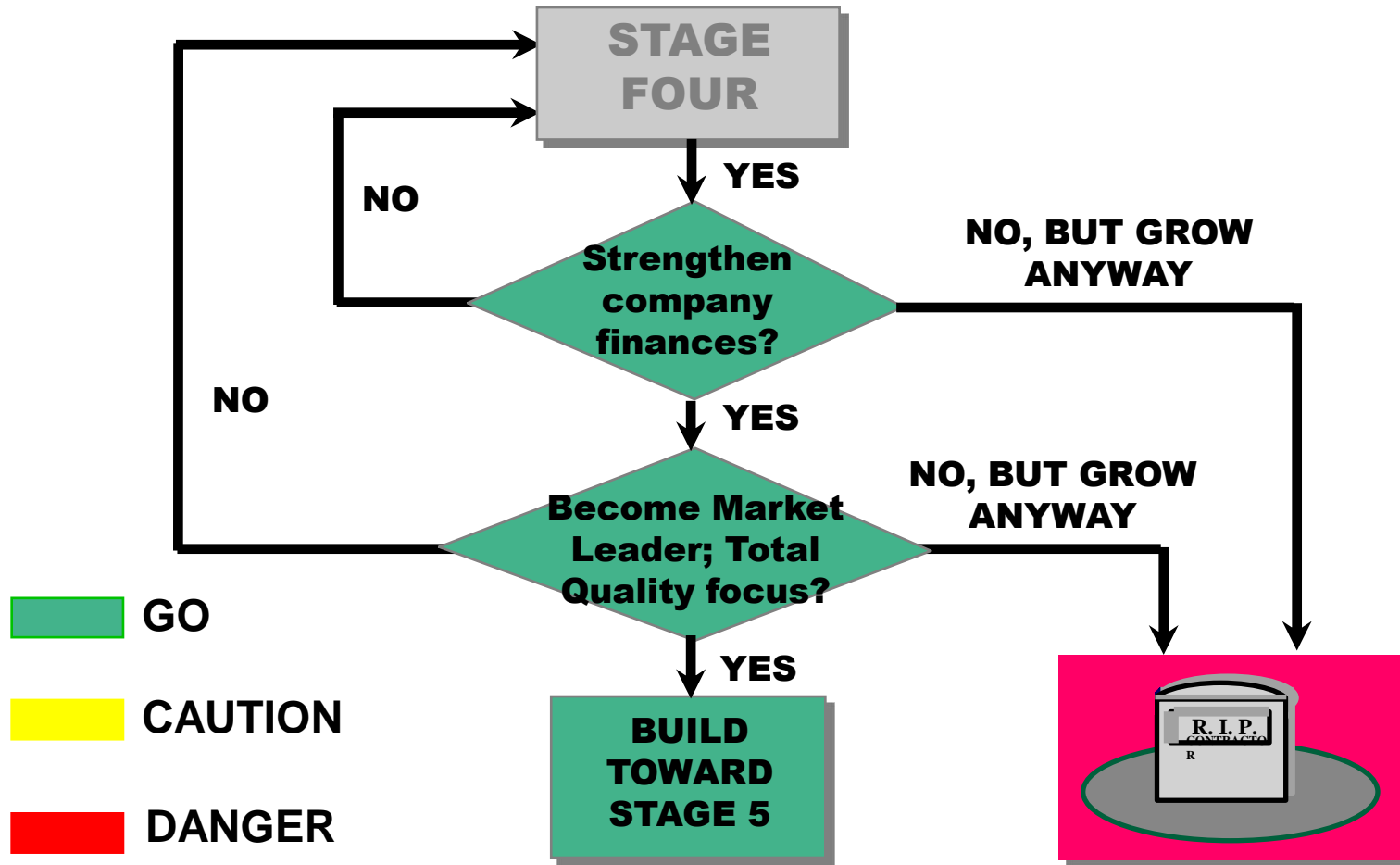
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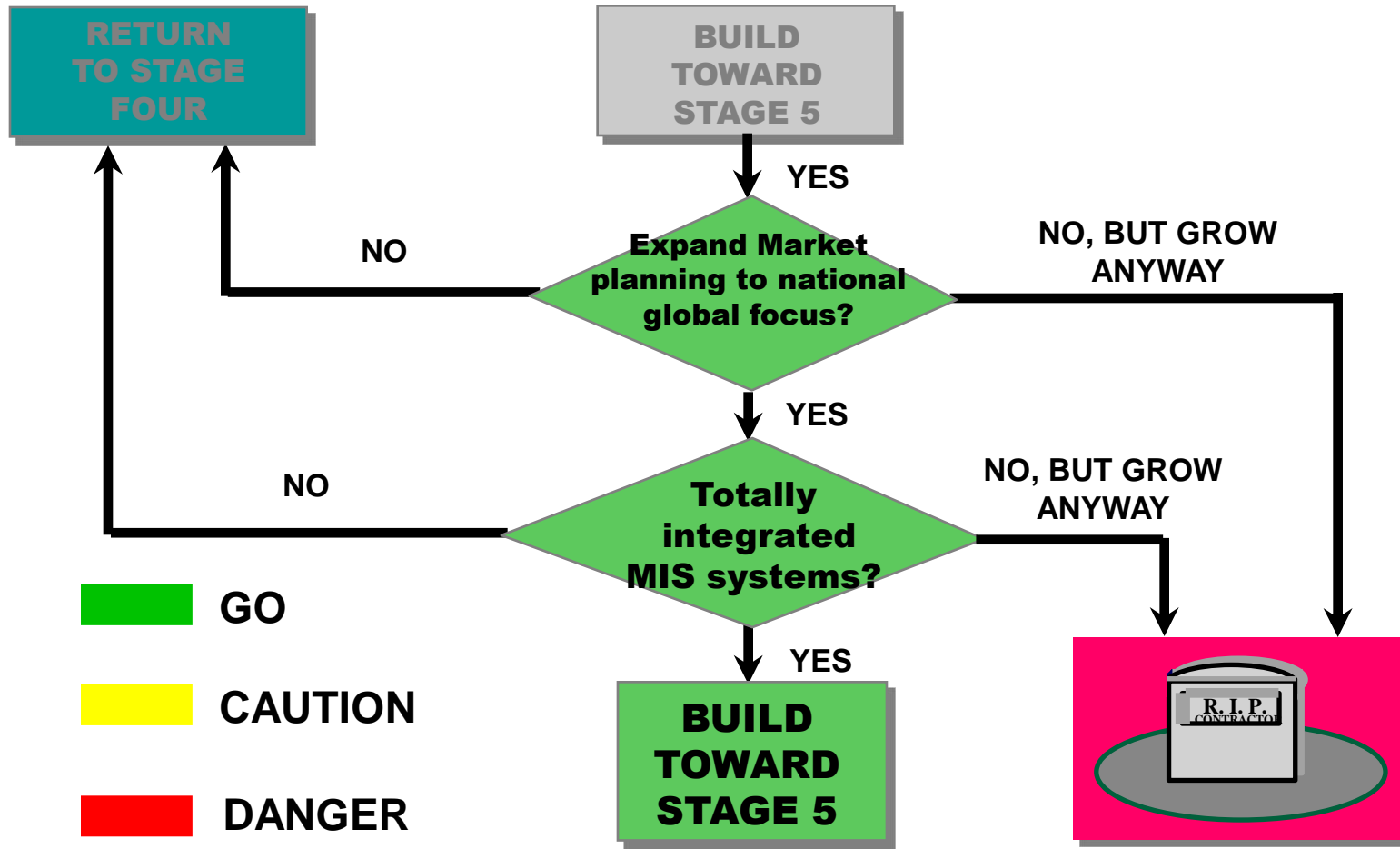
# Organization Chart Stage Four



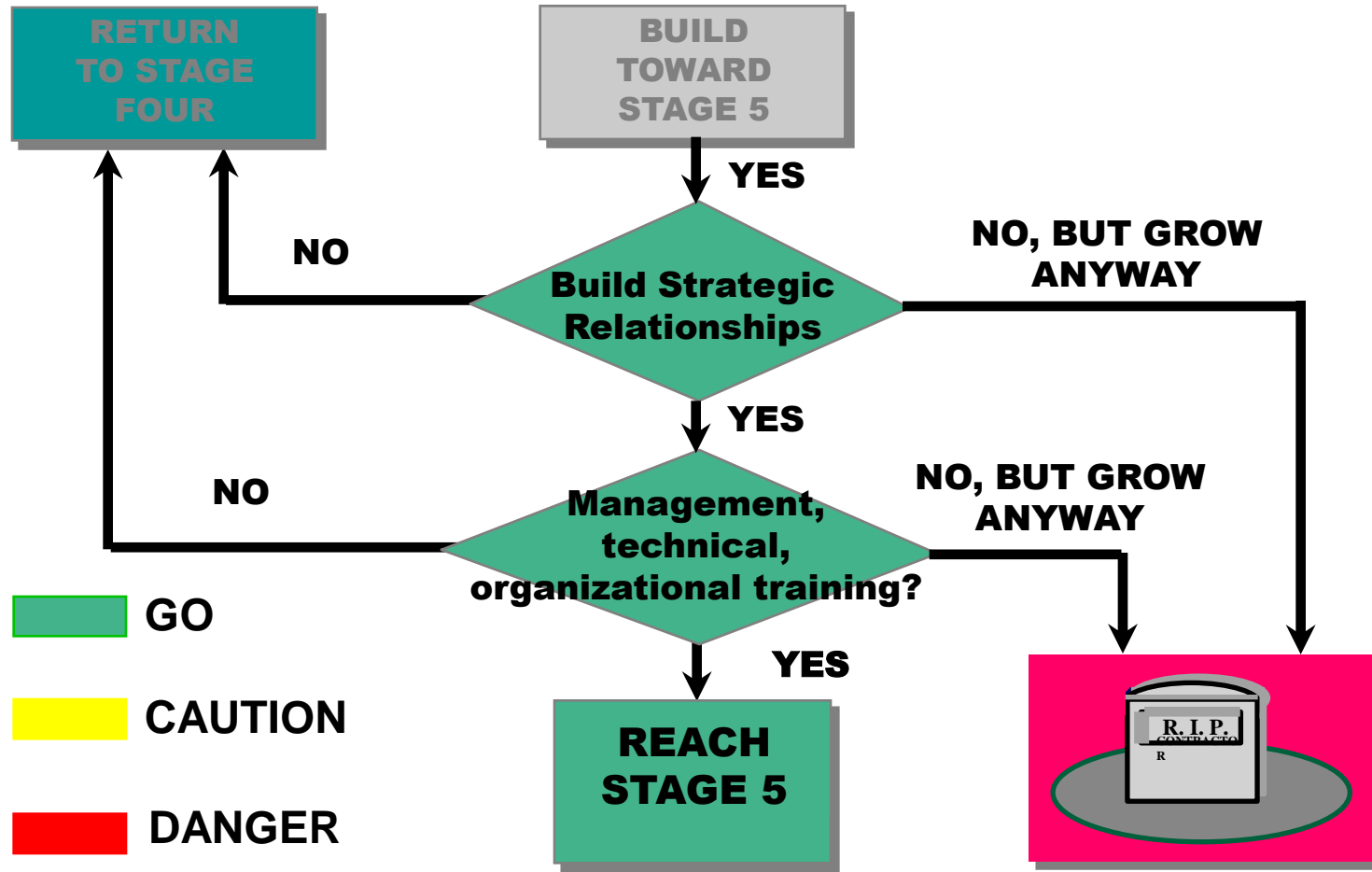
# Do We Grow from Stage Four to Five?



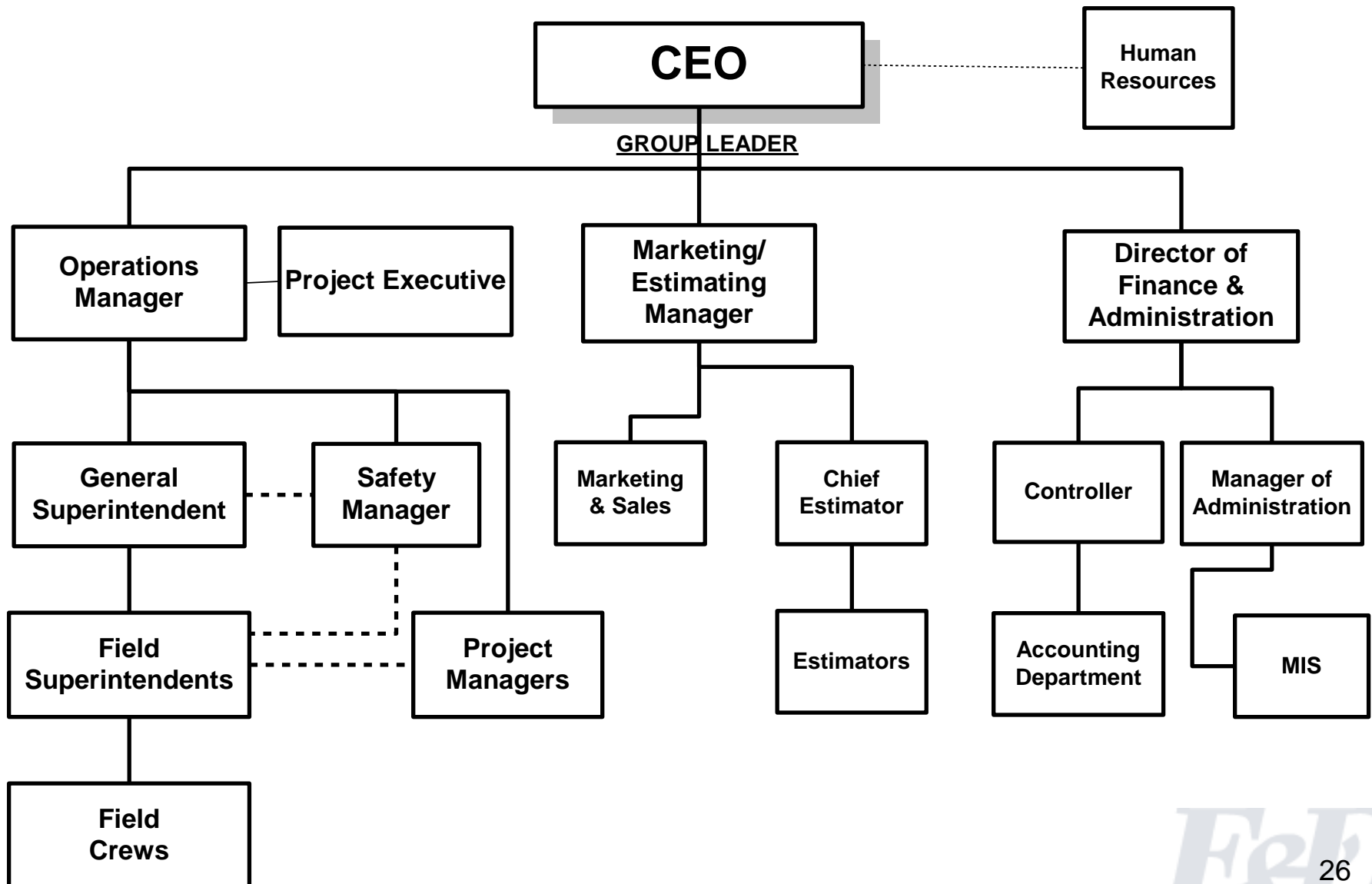
# Do We Grow from Stage Four to Five?



# Do We Grow from Stage Four to Five?



# Organization Chart Stage Five



# Breakout Session

- Case Study

# Breakout Questions

- What has worked for you in the area of building an organization?
- What has not worked?

# Strategic Planning

## Preliminary Assessment:

- Identify who we are before we define who we want to be and set goals
- Evaluate strengths and weaknesses of past performance
- Evaluate roles and responsibilities of key employees

# Contractor's Sales Analysis

- Understand by customer, customer type, job type, job size, foreman, PM, State:
  - Number of jobs
  - Total revenue dollars
  - Total gross profit dollars
  - Total gross profit percentage
  - Average original gross profit percentage
  - Average final gross profit percentage
  - Average accounts receivable days

# Strategic markets/ 'A' Customers

- Define:
  - Strategic markets
    - What we do well by customer type
    - What we do well by job type
  - “A” customers
    - Customer evaluation matrix

# Customer Evaluation Matrix

CUSTOMER EVALUATION MATRIX				
Strategic	Significant	Profitable	Recurring	Recommended Action Steps
YES	YES	YES	YES	1. These are your key customers. Focus on reviewing your pricing and service. Consider careful review by a team that is independent of the personnel already involved in serving the customer. Have them focus on where you can be better.
YES	YES	NO	YES	2. This is a real challenge. You have a very key customer not bringing a result to the bottom line. This requires some independent thought. Consideration should be given to 'changes in pricing, product mix, or significant service restructuring. Be very tough on this one.
YES	NO	YES	YES	3. Customers in this category can be maintained. There is a good chance, however, that the customer really isn't profitable. Reexamine hidden costs of service. If the customer continues to be profitable, use it from time to time as a Laboratory to experiment with new ideas or changes in service. The customer also can be used as a training account. If, on careful examination, the customer is found to be unprofitable, it is a candidate for dismissal.
YES	NO	YES	NO	4. The relationship with this customer should be further developed to identify if the customer has the ability to become a significant relationship. If after spending some time assessing the potential for significance, it is determined that the ability to grow is not present, then we should evaluate dismissing this customer.
YES	NO	NO	YES or NO	5. This customer needs to be re-examined to see how it can be made profitable. If this cannot be accomplished, the customer needs to be dismissed
NO	YES	YES	YES or NO	6. This is, perhaps, the most difficult customer situation. If the customer doesn't truly have strategic significance and there is no likelihood of change in the future, then a plan should be implemented to dismiss the customer. Remember, this customer is a drain on key and vital resources.
NO	YES	NO	YES or NO	7. This is a typical corporate trap. <u>Remember that 'volume' means nothing and volume associated with poor profitability means the consumption of valuable resources.</u> Carefully consider the methodology of service to this customer to see if it can be made profitable. Look at pricing, product mix, service, and methodology. If the customer cannot be made profitable, get rid of it.
NO	NO	YES	YES or NO	8. This is a situation that requires real guts. Getting rid of a profitable client is a management challenge. Perhaps the customer is salable. Do not continue to support a customer that provides only profitability.
NO	NO	NO	YES or NO	9. This is the easy one. Get rid of the customer.

# What does the Successful Growing Contractor Look Like?

- Niche based – not just a ‘Good Builder’
- Continuing Investments in:
  - Training – soft skills as well as technical skills
  - Technology – leading edge not bleeding edge
  - Marketing
- Believe in and build people
- Developed ‘Competitive Advantage’
- Delivers ‘WOW’s’ to at least 30% of customers – 9/10’s measure
- Continually working to improve productivity

# Strategy

- Competitive advantage
- Low cost producer is NOT a strategy it's a GIVEN
- Growth is enemy of strategy
- Most important word in strategy is **“NO”**

# Strategy

- Industry leader
- Clear message and vision
- Deliver 30% 'WOW's'
- Customer intimate vs. product
- Success stories
- Hire bright, high "EI" people
- 'Famous Person' Growing next round of leaders
- Speeches/seminars sponsored by others
- Trade association activity extensive
- Nurture relationships with industry referral sources

# Keys to Strategy

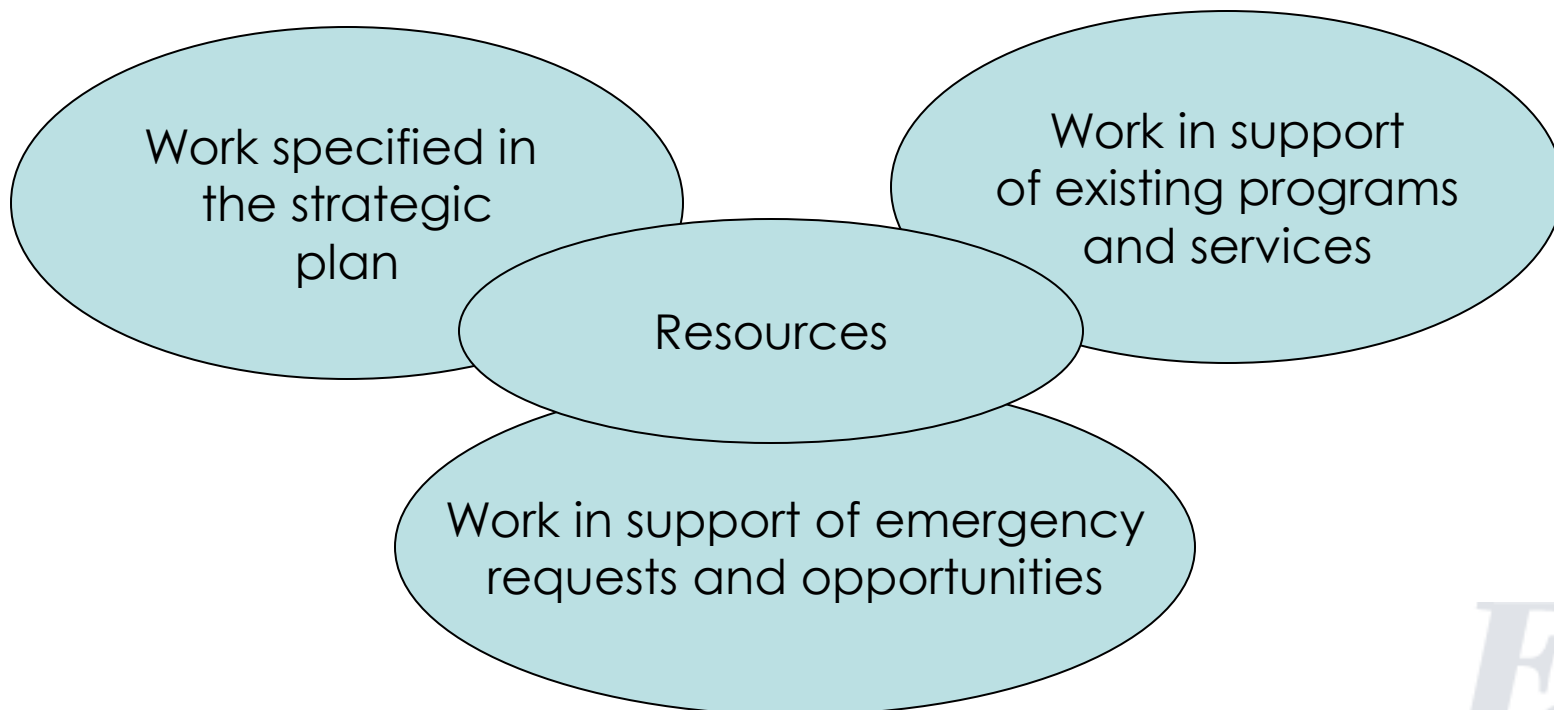
- Remember the easy part of the story is getting there – hard part is staying there
  - Take oneself seriously
  - Discipline, discipline, discipline
  - Hard workers
  - Ability to change
    - 80% of companies on Fortune 500 in 1990 were not on the list in 1998
  - Enthusiasm, enthusiasm, enthusiasm
  - Positive, positive, positive
  - Must spend more time on our people

# Good Strategic Planning Answers

- What do we need to do?
- What do we want to do?
- Why are we going to do it?
- What are we going to do?
- When are we going to do it?
- Who is going to do it?
- What resource commitments are required to do it?
  - People, time, money, material, knowledge, skills, data, technology
- How will we know when we get there?

# Key Questions

- How can the company **BALANCE** and **ALLOCATE RESOURCES** to effectively execute work in support of three dimensions?



# Observations

- **Enemies** = TIME and Complexity
- **Friends (solutions)** = selectivity, simplicity, standardization, sustainability
- **Partners** = replication, consistency, continuity, predictability, alignment, process improvements. Transaction excellence – on time, first time, every time performance
- **Results** = reduction of uncertainty and elimination of ambiguity through clearly defined expectations. Maintaining accountability and responsibility through a visible, focused measurement system

# Strategic Planning

- How we execute and achieve work in place while still focusing on...
  - Safety
  - Schedule
  - Competitive costs (gross margin)
  - Scope/change management
  - Quality
  - Customer satisfaction

# Strategic Management

- Crafting
- Focusing
- Committing
- Budgeting

# Crafting

- Strategic operational view targets (1-3 years)
  - Business goals, objectives and strategies
    - Marketing/operational/financial results
    - Management/organizational training
      - Business development/marketing
      - Sales/proposal estimating
      - Operations/execution (project management/field)
      - Support services
      - Process improvement team structure

# Focusing

- Focused 1 year business plan (the numbers)
  - Management/organizational business plan
    - Business development/marketing plan
    - Sales/proposal estimating plan
    - Operations/execution plan
    - Support services business plan

# SMARTT

- **S** – Specific
  - With regard to actions required and results/deliverables expected on an agreed to schedule
- **M** – Measurable
  - Easily communicated, reviewable, trackable, schedule and date sensitive
- **A** – Aligned
  - Consistent with values, culture, vision, mission, strategies, and Key Results Areas
    - Does the Deliverable support Management's objectives and strategies?  
Is it consistent with the Plan and the Job?
- **R** – Realistic
  - Achievable within negotiated time frame at an acceptable cost in terms of time, money, resources and effort
- **T & T** – Tactical & Targeted
  - Skill-matched, data-determined, trend-aware, priority-sensitive, risk-sensitive, plan focused and designed to achieve objectives step by step

# Committing

- Compensation reward & review system
- Job description
- Positional key results/targeted focus areas
- Functional SMARTT performance objectives
- Individual SMARTT performance objectives
- Performance measurements/monitors & schedules

# Budgeting

- Resource allocation plans
- Functional budgets (operating)
- Functional budgets (capital)
- Functional budgets (time)

# Time Frames

## Envisioned Future Goals

- | Year | 1 | 2 | 3 | 4 | 5 |
|------|---|---|---|---|---|
|------|---|---|---|---|---|
- Envisioned future
    - What do we want to be? In three to five years?
  - Strategic Operational Targets
    - Goals, objectives – what can we achieve?
    - What end results do we need to achieve to get there?
    - In one to two years – milestones – steps along the path
  - Business Operating Plan/targets
    - What will we do and why? What should we accomplish to get there?
    - What will we do this year to get us on the path? First steps – operations driven

# External Strategic Audit

- Environmental Assessments
  - Looking around environmental arena
    - Trend monitoring and assessment of occurrences over time
  - Analysis of trends which are opportunities
    - Analysis of situations and data trends which are threats
    - Objective definition of external issues within the various environments requiring strategic action, decision or resolution

# Opportunities – External Scan

- Analysis of situations and data trends which are opportunities for competitive or performance advantage or leverage of existing core competencies, strengths and relationships
  - Economic environment
  - Customer/client/markets environments
  - Competitive environment
  - legal/governmental/political environment
  - Technological environment
  - Social/demographic environment
  - Location/facility/equipment environment
  - Relationship environment

# Strategies

- Define how we will meet our goals and objectives
- Set allocation of resources to meet goals
- Select preferred strategic options to compete within a market
- Provide a long term plan for the development of the organization
- Disciplined approach to relate proactively to environment
- Critical and creative thinking about key success factors and future actions

# Strategic Operational View

- Goals, objectives, strategies – years 1-3
  - Comprehensive and directional statements
  - Company wide, coordinated initiatives
  - Creatively developed, aligned and connected tactics coordinated with strategies for direction of effort
- Driving targeted/focused single function and cross functional action programs
- Now that we know what we know, what are we going to do about it?
  - Efficiency and effectiveness
    - Team coordinated/individually focused
  - Pathways for decisions, actions and activities
  - Steps to selectivity and simplicity

# Business Goals

- Business goals, objectives – the numbers
  - Revenue/gross margin goals
  - Backlog/forecast analysis
    - Number of projects/locations/types of work
  - Number of estimates/proposals required
  - Major Objectives
    - Business development/marketing
    - Sales/estimating
    - Operations
      - PM
      - Field
      - Equipment
      - Safety/security
    - Finance & accounting
    - IT
    - Human resources
      - Staffing
      - Professional development
      - training

# One Year Operating Plan

- Management plan
  - Organizational structure and staffing plan
  - Defined key results areas
  - Specific SMARTT performance objectives
  - Performance rewards plan
- Business development/marketing plan
- Sales proposal/estimating plan
- Operations/execution plan
  - PM
  - Field
  - Equipment
  - Safety & Security
- Support Services Plan
  - Accounting & finance
  - HR
  - Information and communications technology

# One Year Operating Plan

- Financial plan/budgets
  - Revenue plan projected sales and backlog analysis
  - Direct operating costs
  - Indirect operating costs
  - Gross operating margin
  - Overhead budget
  - Performance rewards budget
  - Net income
- Resource plan capital budget
  - Facility/equipment/technology plan
  - Cash flow/working capital requirements
  - Time allocation priority alignment

# Business Associate Contributions

- Data gathering & analysis
- Insight and experience
  - Breadth and depth of experience
  - Source of comparative information
- Quality control
- Devil's advocates
  - Challenging the assumptions and the plan
- Counsel and advice
- Examination and discussion of alternatives

# 10 Objectives in Strategic Plans

- Upgrade the HR function
- Confirm the organizational structure, write job descriptions, develop key results areas, establish performance objectives
- Implement a world class orientation and cross training / cross work program across the entire company
- Focus on enabling superintendents, forepersons and crafts persons to put work in place
- Improve communications and alignment among management team and throughout the company
- Reduce the number of jobs pursued
- Implement a transactional excellence program
  - Pick three processes to improve first time, on time, every time
- Improve data management (storage) – simplify reporting internally & externally – less paper, more electronic – real time online
- Implement faster decision making and drive decision making to lower levels of the organization
- Develop a sound operational plan to bring home the profit for current year

# Lessons Learned

- Trying to be too precise. Perfection in planning is a curse, perfection in execution is a cure.
- Too many people involved
- Not enough people involved
- Schedule too ambitious
- Schedule too short
- Weekend only mentality (strategic planning & management is a core function of your business – it's not outside of your business, it is your business)
- Not planning the planning process
- Not enough preparation by all involved
- Lack of empirical data – too much opinion, not enough fact
- Not communicating what is happening and why, along with the plan to the entire organization at an appropriate level of detail
- Not having an agenda and not staying on the agenda – crisp meetings are essential to maintain momentum
- Not breaking the planning sessions into small segments
- Not ranking all lists by priority and importance and focusing on the most important items
- Not using an outside facilitator
- Relying on outside facilitator too much

# Why it Fails

- Management/ownership's assumption that it can delegate the planning function to a planner or consultant without their commitment and involvement
- Management/ownership becomes so engrossed in current problems that they spend insufficient time on long range planning, and the process becomes discredited among other managers
- Failure to develop company goals suitable as a basis for formulating long range plans
- Failure to assume the necessary involvement in the planning process of functional managers and supervisory personnel
- Failing to use plans as a standard for measuring managerial performance

# Why it Fails

- Failing to create a climate in the company which is accepting and responsive and not resistant to planning
- Assuming that strategic planning is something separate from the entire management process
- Injecting so much formality into the system that it lacks flexibility, looseness and simplicity and restrains creativity
- Failure to top management/ownership to review with departmental and divisional heads the long range plans which have been developed or communicate the plan to everyone
- Management/ownership's consistently rejecting the formal planning mechanisms by making intuitive decisions which conflict with the formal plans

# Observations

- Strategic planning is about:
  - **Vision**
- Strategic management is about:
  - **Performance**
- Leadership is about:
  - **Beneficial change**
- Operational planning is about:
  - **Focus**